

# MENU ENGINEERING EXERCISE

## WHY IS MENU ENGINEERING SO IMPORTANT?

*As you try to find ways to increase profits in your restaurant, the easiest way to do that is to maximize the profit from your existing customers. In other words... if you have the exact same number of people eat at your restaurant in a given year, you still have the opportunity to achieve higher profits by encouraging your guests to order more profitable items. This menu engineering exercise will allow you, as a business owner, to take the emotion out of decisions you make pertaining to your menu and allow you to base those decisions on data and facts.*

## READ MENU ENGINEERING PRINCIPLES

**DEFINITION:** Menu engineering is a concept developed at Michigan State to help food service professionals track variables, which influences a menus' profitability.

**IMPORTANT QUESTIONS:** Can we influence the customers' decisions towards menu items that generate more profit? It is important to remember that the menu is the primary marketing tool where items compete with one another - some offer more profit, others offer higher sales, others offer both and some neither.

**TOOL:** This is a key tool that a college graduate should have in their tool chest. Because it enables you to evaluate why certain menu items do better than others - is it visibility, a poor sales program, food presentation, etc. It is a tool that provides you with the necessary information to make decisions about menu items to improve the overall profitability of the menu.

**INDIVIDUAL MERITS:** However, it also important to judge each item on its individual merits. We look at two basic attributes:

1. Menu item popularity or demand.
2. Menu item contribution margin or profitability.



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## HOW DO YOU COMPUTE MENU ITEM POPULARITY AND CONTRIBUTION MARGIN?

**CONTRIBUTION MARGIN** = Menu Price - Food Cost.

*If a menu item's contribution margin is greater than the average contribution margin for the entire menu, it receives a rating of "H" indicating that it has an above average contribution margin.*

**Example:** Sum of CMs = Rs. 30 # of items on menu = 10 ... Avg. CM= 30/10 = Rs. 3

If a menu item had a Contribution Margin of Rs. 4.00 it would receive a "H"

If a menu item had a Contribution Margin of Rs. 2.00 it would receive a "L"

**DEMAND** = Number of items SOLD of a PARTICULAR MENU ITEM / TOTAL number of MENU ITEMS SOLD.

*If a menu item's percentage of sales is greater than the average sales percentage for the entire menu, it receives a rating of "H" indicating that particular item has a higher sales percentage than the demand mix.*

**Example:** If there are 10 items on the menu, the **Demand Mix** would equal  $1/10 \times .70 = .7$  or 7%.

Any menu item with a sales % equal to or greater than 7% would receive a rating of "H"

Any item with a sales percentage less than 7% would receive a rating of "L"

**MENU CLASSIFICATION SYSTEM.** *All menu items can be classified into four types:*

1. **Stars or Gold** = HH (Makes Good Money and Sales Well)
2. **Plow Horses or Silver** = HL (Doesn't Make Good Money but Sales Well)
3. **Puzzles or Bronze** = LH (Makes Good Money but Doesn't Sale Well)
4. **Dogs or DQ** = LL (Doesn't Make Good Money and Doesn't Sale Well)



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## READ MENU ENGINEERING STRATEGIES

*In the menu engineering reports you will classify each competing menu item against two benchmarks: Contribution Margin and Menu Mix (or percentage of sales). Each item is classified as "High" or "Low" using the rating scale denoted above.*

### GOLD / STARS:

*These are premier items of the menu. They are relatively popular and generate above average profits per sale. Some strategies to follow to enhance their profit potential:*

1. Maintain rigid specifications. Special attention should be given to these items to ensure they are of the highest quality.
2. Give high menu visibility. The menu can be a great sales tool. Customers tend to order items which "stand out". Make sure your gold items present themselves well on the menu.
3. Test for price elasticity. Be proud of gold items. If the customer is willing to pay more without affecting your total demand, logic says, increase the price.
4. Push a "sales" program. Have the wait staff suggest these items when asked by customers.

### WHAT TO DO WITH STARS:

- Do give these items the best placement on your menu.
- Do use these items in sales promotions and contests.
- Don't change the price too drastically.
- Don't change the presentation or recipe...your customers like it the way it is.
- Do encourage your staff to suggest these items to customers.
- Do highlight these on your menu as "house favorites" or "signature dishes"



## **SILVER / PLOW HORSE (WORK HORCE):**

*These items trudge along doing a great deal of work (sales) while actually doing very little (making profits). They reflect good volume sales, but generate little profit compared to the gold items. A silver item is a good candidate for inventory control. Some strategies to follow:*

1. Don't offer as a special. If a silver item does not exceed the average contribution margin, why offer it as a special? Instead, turn the demand to high profit items (e.g., gold and bronze).
2. Maintain low menu visibility. Try to hide these items on the menu.
3. Reduce portion sizes slightly. This will reduce food cost, and in turn help to increase contribution margin. This can sometimes turn silver into gold.
4. Find alternative ingredients. See if less expensive ingredients can be utilized without sacrificing quality and consistency.
5. Test for price elasticity. Will raising the price significantly reduce demand?

## **WHAT TO DO WITH WORKHORSES:**

- Don't raise the price on these items above what the local market can bear. For a competitive comparison of chain restaurant pricing, refer to our Operational Tool called Key Components to Consider When Pricing Your Menu or compare your pricing as it relates to local competitive restaurants.
- Do look at alternative products to decrease the food cost without compromising the quality. Remember that Workhorses sell well, so your customers like the item.
- Do hide these items on your menu so it is easier for the customer to be drawn to more profitable items.



## BRONZE / PUZZLES:

*These are the most misunderstood items on the menu. They manage to make above average contribution margin, but are weak in demand. The issues that arise are twofold: why aren't they selling well and how can we increase demand without sacrificing the high profitability? Some strategies to follow:*

1. Offer as daily specials. A quick and easy way to attract consumer attention and increase demand is to offer an item as a "Special."
2. Give the item high menu visibility. Make it "stand out" on the menu.
3. Reduce the price. The item may be overpriced. Test for price elasticity.
4. Drop from the menu. Especially if it has a poor shelf life, or it is difficult to prepare.

## WHAT TO DO WITH CHALLENGES:

- Do evaluate the price on these items to be sure they are not priced above what the local market will bear. For a competitive comparison of chain restaurant pricing, refer to our Operational Tool called Key Components to Consider When Pricing Your Menu or compare your pricing as it relates to local competitive restaurants.
- Do get staff and customer input on the menu item... It might not sell well because it doesn't taste good or fit the market.
- If you determine that the item is a good one, highlight these items on your menu to increase sales and use these items in sales promotions and contests.



## **DQ / DOGS:**

*These items are the poorest performers of the menu and may often be dropped from the menu entirely (e.g., disqualified). Some strategies to follow:*

1. Drop from the menu. These items may be nothing more than dead space on the menu, and thus serve no purpose. By dropping them you can free space, reduce clutter, and concentrate on more profit bearing items. This also may reduce inventory.
2. Rename and describe to make more attractive. A catchy name and description may be all it takes to increase demand and turn a DQ into a silver or gold.

## **WHAT TO DO WITH DOGS:**

- Do consider removing these items completely since they do not positively contribute to the profit or popularity of your business.
- Do visit Sysco Hampton Roads for a Customer Menu Consultation to have our Chefs show you ideas for more profitable and unique items to replace your Dogs. If you decide to keep a Dog on the menu, our Chefs can also give you ideas on how to make enhancements to increase the profitability and popularity of the item.
- Do get staff and customer feedback on the menu item to find out why it doesn't sell well.



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