



## Before you raise prices, read this



The restaurants that have made it through this recession likely didn't do it without some amount of bloodshed. It's likely that one of the biggest casualties was what could have been considered reasonably priced menu items. Now a bevy of restaurateurs that have "value-positioned" themselves out of profit are asking: When can we raise prices?

The answer: Not any time soon.

"Whether the recession ends tomorrow or in 2011, the fact is there are plenty of consumers out there that have changed their buying habits in restaurants and retail," said Robert Ancill, CEO of The Next Idea, an international restaurant consultant company. Ancill said the "magic" price right now seems to be \$5, as evidenced by Subway's billion-dollar success and Domino's three items for \$5.55 deal.

To compete with brands such as Subway, Quiznos launched its \$4 Toasty Torpedo and \$3 Toasty Bullet sandwich lines, while other concepts initiated fast casual versions of value deals, such as kids' eat free promotions and junior sandwich offerings. And in 2008, Boston Market, Togo's, Daphne's Greek Café and Moe's Southwest Grill launched menu items priced at \$5 or less in 2008.

While consumers will continue to be very value-oriented for at least the next year, the good news is their definition of "value" doesn't always relate to price.

### Value is in the eye of the beholder

A \$5 footlong is perceived as a great value. But not everyone concerned with getting "a good deal" has that figure as a ceiling. Customers also can be sold on foods' quality and integrity, something fast casual operators have built their reputations around.

Conveying integrity is especially important these days, Ancill said, because customers today have a particular psyche: They feel betrayed and let down because of recent economic instabilities.

That insecurity translates into their food purchases.

"Whereas before the recession you saw a move toward farmers markets, the growth of Whole Foods, etc., what you're seeing now is this post-consumerism where they're looking for a combination of value and quality – but not Gucci. It's depicted more by the honesty and integrity of the product," he said.

Chipotle is an example of a restaurant that has done a good job conveying the integrity of their food as seen in their motto, Food with Integrity. The brand also uses locally sourced meats and produce whenever possible.

Similarly, natural foods prepared with ingredients whose sources are identified for customers can sell on points of honesty and value, rather than more volume for your buck.

### State your case

Kevin Moll of Denver-based National Restaurant Consultants agrees with the concept of quality ingredients translating to value -- but he emphasizes that an operator must identify that dynamic for customers.

He suggests disseminating information about your food sources -- where your cheese comes from, for example. "Is it from Wisconsin or California? Did it come from happy cows?" he asked. "Get me to buy-in to your story and mission. What is it about your family, history, about your talent, that makes what you do different? What you're looking for here is a competitive advantage over your peers."

For example, Burgerville does a great job of telling its customers where menu items come from -- such as its Tillamook cheddar cheese, Stahlbush Island Farms pumpkins and Rogue River blue-cheese spread. Moll said there are still people who can afford premium ingredients as long as a good case is made for them, and at a fair -- not discounted -- price. But before any promotions are put in place, he advised getting a real grip on your customer type and your audience's state of mind. Moll suggested taking customer exit polls to see what they think of your pre-existing model and where there is room for improvement.

### Coupon alternatives

Some value-positioned operators have expressed a wish to simply stop the deep discounting as the economy heals, rather than scaling everything up.

While many fast casual operators avoided the deep discounting push, some did not.

Modeling is not a bad idea -- the right "**combo deal**," for instance, can work in the place of coupons while driving the average check price. Combine a dessert, drink and beverage into it, as long as it's higher than what a customer usually pays, but, of course, lower than the sum of its parts.

Camille's Sidewalk Cafe launched a BOGO program this year to bring in more guests while Boston Market launched a two-kids-free promo. Meanwhile, brands such as McAlister's Deli and Qdoba shed a brighter light on their loyalty programs to drive customer traffic.

Robert Ancill suggests promoting loyalty programs in-store, but also in an oft-overlooked place -- online. Twenty to 30 percent of orders or millions of transactions occur in this space, and messages on here have a silver-bullet like quality. "I don't know that they're (taking advantage of) that," he said.

Rewards programs have the ability to not only replace profit-cutting coupons, they're also made to encourage loyalty, of course. And that's something every restaurant operator can appreciate.

### Topics: Operations Management