WHAT IS YOUR PRICING STRATEGY?

Over the years I have experienced many philosophies regarding how to price food and beverage products. And throughout my own career, I must say that I have certainly applied a few different approaches. For many, figuring out the retail price of a new product or even more challenging how much to raise the retail price of an existing retail item can represent some sleepless nights!

Most Operators start with how much a product will cost and then apply one of many pricing strategies to arrive at a retail price. Fundamentally there have been three basic pricing methods used, of which one is setting the selling price of a product based on a cost percentage goal, or setting the price at the same level as the competition (or maybe a little lower or higher), or using the manufacturer's suggested retail price When in actuality, knowing what you can set as a retail price for a product should be the starting point followed by what your contribution margin goal (product profit) is must be the next step. Then you can "shop" for the RIGHT cost for that product based on the decision that your goal is to have each product have a minimum contribution margin of X where X should be in dollars and NOT percentages.

You must have strong manufacturer/distributor relations to be able to purchase products at a price that will allow you to achieve you contribution goal.

In some cases, an Operator may depend on volume of sales rather than contribution dollars per item. In high traffic, high sales volume locations, this approach can work. But for most Operators, this is not an option.

Of course not all products will be able to provide the same dollar contributions, but you should have a set goal by category of what the minimum contribution should be for each product within each category.

COMPETITIVE PRICING STRATEGY

As mentioned earlier, one of your first steps in setting a retail price has to do with what your competition retail price is for the SAME product (apples to apples comparison-same name product, same size, weight). Your options would be to sell the product for the same price, sell it for a little more (Prestige Pricing), sell it for a little less or apply the apples vs oranges approach where you sell a different size/weight product or a different brand.

Keep in mind though that your goal is to sell products that generate acceptable profit contributions.

Remember these words from Dr. Kasavana-Products that are STARS (Popular and Profitable) should STAY and products that are dogs (low Popularity and low Profit) should be replaced!

Once you have established a retail price for a new product, the next step is to measure its performance against all other products in the same category. You want products in each category that will sell well and make an acceptable contribution margin. Needless to say, not all products in all categories will be able to achieve these two goals. So it is paramount that you regularly monitor the performance of all products in each category to ascertain their value to both the customer (high volume seller-POPULAR) and you (high contribution level-PROFITABLE). The general "rule of thumb" for measuring product performance is to gather data on quantity sold and margin contribution at least monthly (for new products) and at least quarterly for all other products. Data should be gathered separately by category and by location. A product that sells well in one location may be a dud at another location.

PRICE ELASTICITY

Chances are that we may not all know what Price Elasticity means per se, but we have all experienced it, particularly when it comes time to evaluate pricing of existing products.

A product is ELASTIC IF when the price goes up the quantity sold drops. Food and beverages tend to be Elastic.

The converse is INELASTICITY-when the price goes up, the quantity sold remains consistent. Gas is an example of a product that is Inelastic.

So needless to say, whenever you adjust prices up, it is important to measure the product performance based on the price increase. Usually you raise prices to maintain or increase the product contribution margin. And this is usually done when the cost of the product increases to you. However, if the quantity sold decreases after the price increases, then the net gain may be a "wash" or even worse a loss. Sensitivity to pricing and pondering whether to raise prices or not can make many of us a little nervous.

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