

## Developing a Pricing Strategy that Grows Profits & Guest Count

Competition is fierce in the multi-billion dollar Restaurant and Quick-Service industry. With many new entrants to the category, it's essential that organizations understand their value proposition and customer willingness-to-pay. With pricing so closely tied to the bottom line, it plays a key role in any restaurant's success.

One chain partnered with Pricing Solutions to regain control of its pricing. Pricing had grown to include deep discounting and large featured-item menus but it was not clear what impact they had on long-term success and profitability. A focused, concentrated effort on pricing was needed to reset the pricing strategy so that it was complementing rather than undermining the brand's price/value image.

5%

Annual Revenue Recovered

2-3%

Increase in Margin

### The Challenge

In a crowded market, the company's pricing was veering out of control. Pricing had become reactive. The concern grew around wide-spread discounting. The restaurant chain had experimented with price cuts in an effort to boost customer traffic. While discounting proved addictive, margins were declining. It was difficult to consistently execute any strategy. Like many others in the industry, it lacked the right customer insights to make informed pricing decisions.

### Building a Solution That Fits

The company needed to manage prices across hundreds of menu items and restaurant locations. Pricing Solutions executed a three-phased project to help the company regain control of pricing and reinvigorate growth.

**Beginning with Pricing Research:** The challenges companies face with pricing strategy often stem from a lack of understanding of the 5Cs of pricing. Customer Research provided insight into the client's customers including key value drivers and the role pricing played in the purchase decision.

The importance consumers placed on food quality, restaurant atmosphere and service compared to pricing, was used to build a Price-Value Map (PVM). The PVM was an indicator of the company's value positioning versus key competitors. Based on this assessment, Pricing Solutions would determine if the client was in a value advantaged or disadvantaged position, and why.

**Leveraging Analytics:** Pricing Solutions' analyzed the client's past 2 years of POS data to compute price-elasticity and build a Price Simulator. The custom simulator was capable of playing-out possible scenarios in the market. For example the model could forecast the impact of price changes on unit sales, revenue, margin and guest count.

**Building Strategy & Management Capabilities:** In the final project phase, Pricing Solutions utilized the analytics and its pricing strategy framework to develop a robust and sustainable pricing strategy that would get the client's business back on track. It also involved making changes to the client's pricing infrastructure, including developing its internal pricing staff.

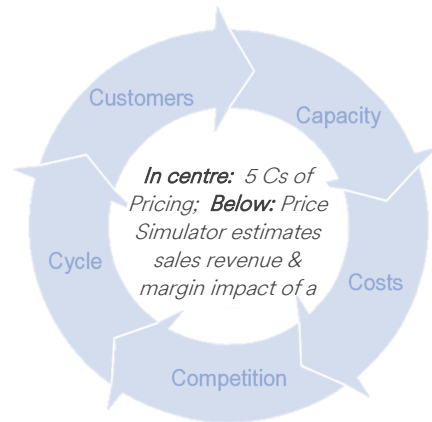


### The Result?

The project was designed to stop the 'pricing slide', that is to say, to recover the approximate 5% in annual revenue and margin that was being lost under the client's initial discounting strategy. It was clear now that discounting was hurting the business. Reducing discounts on inelastic products, deploying terms and conditions and executing price increases surgically were the actions needed to turnaround to improve annual revenue and margin by an estimated 2-3%.

### What's the Pricing Solutions Difference?

Our firm believes in a comprehensive approach to your pricing challenges. We specialize in leveraging research and analytics to develop a robust pricing strategy that will succeed in the market place. Our approach in the restaurant and quick-service industry includes an assessment of non-price factors and other key value drivers. The impact they have on the bottom-line cannot be overlooked when pricing strategy must align with corporate strategy.



Select State	Select Model
All	Unconstrained

Cells in orange can be modified.

		ALL DAYPARTS											
		131.301.643			131.005.359			131.301.643			131.005.359		
Item Category	Item	Current Price	Simulated Price	% Change	Current Units	Simulated Units	% Change	Current Revenue	Simulated Revenue	% Change	Current Margin	Simulated Margin	% Change
<b>LUNCH</b>				<b>0.0%</b>	<b>131.301.643</b>	<b>131.005.359</b>	<b>0.16%</b>	<b>131.301.643</b>	<b>131.005.359</b>	<b>0.16%</b>	<b>131.301.643</b>	<b>131.005.359</b>	<b>0.16%</b>
LUNCH	COMBO #2 W/SIDE	\$8.49	\$8.49	0%	1,156,003	678,095	-4.39%	\$999,365	\$595,254	0.01%	\$768,991	\$304,371	0.12%
LUNCH	REG SANDWICH	\$5.99	\$5.99	0%	682,356	865,211	-0.17%	\$136,588	\$789,111	-2.14%	\$249,555	\$459,562	0.05%
LUNCH	DAILY SPECIAL #4	\$9.99	\$8.49	-15%	993,347	1,503,787	0.04%	\$569,256	\$893,658	0.03%	\$656,232	\$940,585	-0.10%
LUNCH	DAILY SPECIAL #1	\$7.49	\$7.99	+7%	568,716	356,950	-0.08%	\$1,390,066	\$1,890,111	0.05%	\$1,000,893	\$603,985	-0.06%
LUNCH	SIDE SALAD, GARDEN	\$4.49	\$4.29	-4%	873,101	1,111,892	0.03%	786,336	\$1,894,417	0.11%	\$1,134,127	\$1,530,989	0.08%
LUNCH	POT RST W/ WW	\$6.99	\$6.99	0%	456,332	654,789	-0.01%	\$1,652,378	\$1,960,014	-0.23%	\$996,203	\$934,566	0.16%

\*Data for illustration purposes only; does not reflect accurate model calculations

## 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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