Nip & Tuck: Operational Concerns of Menu Makeovers

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A GOOD RESTAURATEUR IS ALWAYS LEARNING

Illustration by Keith Ibsen
Many casual-theme restaurants, sports bars and quick-service restaurants have what is called a "static menu," a menu that does not change from day to day. Fast-food restaurants, until recently, have had the classic "static limited" menu. It allowed for greater efficiencies forecasting quantities to purchase and prepare, employees became very adept in preparing the menu items, and costs could be contained and controlled through proven standards.

These advantages accrue to any restaurant with a static menu. However, today’s menus are a far cry from the limited menus of the past. All one has to do is look at the menus for the top hamburger, pizza, chicken, sandwich and Mexican chains to see that "limited" and "static" no longer apply to their menus. Having a limited menu may make cost controls easier but it has one major drawback: Customers may become bored with the menu choices and reduce their visits to the restaurant.

Subsequently, all foodservice operations are expanding their menus and introducing new items as much as four to six times per year to maintain their market share and attract new customers to their operation. Even when seemingly moderate changes are made to a menu — just a “nip and a tuck” — a litany of operational aspects must be reviewed.

by Dave Pavesic, Ph.D., FMP
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The Change May Do You Good

Independent restaurant operators have the ability to react and change menus much faster than corporate chain operations, but they must still study the consequences of their menu decisions. Let’s set the record straight right from the beginning: Menus need to change probably about four times a year. These changes are not necessarily major menu makeovers, but simply the addition of one or two new appetizers, entrees, desserts or beverages. They are not all changed at the same time, but introduced at strategic times to help drive customer counts, market share and renew regular customer interest in the restaurant.

Adding a new menu item affects the following aspects of the restaurant:

- The printing of the menu.
- Equipment capacity and production.
- Preparation and service staff.
- Purchase specifications.
- Recipes.
- The average check.
- Food cost.
- Gross profit per menu item.

Ask yourself why you are even considering adding the menu item. Is it an item driven by demand? Are you adding the item to be competitive with other restaurants? Will your current customers order it? Have they been asking for it? Will it expand your customer base or broaden customer appeal and bring in new customers?

Among the legitimate reasons to introduce a new item to your menu:

- To appeal to customers mindful of dietary issues such as nutrition, low carbohydrates, low fat, or low calories.
- To add an item to achieve a price point necessary to build customer counts (as is the case with early-bird specials).
- To respond to a fad or trend in the market for a particular ingredient or menu item.
- To replace a poor-selling or seasonal menu item.

Rule No. 1: Follow Your Customers’ Lead

Ultimately, it is not a decision that is made by your kitchen staff or dining room staff. The primary reason for adding new
menu items is customer-based. Will customers like the new menu items? Can you gain a competitive advantage over your competition with the new menu item? How long can you expect to sustain a product advantage or price advantage? The answer to that last question is that eventually you will lose your advantage because no restaurant or company can sustain a product (or price) advantage over the long run. Eventually the other restaurants in the market will add the item to their menu or match or beat your price.

All of the operational problems become inconsequential in relation to the benefits derived from offering new menu items. The objective is to drive sales and to at least maintain market share if not increase it. Even if the new menu items are slightly more complicated to prepare and take more time than others, if it is low in cost, popular, and generates a high gross profit, it is worth the effort.

Start in the Kitchen
Each new menu item should be evaluated relative to the kitchen staff and the existing equipment. When contemplating the addition of new menu items, use a 10-step checklist to assess whether the item is appropriate for your pricing, production and presentation practices, and whether you think the item gives your restaurant a competitive advantage in the market.

Examine the recipe and consider the following:

**What are the necessary ingredients and their availability?** Are there acceptable substitutions? How does the item affect inventory and purchasing requirements? Can you maintain quality control over the raw ingredients from storage to final preparation or are the ingredients extremely perishable, e.g., fresh fish and seafood products? Are key ingredients already in inventory or are they expensive additions? Are they highly perishable ingredients that must be used within a short time span?

