



Generating Optimized Menu Prices with Pricing Science

For the past several years the restaurant and quick service (QSR) industry has faced numerous challenges, including tough competition and cost pressures, specifically around labour, food, and advertising.

The client was a fast-casual restaurant chain specializing in healthy menu items with dozens of locations across North America. Competing with over 40 restaurants in each market, the client's goal was to optimize menu prices using strong market research and data analytics without hurting traffic and ticket size. In just eight weeks, Pricing Solutions leveraged its extensive survey research and analytics expertise to uncover a two to seven percent potential increase in revenue with minimal loss in customer count.

8 weeks

for Project Completion

4%

Increase in Revenue

The Challenge

To keep up with the competition and evolving consumer preferences, the client wanted to proceed with a price increase across all locations. Many businesses in the restaurant and QSR sector apply a cost-plus approach to menu optimization. However, the client found this method to be quite challenging because of potential risks, such as loss in customers, negative reaction of volume to the price increase, and unpredictable impact on bottom line overall.

As the result, the client decided to proceed with a science and data-driven optimization methodology to minimize the negative effects.

Building a Solution That Fits

To help the client achieve their pricing objectives, Pricing Solutions built a three-step strategy to quantify price elasticity and provide pricing recommendations for the menu price increase.

1. Quantify Willingness to Pay and Value Drivers

Survey research uncovered actionable insights about what drives customer value and what they consider a fair price for that value.

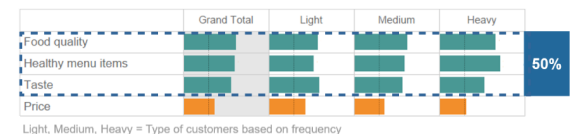
2. Quantify Price Elasticity

Pricing Solutions custom built a statistical model based on our proprietary IP. This allowed us to quantify:

- Price elasticity at the store, product, and channel level
- Product substitution patterns
- Indirect impact of price changes on complementary items.

3. Develop Recommendations

The Pricing Solutions team combined the model results with survey research and competitive analysis to generate three levels of price recommendations (conservative, mid-range, and aggressive) for all products in all markets.



Above: The research unveiled that the top three value drivers (food quality, healthy menu items and taste/flavour), which represent 50 percent of the customers' decision, are rated significantly higher than price.



The Result?

During the final pricing workshop with the client, the Pricing Solutions team ensured stakeholders' alignment with the recommendations. After the project was completed, the client was able to select from the three different pricing scenarios the one that best matched their growth strategy in each individual market.

This eight-week project aimed to provide the client with the confidence that the planned price increase would not result in a loss in customer traffic, but rather bring revenue gain. The overall impact of the price optimization was roughly a two to seven percent potential increase in revenue with minimal loss in customer count.

What's the Pricing Solutions Difference?

Increasing menu prices in the restaurant and QSR industry is challenging, but we believe that a data-driven approach can significantly minimize risks. With extensive pricing capabilities and deep industry knowledge, we can help clients increase profit margins by moving from cost plus to value-based price optimization.

By leveraging consumer research, Pricing Solutions discovered the key value drivers for this client and optimized their pricing strategy to deliver impactful results to the bottom line. As the result, 3 months after the price increase, the client was able to capture a 4% increase in revenue with no loss in traffic.

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.

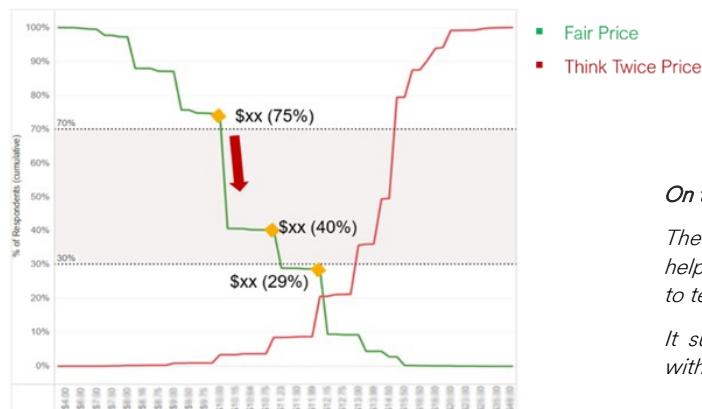
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Total number of respondents = 2,623



On the Left:

The price sensitivity meter "Fair Price or Think Twice" helps uncover key price thresholds that might be difficult to test in the market.

It suggests that the maximum acceptable price point, without losing too much share.