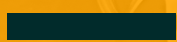


HORECACOLLECTIVE.COM

Driving sustainable restaurant profitability:

recipes for success

Written to guide restaurateurs like you
drive sustainable restaurant profitability



By John Vu

Hc.

Table of contents

Introduction	1
Understanding common mistakes	2
Why restaurants fail	3
Why an exclusivity strategy is better than differentiating	4
Change AND improve what you can - not what you can't	5
Developing your profit-making menu strategy	6
How to re-engineer your menu	7
A step-by-step guide to driving sustainable restaurant profitability	8 - 13
How much additional profits can you make with Menu Engineering?	14
Other great reads & resources	16
Special promotion codes	18



Introduction

BUILDING A FUNDAMENTALLY STRONG BUSINESS MODEL AND DRIVING SUSTAINABLE PROFITS IN THE RESTAURANT INDUSTRY IS NO EASY FEAT. IN THIS GUIDE - WE'LL SHARE SOME INDUSTRY BEST PRACTICES WE PERSONALLY RECOMMEND AND HAVE OBSERVED FROM SUCCESSFUL RESTAURANT OPERATORS

Written to guide restaurateurs like you drive sustainable restaurant profitability - this guide does not cover the 'newest' or 'most trendy' tactics - but easy-to-understand strategies to develop a fundamentally strong business model for your Horeca Business. We'll be covering some of the **untold secrets, rules and strategies** used by leading chains and successful restaurant operators to consistently win in an ever-changing competitive landscape.

Keep on reading if you want to learn more, as we'll dive into business strategy, common mistakes, restaurant financials, dealing with increasing costs and ways to drive sustainable profits long-term.



UNDERSTANDING COMMON MISTAKES

1. Not being practical

You're not just trying to realise a dream of having a bar or restaurant. You run a F&B business, and the core function is to **run a profit selling food and beverages** - so make sure you have a profit making F&B strategy. More on this later.

2. Not systemising your costing procedure

You just can't eyeball your dish and price it randomly without knowing your recipe costs. This step is time-consuming (and, therefore, often skipped), but it's fundamental to understand your restaurant financials. Do you think a retail store would not know the cost of each product before they price it?

3. Not focusing on your menu

As it's the only tool that you have to control and drive sustainable profit long-term (more on this later). Major chains understand this, which is why significant capital is invested into research & development, menu strategy and understanding consumers' buying behaviour.

4. Not having a profit making strategy

Change what you can, not what you can't. Anticipate increasing costs, such as labor, rent, utility, food and other costs. These factors are beyond your control but could significantly impact and reduce your business profitability long-term. You can't keep cutting these costs without losing out on quality or experience. Again, the only tool you have to combat these increasing costs is through a profit making F&B strategy.



WHY RESTAURANTS FAIL

While there are numerous reasons why restaurants could fail, the most obvious one is not starting with a fundamentally strong business model. What do I mean by that? Your business model might look good now, with you differentiating your product and concept from competitors, but what if they start to copy you and do it better? In example, what if you start your business in a 'trendy' area and the rent prices start to increase over the coming years?

Perhaps starting a bar in a nightlife area seems like a great idea to you - but is it? Would it be a great idea to start a new bar in an area full of other bars to compete with? And even if you differentiate your product, what stops them from copying your ideas, perhaps even cheaper and better? Will you, in turn, copy them or out-compete them with a better offer? What might seem like a great idea for your business model now, might not be so over the long term.



WHY AN EXCLUSIVITY STRATEGY IS BETTER THAN DIFFERENTIATING

If you really want to differentiate from the market - find what qualities can make you gain a form of exclusivity, something that will be hard to copy or compete with.

Think about finding location exclusivity, an experience that others can't copy, values exclusive to your brand and customers, pricing strategy or targeting a niche market.

Keep in mind, the aim of any exclusivity strategy will be to help you build engaged, loyal customers and reduce competition. It's all about finding your 'ideal' customers to serve, and do it best.

And while implementing your exclusivity strategy can be hard to pull-off, those that are successful with it, enjoy unilateral decision-making and reduced headaches of continuously trying to out-compete their competition. It is, from our observations, been one of the most powerful ways to develop a sustainable brand in the long run.



CHANGE AND IMPROVE WHAT YOU CAN - NOT WHAT YOU CAN'T

Sure, managing rising cost deserves your attention, but will you be able to uphold the same level of quality, experience, and output while trying to reduce costs? Will cutting labor costs be as cost-efficient as tech-enabled replacements over the long term? Will reducing food costs allow you to maintain quality? Are you really looking to reduce costs or actually to improve and maintain sustainable profitability over the long term? If it's the latter, you're on the right path.