**Is the cost of the main ingredient(s) and their availability relatively constant or subject to seasonal fluctuations?** Are the key ingredients readily available from more than one supplier and do their price, availability and quality remain consistent year-

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**Case In Point**

A regional chain family coffeehouse restaurant (similar to IHOP and Denny’s) wanted to expand its menu offerings. Initially, each restaurant prepared all the food including cutting steaks, baking pies and making all sauces and soups. The restaurants found that quality of finished products and food costs varied from restaurant to restaurant. In addition, each restaurant had to employ a head cook who was given the responsibility to prepare all the signature menu items. The purchasing was complicated and inventory was extensive as well.

Labor costs started to rise and the company sought to curb kitchen costs by opening a central commissary in one of the restaurants and shipping the steaks, pies, chili, spaghetti sauce and soups to each restaurant. This allowed it to reduce the hours of the head cook and lower labor in the restaurants. This also reduced the equipment maintenance costs at the restaurants since they didn’t use them as often and as long as they did when each restaurant produced all the menu items. This provided consistency in both quality and cost in the menu items that the owner was seeking. Over time, the kitchen staff was relegated to reheating and portioning the prepared food items. The culinary ability of the average back-of-the-house employee was much less than it had been pre-commissary.

When the chain expanded its locations to two states, the commissary fell under the regulation of interstate commerce. This meant satisfying government standards for the kitchen, placing labels on containers used to transport food, using temperature-controlled delivery trucks, and having a food inspector in the plant.

The current facility did not meet the standards required by the government to ship processed foods interstate. The costs to make the commissary compliant were so high that the company closed the commissary. The restaurants had grown completely and produced easily. Frozen convenience entrees were ruled out because they did not meet their menu price points. Subsequently, new menu items were concocted by combining ingredients already in stock. Blue cheese dressing, English muffins and hamburger patties were used for the new British Burger. Chili was topped over spaghetti and called Chili-Mac. Chili was put on hamburgers and hot dogs to create Chili Burgers and Chili Dogs. Canned sauerkraut and German potato salad were purchased and served with two hot dogs and a slice of pumpernickel bread. The 8-ounce chopped sirloin steak was served on toasted pumpernickel bread with German potato salad and a slice of red onion and called a Pumpernickel Burger. These items and others were made from combining existing stock ingredients and the addition of nonperishable, low-cost items, e.g., sauerkraut and canned German potato salad. In addition, the existing back-of-the-house employees were given specifics on how to prepare the items, all with the existing equipment in the restaurants.

Obviously, this was an emergency short-range solution that was eventually supplanted by a new menu and gave the restaurant time to hire and train new back-of-the-house employees.
10 Ways to Disguise Price Increases

The addition of new menu items means that you need to reprint your menu. This is a time for you to redesign the menu to be a better marketing, cost-control and communication tool. You will want to feature the new menu items on your menu so customers will notice them and increase the odds that they will be ordered. This is also the time to consider adjusting prices to reflect any cost increases that have occurred. Here are some techniques you can use to disguise menu price increases.

1. The first rule is never raise prices when you change the design of the menu. Whenever you redesign a menu, price increases will be noticed by your regular customers. Therefore, we recommend that if you are going to raise prices that you reprint your old menu one last time with the new prices. That way you will not have price increases on your new menu and you can make the remark to your regular customers that you have a new menu but with the old prices.

2. Use odd-cents increments in prices such as $5.25, $5.30, $5.75 and $5.95. If you are already pricing this way, you can go to $5.29, $5.59, $5.79 and $5.99. When a menu item is increased within this range, for example from $7.50 to $7.59, it is less likely to be noticed by the customer. The two most common terminal numbers for menu prices are 5 and 9.

3. Never cross out old prices and write over the old price or put a sticker over old prices. This will call more attention to price increases and you are better off to reprint the menu. However, crossing out prices and writing in “lower” prices is an effective way to call attention to a bargain. As a promotion, consider this technique once a month on a slow night instead of printing discount coupons.

4. Hold off as long as possible when a price increase requires you to go to the next dollar amount; for example, $7.95 to $8.25. Changes in the dollar amount are more likely to be noticed.

5. When you have to raise the dollar amount, reposition the menu item to a less visible spot on the menu and emphasize a lower-priced item in the place it vacated.

