“Application of Menu pricing and Food costs theories within a new restaurant setup-
A Case study on modern restaurants in Jaipur City”.

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Abstract:

Food & Beverage Controls, technique and processes and their correct application plays a major role in the success of Food & Beverage Business. Be it a normal application of Standard recipe card or the much complex process of Menu engineering and Menu Pricing Techniques. This case study is focused on the use and application of the Food cost and Menu pricing theories in day to day operation of a running restaurant. Costing being a specialized area and needs subject expertise may result in limited use practically. The Study tries to explore the views of the upcoming Restaurant entrepreneurs and makes a modest attempt to study the use of various Cost control theories in practical operations. Though most of the theories were found to be in use some way or the other, still awareness needs to be created on the benefits of following the Food & Beverage Control techniques.

Keywords: Cost, Control, Pricing, Strategies

Introduction:

Cost control techniques along with the different methods of pricing and standard tools used for controlling Food & Beverage cost are considered to be the some of the best practices being used all over the Food & Beverage Industry. Most of the operators in Food & Beverage Industry belief that the above theoretical prospective of cost control is widely used and are in practice. But inquiry as to specific mechanism of any reliable cost control system often reveals inadequacies that prevent meaningful control over food costs. These inadequacies have been echoed time and again by the recent Hospitality Management graduates upon theory entry to the Food & Beverage world. They believe that even the basic mechanism of any formal cost control system, standardized recipes and portion cost analysis in particular, are either sadly inadequate or nonexistent in routine management of F&B operations.
Objectives:

- The primary objective of the research is to check the actual applicability of the various control system components in real time F&B Business and find out the strategies used by the single owner Restaurateurs in pricing their opening menu card.
- The second objective is to find out the adequacy and effectiveness of the various Food Cost control techniques in real time F&B Business.

Methodology:

Since the topic may be quite sensible for the Business Owners and they may not be willing to share the actual data of their business due to various competitions available in the market, a case study approach was selected for research of this topic to mitigate the negative effect of the confusing factors discussed above. The opportunity to interview and probe top management responsible for existing systems provides qualitative perspectives on factors important to the decision making process in a small operation. For a better understanding of the facts the research is limited to the city of Jaipur and only 10 new Restaurateurs were taken into confidence to complete the study.

Background Study

Eating out was never a part of the traditional lifestyle even a decade’s back. But now with the changing lifestyle and the ever changing economic pattern of our society wherein nuclear family and earning capacity has improved, resulted in more and more people dining outside.

“India’s Food Services market has come a long way from early 1980’s when the number of organized brands were countable and the market otherwise was dominated by un-organized players. The revolution in this sector began in 1996 with the opening up of restaurants by McDonald’s, Pizza Hut, Domino’s followed by Subway, Haldiram’s, Moti Mahal and Barbeque Nation etc”…. as reported by technopak. (http://ficci.in/spdocument/20969/foodzania-2017-report.pdf).

Structure of Indian Food Service Market:
List of licenses required in India as compared globally

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDIA</td>
<td>12-15</td>
<td>See below</td>
</tr>
<tr>
<td>THAILAND</td>
<td>5</td>
<td>Sanitation(Food)license, Fire, Sales, Work Permit, Local Municipality</td>
</tr>
<tr>
<td>CHINA</td>
<td>4</td>
<td>Sanitation(Food)license, Fire, Sales, Environment</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td>4</td>
<td>Food/Health, Fire, Sales, Waste License</td>
</tr>
<tr>
<td>TURKEY</td>
<td>2</td>
<td>Municipality &amp; Fire</td>
</tr>
<tr>
<td>USA</td>
<td>7</td>
<td>Business, Employer Id, Certificate of occupancy, Food Service, Liquor</td>
</tr>
</tbody>
</table>

Source: NRAI Technopak India Food Services Report 2016, Technopak Analysis
Menu Pricing Strategies: Theoretically three basic approaches are followed for any Menu pricing.

a) Matching Competitors Price: Especially applicable when Homogeneous Products are offered. Only distinguishing feature might be the Décor. In such cases, the only way to attract Customers is to match their Prices or offer Products at a Lower Price. Lower C.M. may result. Dependent on the Volume of Business or Turnover for meeting Profit Requirements.

b) Matching Competitors Price: Using the Ingredient Mark – Up Method: By Classroom Discussion.

c) Adding the Contribution Margin to Portion Cost by using the contribution Margin Pricing method.

