

MILKING THE COW AND CHUCKING THE MONGRELS

Menu engineering – a road to better profitability

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Menu engineering – a road to better profitability

Swedish restaurateurs are beginning to show an interest in revenue management in order to increase profitability. By systematically finding out what prices they can charge for each meal, the profits can be maximized.

- The Swedish restaurant trade is beginning to open its eyes to revenue management, says Nils Axing.

He is food and beverage manager at Grand Hotel in Stockholm. Together with Fredrik Önrup, previously revenue manager at Grand Hotel Holdings, and now in the security business, he travels around the country to lecture to restaurant managers and keepers, on how to increase profits by revenue management.

They have lectured at restaurant colleges in Grythyttan and Umeå. They have also created a 3-day course for members of Carlsbergska Akademien. This consists of almost 200 restaurant people who have top positions within the hotel and restaurant business and who have been chosen on the basis of the following three criteria; They are customers of Carlsberg, they have a certain turn-over at their business and the management of Carlsbergska Akademien view them as ambassadors of a better beer and beverage culture in Sweden.

- I would imagine that half of the members of Carlsbergska Akademien have caught on to ideas of revenue management, says Nils Axing.

Within the company, Pingvinen, that he shares with Fredrik Önrup, they have created a web-based programme for menu engineering which in turn is based on revenue management. The programme allows you to find the price which will maximize your profit on every dish, in relation to other dishes on the menu (see graphics on next page). This summer members of Carlsbergska Akademien have tried the programme and in the near future it will be released for more people to try out.

What you need to know is the price of raw ingredients, how many portions you serve of each dish and the price of each dish. That way you can tell from the diagram how the different dishes are ranked and based on that you can decide which measures to take.

At Grand Hotel we used to have a dish which sold for SEK 195, i.e. it had a high profit level and sold in large volumes. We tried increasing the price to SEK 200, but we obviously crossed a limit because volu-

mes sank and the dish went straight into the upper left corner, so we lowered the price again, tells Fredrik Önrup.

However, he still thinks it was a good idea that they tried it out. This is something you have to do in order to find the optimal price level.

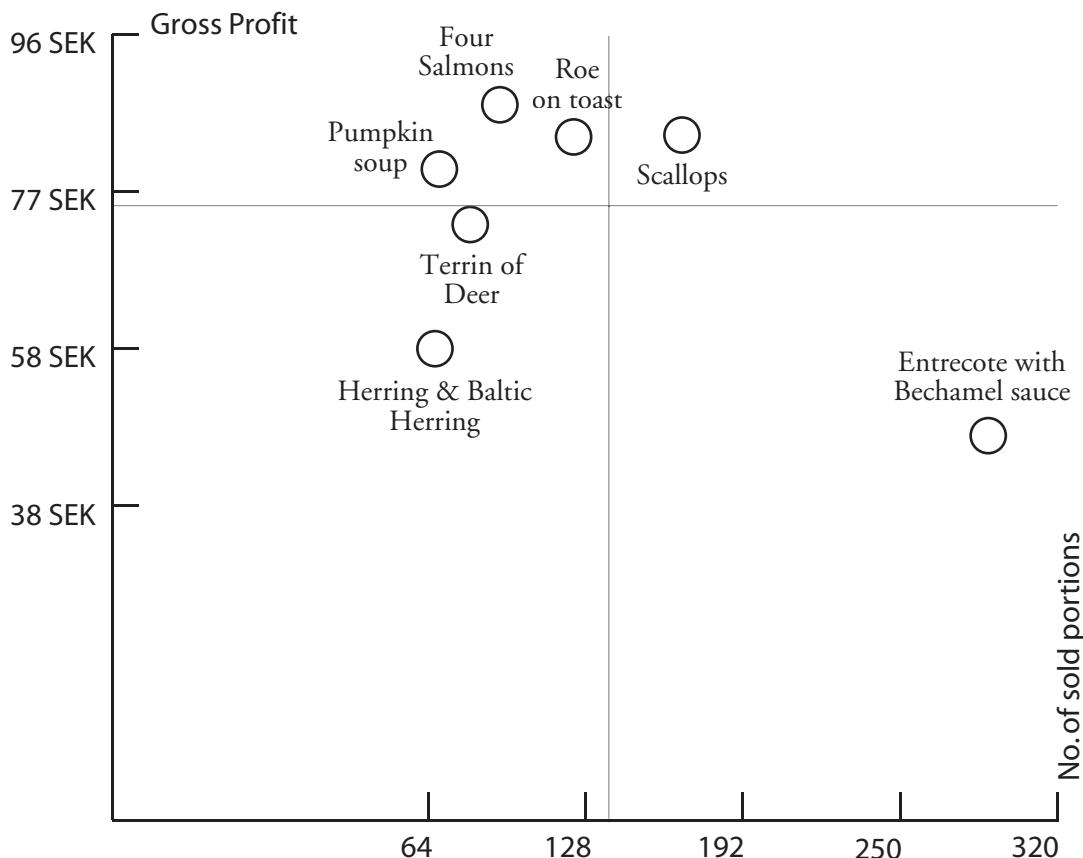
Another example was a Brill which was sold with a bean risotto. This dish was in the upper left hand corner, i.e. it had a good profitability but small volumes. They exchanged the bean risotto for a sea food risotto and immediately the dish went over to the upper right hand corner.