6. When a price increase cannot be delayed, consider increasing the portion size or adding an accompaniment, thus creating a new, larger or improved version of the old item. In this way, you provide added value and not just a price increase.

7. If portions or accompaniments are already substantial, consider reducing portion size or eliminating an accompaniment in lieu of a price increase. This may be the best strategy if your restaurant is in a highly competitive market where price elasticity exists. Dropping either the salad or potato on dinners and lunches and charging a la carte is a way to maintain your price points.

8. Never raise prices across-the-board. It is rarely warranted and it is much better to raise only a few items at a time with each reprinting of the menu (assuming the design does not change). Start by increasing the most popular item to the next odd-cents level instead of slow-selling items. A 25-cent increase on menu items that account for 30 percent to 40 percent of your sales will return more than a 95-cent increase on items that account for less than 10 percent to 15 percent of your sales mix.

9. Items that fluctuate in cost should not be priced at all and should be listed on the menu as “market priced.” Have your servers quote the price daily.

10. Do not align prices in a straight line down the right side of the menu page. Doing so makes the prices stand out from the descriptive copy and influences the customer selection decision. Never list menu items in price order from low to high. Place them in mixed order with the more expensive items at the beginning and end of the list. To make prices less prominent, place the price immediately after the last word in the descriptive copy.

Just as you need to assess the effect of new menu items on your prices, so must you assess them against your overall food cost percentage and your gross profit returns.

Can the main ingredients be used in other menu items or will they be used in one menu item? Cross-utilization of ingredients is important, especially when the main ingredients are expensive and perishable. If fresh shrimp is an ingredient, other menu items using the same shrimp should be developed to ensure frequent turnover of perishable ingredients. Subsequently, menu offerings might include shrimp scampi, shrimp Creole, shrimp cocktail, shrimp salad and shrimp gumbo. Do you have to build quality-control loss costs into the food cost to maintain proper margins?

Can it be made with existing equipment or does it require specialized equipment, like a Pannini grill? Are all of the necessary equipment, pots, pans, and utensils already on hand to produce the item(s) in the quantities needed? Do you have proper and adequate dry, refrigerated and freezer
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storage space? Do you have the space in the production area to process the ingredients? Does the menu item require different flatware to make a great plate presentation when served to customers? In some cases, a special platter or plate can enhance the presentation and appeal of the item.

Consider scratch preparation or convenience food ingredients. In other words, will it be made in-house or purchased prepared or in processed form? If you find that you do not have the necessary equipment or space and that preparation from scratch would be time-consuming and beyond the ability of your staff, purchasing convenience products can solve both issues. Labor-intensive processing that can be outsourced makes perfect sense and should not be a reason for concern.

Keeping your menu interesting and appealing does not require major surgery. In fact, a complete overhaul of your menu could be disastrous if it alienates your repeat customer base or disrupts your concept.

What is the effect on preparation and cooking for service, e.g., time and complexity of preparation? Does the item meet the restaurant’s time limits? Will it affect the product and employee flow during peak periods? You will need to evaluate how each menu item will affect the flow of product and flow of work during the peak periods of the restaurant. Can the menu item be prepared for service in the time frame that has been established for all other menu items, e.g., 13-minute ticket times? Will it require partial cooking to meet these times and does the quality of the finished product prepared this way still meet your quality standards?

Parcooking ingredients may be necessary to meet the time limits of cooking for service. Again, this is normal in the restaurant business. Many entrees and accompaniments are cooked ahead of time and reheated for service. Barbecued baby back ribs and roast chicken are two examples. These items cannot be cooked to order. Can the item be produced with your present staff and equipment? How labor-intensive is the preparation? Can it be produced without overloading a particular station? Do you need to conduct training and purchase additional equipment and utensils? Do not allow your staff or equipment to keep a new menu item from being added to your menu. Train them and purchase the needed equipment. What is the potential for growth? Does the item require single-use ingredients that are expensive or perishable? If so, can you incorporate these ingredients into side dishes, appetizers, combinations, etc., to create adequate use levels and turnover that will keep waste to a minimum?

