

Sophisticated Approach to Menu Price Structure



Price increase of 3.15% results in a weekly revenue increase of >\$2 Million)

Quick Service Restaurant Case Study

Sophisticated Approach to Menu Price Structure

Background

Our client is one of the largest top 10 quick service restaurants in North America with over 3,000 locations, most of which are franchised. They experienced a consistent increase in revenue, surpassing \$5 billion, thanks to their executive team's focus on making strategic pricing choices. This growth has been ongoing. The Iris Pricing Solutions team was initially contacted by the client for advice when they observed that the rise in prices of certain products was accompanied by a drop in their market share. Although this issue was somewhat alleviated by the client's loyalty program, our team also discovered that this same loyalty program was contributing to excessive discounting.

The Challenge

Our client, aiming to enhance margins and attract more guests, sought to optimize their menu price structure by strategically increasing prices, considering both the architecture and the relative and absolute prices. This involved rethinking their regional clustering, utilizing loyalty and store level data to assess price elasticity, and creating a pricing model that incorporates various factors such as elasticity, price gaps, price barriers, and price change thresholds in order to accurately simulate and subsequently analyze price increases.

Approach

To develop options for the new menu price structure architecture, the Iris Pricing Solutions team first considered customer experiences, best practices, and the client's own

goals. Then, using a menu-based conjoint or MBC, our team quantified price elasticity and cross-price elasticity under a variety of potential menu architecture designs.

Menu-based conjoint or MBC is a form of conjoint analysis that outlines the various choices a guest can make as a menu of options and allows respondents to select how many items they would choose. These choices are often referred to as choice tasks.

These designs required the Iris Pricing Solutions team to build a pricing purchasing simulation tool that was sophisticated and powerful enough to analyze a wide variety of different menu items and price changes to determine the impact of each. Next, primary quantitative research was conducted to determine customers' menu architecture preferences.

This research included web scraping and analytic activities to determine ideal menu architectures. Initial web scraping informed our team of competitors' pricing strategies. With this competitive information we were equipped to focus our analytics on the client's sales data, with an emphasis on how their customers' past behavior was reflected. While these analytics were focused on normal pricing and past behavior, testing ranges outside of regular pricing also modified the impact of price changes in our models.

Rebuilding Menu Price Structure

Testing ideas for the revised Menu Price Structure involved verifying **customers' perceived value** of equally priced items. An item deemed more valuable could have a different price. Careful consideration was given to core offerings, as they drew significant customer traffic and required caution when adjusting prices. Less aggressive pricing on core products, which attracted customers, was recommended to avoid a decrease in traffic or loss of clientele due to price increases. Pricing core items attractively was crucial, as it would lead to higher sales of specialty items once customers were in the door.

Research on key items involved understanding customer preferences and choices. **Conjoint analysis** helped the Iris Pricing Solutions team assess how changes in core item prices influenced customers' choices of quick service restaurants. This data guided adjustments to pricing and product placement. Comparing customer behavior between in-store and drive-through ordering was essential to test the revised menu price structure effectively.

Loyalty data played a vital role in the menu revision process. The team analyzed elasticity for each menu item in different store clusters using transactional data, projecting sales changes due to percentage price increases.

The Iris Pricing Solutions team aimed to identify **price sensitivity** and **revenue growth** opportunities by analyzing influential factors. Geography was a crucial consideration, and market research was conducted to understand its impact on pricing. Carefully selected participants and targeted surveys were used to replicate sales across North America and the client's clusters.

Innovative tests were performed on new products using a survey and panel methodology. Market tests in specific locations and national testing helped fine-tune new items before rollout, instilling confidence in the client's pricing strategy for specialty items.



What the Research Rebuilding Found

The Iris Pricing Solutions team learned that **our client's customer base was sensitive to price changes on certain products**. For example, daily customers who frequented our client's restaurant on their commute were even more sensitive to price because they relied on having exact change. Although the client was considering increasing the price of one of their core items, our research found that this would be too much of a risk and we identified items with less price sensitivity for which increasing the price would result in an increase in revenue without affecting traffic.

Our research culminated in the **development of a pricing dashboard** that was refreshed based on weekly data which was uploaded to the cloud and then automated. This **customized dashboard** allowed the client to choose whatever weeks and variables (sales, product sold, revenue, etc.) they wanted to compare so that they could contrast sales and revenue quickly and confidently.

Competitor analysis undertaken during the research phase revealed data which was used to map to our client's current menu. By identifying similar items sold by competitors we were able to **identify and warn against price increases** which may drive our client's customer base to the competition. Overall, the expected financial impact of the menu price architecture restructuring, and our price optimization strategy resulted in:

PRICE CHANGE

3.15%

WEEKLY REVENUE CHANGE

\$2,278,940

Initial Sales 125,863,424
Updated Sales 128,142,364

WEEKLY QUANTITY CHANGE

-512,743

Initial Quantity 80,241,509
Updated Quantity 79,728,766

LEVERAGE

0.81%

For every 1% increase in price, revenue increased by 0.81%





What's the Pricing Solutions Difference?

Iris Pricing Solutions is experienced in understanding the unique challenges facing manufacturers and retailers. Our team uses focused, customized research methods to develop strategies that leverage pricing to achieve goals. In the past year we have completed projects for leading restaurants around the world. We use research and data-driven strategies to help grow revenue, expand market share, reduce pricing complexities and ultimately, align price with value for consumers.

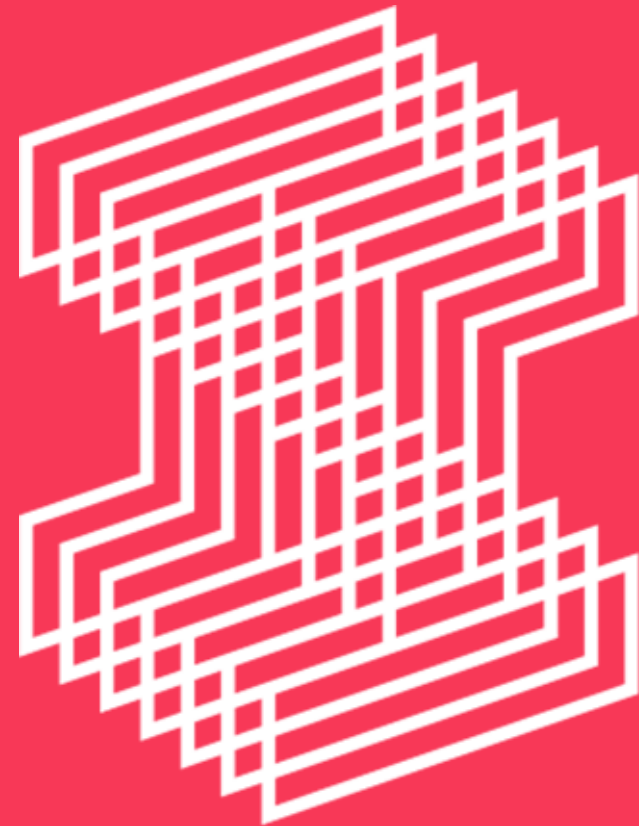
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