

Combating Food and Labor Costs with an Effective Price Increase

The restaurant and QSR industry has always been filled with fierce competition, but in recent years it has faced additional challenges. Restaurants are now navigating substantial changes and disruptions as the minimum wage rises and food prices are slowly, but surely climbing. While it is tempting for restaurants to implement price increases across the board to cover these rising costs, haphazard pricing spikes are likely to negatively impact the bottom-line over the long-term as customers move to more affordable competitors.

Our client, a QSR chain with over 1500 locations, recently experienced a decline in sales and guest count. To overcome these challenges, the client wanted to implement a price increase to cover rising costs using a more “surgical” approach rather than a blanket percentage increase on all products. During this 8 week project, the Pricing Solutions team delivered actionable pricing recommendations, which uncovered a 5% increase in sales, as well as a roadmap for how to improve their pricing structure and processes over the next 6 to 18 months.

5%

in Potential Sales through Customer Segmentation

The Challenge

As food and labor costs rose, with the cost of some items going up by as much as 50%, the client could no longer rely on a traditional cost-based pricing strategy. Their promotional strategy became addictive and caused a proliferation of discounts that negatively affected ticket size.

In addition, the rapid expansion of third-party online food delivery (Uber Eats, Skip the Dishes, Foodora, etc.) gave customers greater access to the competition than ever before, making it more challenging for this QSR chain with its own online platforms and delivery service to compete.

As a result, we recommended that the client build a new pricing strategy by applying analytical approaches to existing customer data and gathering more effective insight into its’ position in the competitive market place.

Building a Solution That Fits

1. Customer Segmented Pricing Recommendations

Using existing customer data, the Pricing Solutions team identified four unique customer segments.

2%

in Potential Sales through Price Increases

A specific strategy was then developed to improve pricing for each customer segment. An example of how these insights guided the creation of strategic promotions is shown in the above table, where Weekend and Weekday Warriors had a higher rate of pickups because they are more price sensitive. Based on this insight, offering a pickup-only special to this segment proved beneficial.

2. Price Increase Recommendations

The Pricing Solutions team used two years of historic data to develop a predictive model to optimize price recommendations at the item and region level. This model provided expected revenue impact and foot traffic estimates based on both direct and indirect statistical modelling of product substitution.

3. Promotion Analysis & Competitive Benchmarking

Our team evaluated the effectiveness of existing promotions based on key internal metrics and provided a report on the state of competitor pricing and promotional strategies.

4. Roadmap

With insights gained from this research and analysis,



the Pricing Solutions team created a detailed implementation plan for the next 6 to 18 months which included a plan for improvements to store tiering, loyalty and price optimization.

The Result?

By the end of the three month project, the Pricing Solutions team identified several opportunities to face rising costs and grow revenue. We uncovered 5% in potential sales opportunities through customer segmented pricing recommendations.

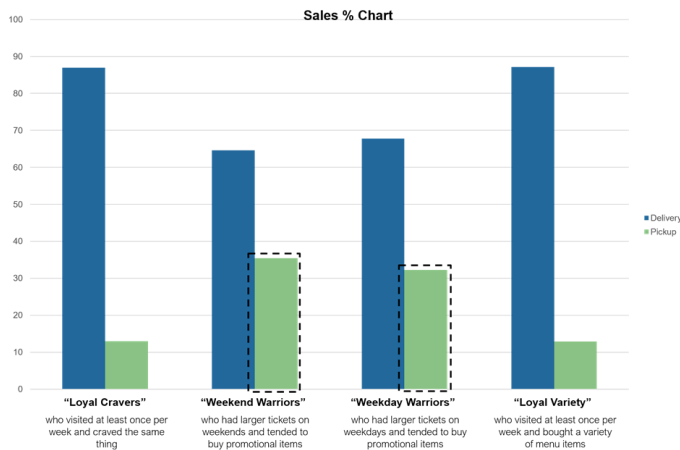
In addition, the recommendation on price increases was predicted to capture an additional 2% in sales with no change in traffic.

In order to successfully implement the strategic changes, our team provided the client a roadmap with actionable recommendations that they chose to implement immediately.

What's the Pricing Solutions Difference?

Tough competition and disruptive changes in the restaurant and QSR industry require a sophisticated approach to pricing in order to ensure steady growth in sales and guest count.

Pricing Solutions combines world class strategy consulting and analytical capabilities to develop a pricing strategy that drives significant and lasting results.



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Our Firm

Our mission is to dramatically improve clients' profitability and market share through improved pricing. Pricing Solutions' four core services include Pricing Strategy, Pricing Analytics, Pricing Research and Pricing Training. Known for our World Class Pricing™ methodology, we have grown to become one of the world's leading pricing consultancies with offices in North America, Europe, Asia Pacific and Latin America. Our global team of researchers, consultants and partners are recognized thought-leaders.

We deliver customized cross-functional solutions, helping our clients achieve a typical payback of 10:1 on their investment.

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