So how does the restaurant industry maintain and drive performance? Well, it's quite straight-forward. They have a profit-making food and beverage strategy. To make one for yourself, it's important to start from a foundation of knowledge and understand each of your individual menu items' product margin. Unfortunately, one of the biggest problems in the industry is that roughly 80% don't know their product margins. The reason for this is simple; recipe costing is time-consuming. Yet, there is no way around if you want to [develop a profit-making food and beverage strategy](#). Having clear insight into your product's margins (at the product and category level) will allow you to develop effective menu strategy that puts money into your pocket. Below, you'll find a step-by-step guide on how to do this.

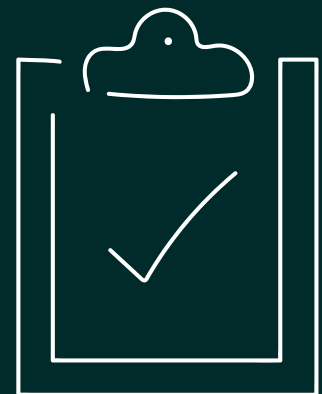


DEVELOPING YOUR PROFIT-MAKING MENU STRATEGY

Menu Development is one of the most exciting parts of setting up your restaurant.

It's not only where you'll get creative but also where you'll start putting together your menu. It's what sets you apart, shows your personality, and what you can deliver to your guests. **It's also the single piece of marketing each of your customers sees and makes decisions on**, therefore, directly affecting your bottom line with each sale you make.

Years of research have provided marketers with valuable insights into human psychology, reading patterns, and buying behaviour to develop effective business strategy - and the restaurant industry is no exception. But to leverage this, you need to understand [what menu and restaurant strategies have proven to be effective](#) - and how you can make it work for your F&B concept.



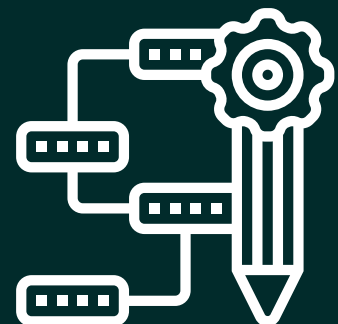
HOW TO RE-ENGINEER YOUR MENU

Menu Engineering is an interdisciplinary approach that combines psychology, recipe development, restaurant accounting, marketing strategy and graphic design with one goal in mind - [increasing profitability per guest.](#)

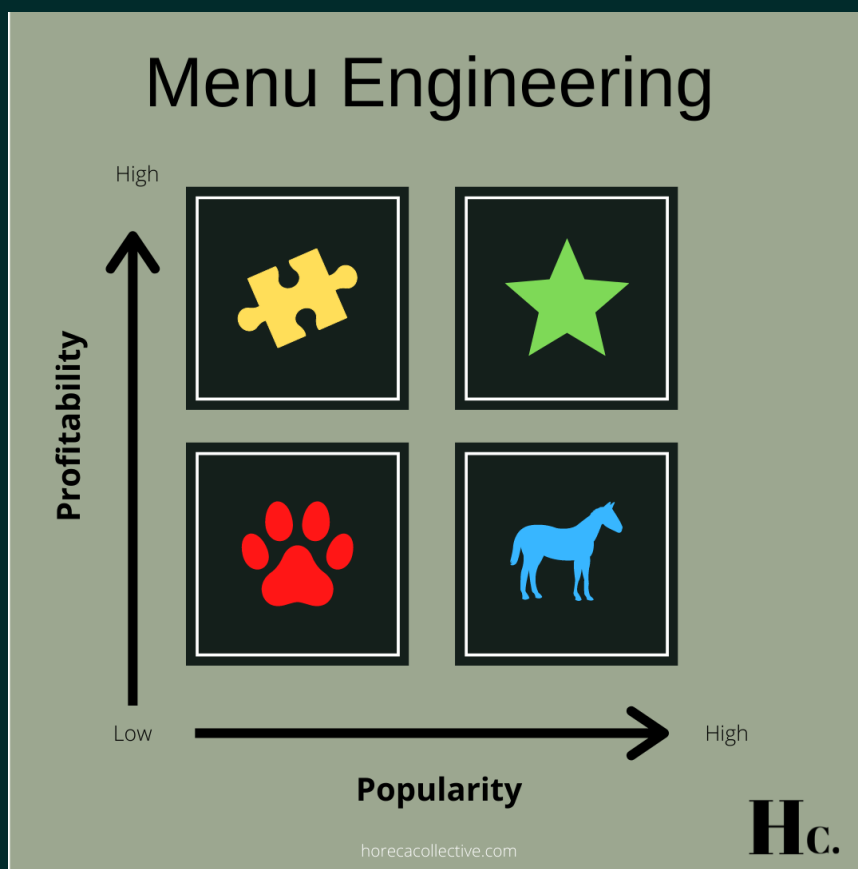
The practice generally attempts to lead customers to make certain purchases (generally, high margin items), while minimising others (generally, low margin items). In doing so, this business strategy aims to enhance the sales mix profitability, maximises category performances and forms a key element in a restaurant's group strategy.