Food cost and role of Manager:

Food cost plays a very important role in quantitative menu pricing strategy and the Manager has to be extremely vigilant and intervene whenever variance occurs. In most of the cases Food cost varies due to inefficiency in the purchase process, not having proper defined purchase specification, faulty storing process or even to undefined issuing or inventory process. As Ferguson & Selling, 1983 mentions Fabrication and processing variances include waste and spoilage, improper portion control, errors in production methods and estimates, and theft. The standard recipe is a very important tool for the Manager to ensure the food cost is quite under control. It provides a detailed list of ingredients and their precise quantities in a particular menu item. The recipe cost analysis lists quantities of food products utilized in the standard recipe with respective costs per unit to obtain total recipe production cost and individual cost per serving.

Analysis and Findings:

The participants to the above study are individual restaurant owners within the city limit of Jaipur in Rajasthan. The Restaurants and middle scale restaurant catering mostly to the resident guests of Jaipur City and in and around the close city limits. Most of the restaurants are having plush, atmospheric interiors with comfortable seating. One of them is also a Roof Top restaurant. The concepts of most of the restaurants studied were typically limited to the local delicacies and are influenced by the taste buds in Rajasthan. The portions and prices are established in such a way that each menu item could be shared among more than one person.
Limitation in Data Analysis was observed and it served two purposes. Cases where internal analysis were available and provided, an appropriate consistency of methodology was employed and where internal analysis was not available, appropriate analysis were constructed with accuracy of data.

Responses: 80% of the respondents were of the opinion that they ventured into the business of Restaurant to make profits , and 40% of the Respondents had no prior knowledge of doing business in Food Service , while 60% is already in the Business of Food either in retail or in traditional catering business. About 85% of the respondents agreed to the fact that they did not have profit margin in mind while starting the business.

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**Expected Return on Investment**

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<thead>
<tr>
<th>Percentage</th>
<th>0</th>
<th>10</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>70</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 50%</td>
<td>30-50%</td>
<td>10-30%</td>
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All the owners were of the opinion that the Business Return on investment is expected to hover around 25%, while 30% believed that it is quite possible to achieve a profit margin of 40% GOP, if proper control processes are in place.

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**Biggest surprise running this place**

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<tr>
<th>Percentage</th>
<th>0</th>
<th>10</th>
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</thead>
<tbody>
<tr>
<td>Guest expectation</td>
<td>Cost Control</td>
<td>Manpower Turnover</td>
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Discussions on various challenges faced revealed that 60% of the owners are facing the challenge of attrition. Today the Food & Hospitality Industry is growing in such a pace that it becomes extremely difficult to keep manpower turnover under control. Every day a new F&B Outlet is opening up and the opportunities keep on knocking from new employers. Though the skilled resources coming from Catering Institutes are increasing every day, but then the mental
block with the students not to start their career from a Restaurant results in increasing the gap always.

![Process adopted to set menu price](image)

On enquiring about the use of different F&B Cost control and Menu pricing techniques, it was found that most of the owners are following either the fixed cost format while setting up their menu prices or going by their self intuition from past experience. One more interesting fact which comes out is that about 25% of the operators are changing their menu prices depending on the market trends and competitors pricing.

Most of the Respondents shared that the actual Food Cost hovers around 27%, which may be considered as a very healthy Food cost. While 80% of the respondents were of the opinion that they follow a standard food cost and standard recipe card for the preparation of the dishes, but investigation reveals that proper documentation is lacking and most of the Chefs in the restaurant have their own private recipe card which is followed. Cost analyses presented by management were limited to pricing of primary recipe ingredients only. Accordingly, full cost analyses of all recipes were constructed from available purchasing records. Inventories were maintained on Monthly basis but no theoretical formulas or facts were put into place. Lifo / Fifo system of inventory control though followed in terms of issues, but actual cost of items were considered during the closing process of inventory. On investigation it was found that though the management says that follow the recipe cards, but actual in practice, in practice the Chef determines the ingredients and the quantity to be used and changes as per the requirement of the customers and availability of raw materials. It may also be noted that no evidence of written formats on any kind of control process was found.

Conclusions:
Menu prices were determined to be valid, even though developed by mere intuition of the management or the owners, but it is suggested that the same may be used as future reference for all the menu items on offer. On review of the standard recipes, lot of anomalies was found in-between theory and actual practice. Most of the restaurants follow a recipe but the same is not documented as per the process. Efforts should be made to refine these recipes and enter them in typed formats. In short though all the theoretical concepts of Food costing and control techniques are followed in principle, but in most cases are not documented. Proper documentation of the Food Control techniques shall definitely help in increased profit margins and better control on expenses and service offered.

References


Web source