Once you have made the adjustments you can, at the end of a period such as the end of the month, measure the results. At one restaurant the programme for example showed that the revenue increased by SEK 4 per dish, profits per guest increased by SEK 17 and revenue with SEK 11,000 and – above all – that gross profits increased by SEK 10,000.

- The programme offers good support. Really it is just a question of being in control of the price level. It is not merely a question of increasing the price, but sometimes also of lowering the price or taking the dish off the menu all together, says Fredrik Önrup.

- From his point of view, this is an issue that is obvious to most people, but the programme helps you measure changes so that you can see the effect of what you are doing.

Menu engineering



MONGRELS
Dishes in the lower left hand corner sell in small volumes and at a poor profit.
MEASURES Increase the price, try increasing the volume or remove the dish from the menu.

QUESTION MARKS
Dishes in the upper left hand corner you sell little of but at a high profit.
MEASURE Lower the price.

STARS
Dishes in the upper right hand corner sell well and at a good profit.
MEASURE Treasure these.

MILK COWS
Dishes in the lower right hand corner sell well at a good profit.
MEASURE Try increasing the price, take away one ingredient or try out a less expensive alternative or ask for discounts from suppliers.

The diagram is an example of how a restaurants' dishes may be placed.

REVENUE MANAGEMENT

Revenue management is also called yield management. It is a tool to control demand, not increase demand.

The founding principle is to sell the right service to the right customer, at the right point in time, at the right price. In order to succeed with this, you need statistics on the flow of guests. How many guests you have, when they eat, when they make reservations etc. are all good things to know.

LEARN MORE AT RESTAURANGEXPO

If you want to learn more about revenue management at a restaurant, you should visit the fair Restaurangexpo in Sollentuna, just outside Stockholm. On September 22nd Nils Axing and Fredrik Önrup Fredrik Önrup and Nils Axing held a lecture followed by question time in "Restauratörernas" showcase.

For more information, please contact Restaurangakademien, for whom Nils Axing and Fredrik Önrup give lectures. Please refer to www.restaurangakademien.se

Rex Bar & Grill adjusted the menu and increased profits by SEK 30,000

Restaurant keeper Mia Jonsson at Rex Bar & Grill and restaurant manager Per Nordlind practice menu engineering. Among other things, they have changed the prices and the names of some dishes. That way they have managed to increase both sales and profits.

Rex Bar & Grill in Umeå increased their gross profits by SEK 30,000 after a few adjustments of the menu.

-This is a very interesting way of working in our trade where the margins are so small. It is strange that we haven't realised this earlier, says Mia Jonsson, restaurant keeper at Rex Bar & grill.

At Rex Bar & Grill in Umeå they started applying revenue management during the summer with the help of Nils Axing's and Fredrik Önrup's web-based programme.

The menu at Rex was analysed (so far only starters, hot dishes and desserts) and small adjustments were made in order to increase profits.

One example is the dishes entrecote with ratatouille, béarnaise sauce and chips, which is one of the favourites at the restaurant., and Fillet of Beef with Choron sauce, peas and Pommes Noisette. They were priced at SEK 125 and SEK 215 respectively, to begin with.

-We evened out the prices. The Entrecote now sells at SEK 145 and the Fillet of Beef at SEK 198. This means we sell more Fillet of Beef and less Entrecote, but as the profits for Fillet of Beef are still higher it is good business, says Per Nordlind, restaurant manager at Rex.

After the menu adjustments, where other dishes were changed around too, the restaurant increased its profits per dish with SEK 2.03 and the gross profits per dish with SEK 2.10 on average. The gross profits per guest increased by SEK 12.98. During two weeks the restaurant had 2,519 guests who had a main dish, which gave an increased profit of SEK 30,178.

Mia Jonsson and Per Nordlinder don't believe that these adjustments have affected the flow of guests.

-As far as we know, no guests have reacted.

The menu adjustments don't only involve a change in price. It is also a question of taking away dishes

from the menu, replacing ingredients or extras or quite simply changing the name of a dish. For example, the Schezuan marinated Salmon with Asian salad and papaya dressing was renamed Salmon Sashimi with Asian salad and Wasabi.

This means the dish now represents 16% of the revenue on starters, compared to 11% before.

Mia Jonsson believes in differentiated pricing, i.e, that you charge differently for the same dish depending on how it is served. The entrecote which was mentioned earlier is priced at SEK 145, but only in the evening, at lunch it is SEK 135.

-I have already decided that we should have a lower price for the Christmas buffet on Mondays and Tuesdays, as those are usually slow days, says Mia Jonsson.