Not only does the practice enhance profitability, but it helps customers to make better decisions and improve customer satisfaction. Those that adopt the practice understand that not doing so can negatively impact the whole customer experience; thus, leaving easy profits on the table.

Note: although various studies have shown what factors influence customer buying behaviour in certain ways - there is no assured tactic that guarantees a sale - as people read and perceive things in different ways. However, these studies do provide marketers with cues on how menus could be designed to steer customers to make specific choices.



A STEP-BY-STEP GUIDE TO DRIVING SUSTAINABLE RESTAURANT PROFITABILITY



Step 1: Calculate your product margins

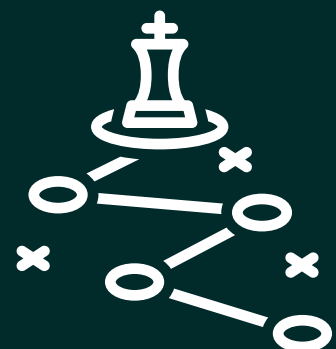
You will need to do this for each menu item on your menu. Costing out your recipes will not only help you understand your recipe cost, it also helps you to understand how much of each ingredient should be used in each dish - so you can consistently deliver the same product to your customers.

This step is essential to help you understand the profitability of each menu item, make continuous menu improvements and effectively develop a profit-making menu strategy.

Step 2: Categorise your menu items according to profitability and popularity levels.

You can calculate these by combining your menu mix overview (step 1) and quantity sold data (from your POS system). Don't worry, there is an example below. By combining these data points from a specific time period you want to review - you can categorise your menu items using one of the following quadrants in the Menu Engineering Matrix. This will help you determine what strategy to use in your menu re-design efforts.

- Stars—high profitability and high popularity
- Horses—low profitability and high popularity
- Puzzles—high profitability and low popularity
- Dogs—low profitability and low popularity





Step 3: Decide on menu changes

Look into each menu group or section you have on your menu. In this example, we have selected all beverage categories (non-alcoholic & alcoholic), but you could separate that into single sections, depending on your menu layout.

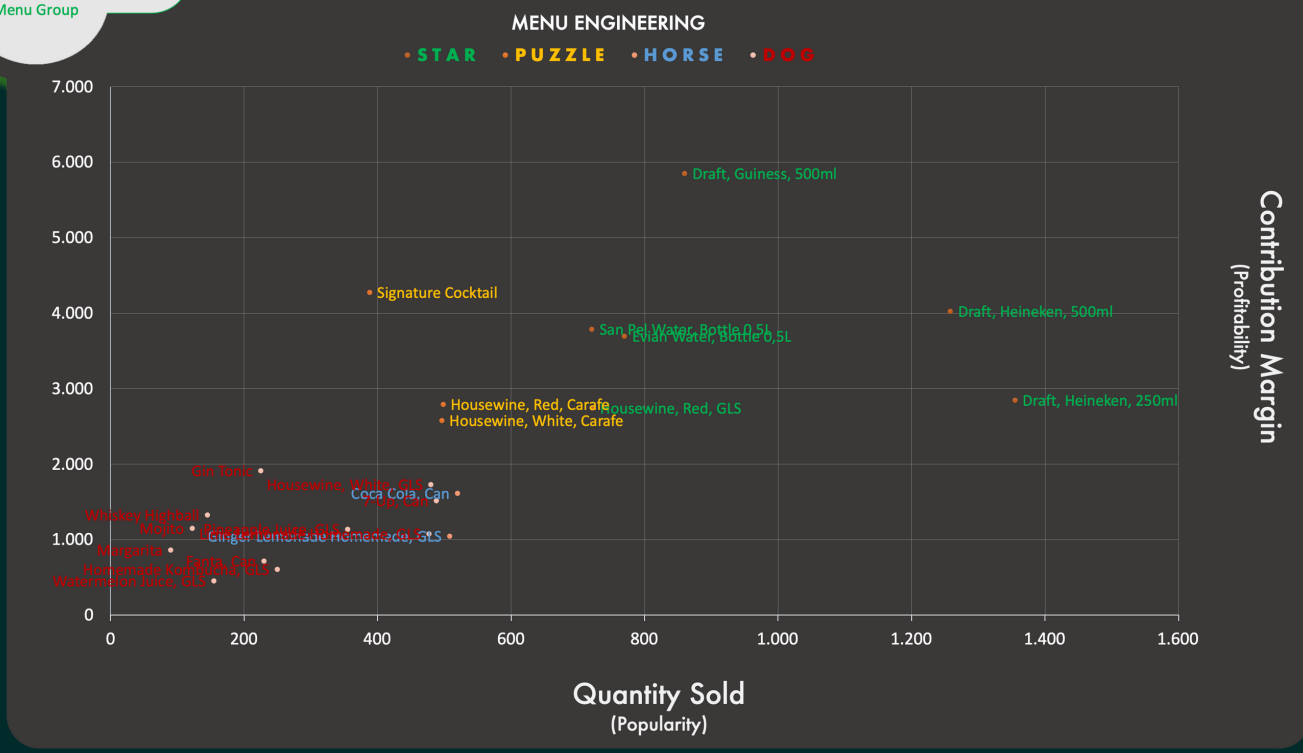
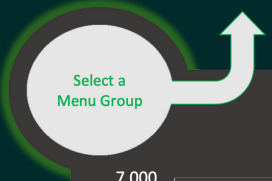
From here, review in which quadrant of the matrix your menu item is categorised (star, puzzle, horse or dog) and what you'll do with it. This ensures your menu changes will be based on a foundation of data, analysis and understanding.

