



Before you raise prices, read this



Those restaurants and pizzerias that have made it through this recession likely didn't do it without bloodshed. And one of the biggest casualties was likely what could have been considered reasonably priced menu items before the last 12 to 24 months. Now a bevy of restaurateurs that have "value-positioned" themselves out of profit are asking: When can we raise prices a bit?

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.

The good news is that though consumers will continue to be very value-oriented for at least the next year, 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 can also be sold on foods' quality and integrity.

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.

He offered Chipotle as an example of a restaurant that has done a good job conveying the integrity of their food. (The fast casual chain uses locally sourced meats.)

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. "It's almost like small is bigger right now," Ancill said.

State your case

Kevin Moll of Denver-based National Restaurant Consultants agrees with the concept of quality ingredients translating to value -- but 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." 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 exit polls of hundreds of customers to see what they think of your preexisting model.

"If everyone says that the food is cheap and the value is outstanding, would you have a little room maybe to raise prices? Maybe, but you still shouldn't. That just means that you own that segment. So what you should do then is intro new higher priced, high value premium items."

New menu items

People are still very receptive to new menu items. Technomic Inc.'s recent report on consumers' favorite flavors confirms this. It found that 42 percent of consumers, particularly males aged 25 to 34, are more likely to visit restaurants that offer new flavors.

That's good news for operators who have priced themselves low enough to eschew a profit. Moll said the solution is introducing a premium, higher-end or priced menu item -- as long as it fits with your brand. He gave the example of Papa John's extra-large XL3 pizza, which he said he'd pay a particularly hefty sum for -- despite the fact that they're practically giving it away at the moment for \$11.99.

"I have a sizable family, and every time we order pizza, we finish the whole thing. Would I spend \$30 for [that] pizza? Probably! I think Papa John's does a great job of promoting new, interesting items. You can get the bigger dollars when you do that."

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. Mike Mrlick, CEO of Gatti's Pizza, for example, said he can't seem to roll out a new menu item without discounting it these days.

The large Gatti's favorite is \$15.99. But after it launched at a special introductory price of \$11.99, consumers didn't want to pay full price. "We have built in a system of discount," said Mrlick, who expressed the want to be able to set a fair everyday price, like the fast food segment. He is currently working on price modeling.

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, according to Moll. 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.

Such a strategy gets harder for buffets like Gatti's whose packages are already low.

And customers tend to be a diehard group that will either slough off at the discontinuance of such marketing, or at least want something in return. Restaurateurs need creative new ways to fill that gap.

Loyalty programs are one of them, according to Robert Ancill.

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"The thing that surprised me a lot about the restaurant business is that they haven't really embraced loyalty programs," Ancill said. "I think it's a lot more strategic and more beneficial in so many ways if they look at loyalty programs properly, managing them electronically like retailers have."

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 can appreciate.

"What happens with 'couponing people' is they'll go to **Domino's** today and then they'll get the paper and do **Pizza Hut** (tomorrow)," said Neil Neufeld, vice president of Vucurevich|Simons Advisory Group. But with reward or loyalty programs, "Domino's is saying come five times; on your fifth visit, you get a free pizza. So customers are not spreading (visits) out."

Topics: Business Strategy and Profitability