Is the new menu item “compatible” with your concept? This particular point is not as strict as perhaps it once was because menus offer all types of ethnic foods. However, adding menu items that go beyond the scope of your concept to broaden your restaurant’s customer base needs to be carefully considered. Price points normally should not be higher than competitors’ prices, especially if they specialize in that particular type of menu item.

Is the price point consistent with the prices of your other items? Will the price point raise or lower your overall average check? Will the price point be acceptable to your customers and compatible to the rest of your menu prices? If your average entrée price is $14.95, the new item(s) needs to be compatible. If you have to sell it at a price that is 50 percent more than your current average menu price, it will not likely be ordered. This holds true not
only for entrees, but for appetizers, salads, and desserts as well. You certainly do not want to add something that will be lower than your existing menu offerings (unless you are doing it for a limited promotion, e.g., early-bird special) because it will lower your overall check average. The only way to make up for lower average checks is to increase your customer counts.

**Does the food cost and gross profit improve or reduce your menu’s average?** What is the desired food cost on the menu item? What is the desired gross profit return on the menu item? Just as you need to assess the effect of new menu items on your prices, so must you assess them against your overall food cost percentage and your gross profit returns. In the best of both, you want to lower food cost and raise gross profit. If an item returns a high gross profit and has a lowering effect on food cost, it should be featured on your menu.

**Consider Preparation Requirements**

Perhaps the key issue that needs to be addressed when contemplating the addition of new menu items is the preparation requirements. Labor can be a significant cost to any menu offering. What new ingredients need to be inventoried? Can the new menu item be produced with the current equipment or do you need to purchase additional equipment? If the ingredients are processed in-house, do you have sufficient staff to handle the demand and will it increase labor if you choose to do the processing? Can you purchase the ingredients in processed form and eliminate the need for additional equipment? When new menu items require new equipment and seem too labor-intensive for your restaurant and staff, consider outsourcing the labor-intensive ingredients.

If kitchen prep space is limited, adding equipment becomes a moot issue, and pre-processed must be used. Although processed ingredients like precut vegetables and meats will cost a little more per unit of purchase than unprocessed bulk ingredients, it offers an alternative to scratch preparation. The “as purchased” unit of cost will be more than the cost of bulk ingredients but you cannot just look at food cost. Rather, you must consider what we call the “prime cost” — the cost of food and labor combined. (For more information on prime cost, see “Lean and Mean” on Page 34 of this issue.) If you purchase precut ingredients you will have a higher food cost but should offset it with lower labor costs. If you purchase bulk ingredients and process them in your kitchen, you may believe you have lower food costs but you must understand that you are incurring labor to process that food and must include the labor cost when calculating your production costs.

To offset the added cost of processed ingredients, you must reduce the amount of your scheduled labor hours. If you do not reduce your labor, you will not realize any operational efficiencies of using precut ingredients. For example, if you have a staff spending 24 hours a week cutting steaks for your restaurant and you begin purchasing precut steaks, you have to eliminate the 24 hours per week you were scheduling an employee to cut the steaks. If you do not, no savings will result. Again, you need to look at your prime cost, not just food cost or labor cost.

However, there may be circumstances in which you will choose to process major ingredients yourself and purchase labor-saving equipment to do the job. For example, if your restaurant features a huge salad bar with dozens of choices, you may find it cost-effective to purchase an automatic food processor that shreds, chops and dices vegetables for the salad bar rather than purchase them precut. This assumes that your kitchen has the space for this workstation. However, you have to assess whether the cost savings outweigh having to take time purchasing, the amount of storage space required, the labor for processing, employee-related issues such as hiring, training and scheduling, and how the quality and consistency of what is being produced compares with what you can purchase already processed.

**You Don’t Have to Go Overboard**

Keeping your menu interesting and appealing does not require major surgery. In fact, a complete overhaul of your menu could be disastrous if it alienates your repeat customer base or disrupts your concept. Your overriding goals should be to increase profitability and maintain interest, without disrupting the facets of the menu that work. An occasional but judicious nip and tuck will keep your menu looking fresh, without undermining its essential character.
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