Note: there is no 'one size fits all' or 'best' menu layout, and the changes you decide to make should arise from a combination of previously mentioned analysis, graphic design best practices and common sense.

In practice, such overview could look as follows: (see next page)

Menu Group	
Add Ons	Alcohol
Burgers	Mains
Non-Alcoholic	Sides

Key Numbers	Menu Group	Menu Total	% of Total
Total Qty Sold	11.113	42.452	26,18%
Total Sales	64.397,50	282.276,00	22,81%
Total Food Cost	16.687,76	77.577,35	21,51%
Gross Profit	47.709,74	204.698,65	23,31%
Average Qty Sold	505	849	
Food Cost %	25,91%	27,48%	
Average Margin Per Item Sold	4,29	4,82	89,03%
Average Contribution Margin Per Item	2.168,62	4.093,97	52,97%
Currency	EURO	EURO	



ME Category	Labour Intensity	Menu Group	Menu Item	Price	Recipe Cost	Margin	Qty Sold	Total Sales	Total Cogs	Total Margin	Profitability	Popularity
HORSE	Low	Non-Alcoholic	Coca Cola, Can	3,50	0,40	3,10	520	1.820,00	208,00	1.612,00	LOW	HIGH
DOG	Low	Non-Alcoholic	7-Up, Can	3,50	0,40	3,10	488	1.708,00	195,20	1.512,80	LOW	LOW
DOG	Low	Non-Alcoholic	Fanta, Can	3,50	0,40	3,10	230	805,00	92,00	713,00	LOW	LOW
STAR	Low	Non-Alcoholic	Evian Water, Bottle 0.5L	6,00	1,20	4,80	770	4.620,00	924,00	3.696,00	HIGH	HIGH
STAR	Low	Non-Alcoholic	San Pel Water, Bottle 0.5L	6,50	1,25	5,25	721	4.686,50	901,25	3.785,25	HIGH	HIGH
DOG	Medium	Non-Alcoholic	Homemade Kombucha, GLS	4,00	1,57	2,43	250	1.000,00	392,50	607,50	LOW	LOW
DOG	High	Non-Alcoholic	Pineapple Juice, GLS	4,00	0,80	3,20	355	1.420,00	284,00	1.136,00	LOW	LOW
DOG	High	Non-Alcoholic	Watermelon Juice, GLS	4,00	1,08	2,92	195	620,00	187,40	432,60	LOW	LOW
DOG	Medium	Non-Alcoholic	Lime Lemonade Homemade, GLS	2,50	0,25	2,25	477	1.192,50	119,25	1.073,25	LOW	LOW
HORSE	Medium	Non-Alcoholic	Ginger Lemonade Homemade, GLS	2,50	0,44	2,06	508	1.270,00	223,52	1.046,48	LOW	HIGH
STAR	Low	Alcohol	Draft, Heineken, 250ml	2,50	0,40	2,10	1.355	3.387,50	542,00	2.845,50	HIGH	HIGH
STAR	Low	Alcohol	Draft, Heineken, 500ml	4,00	0,80	3,20	1.258	5.032,00	1.006,40	4.025,60	HIGH	HIGH
STAR	Low	Alcohol	Draft, Guinness, 500ml	8,00	1,20	6,80	860	6.880,00	1.032,00	5.848,00	HIGH	HIGH
STAR	Low	Alcohol	Housewine, Red, GLS	6,00	2,20	3,80	722	4.332,00	1.588,40	2.743,60	HIGH	HIGH
DOG	Low	Alcohol	Housewine, White, GLS	6,00	2,40	3,60	480	2.880,00	1.152,00	1.728,00	LOW	LOW
PUZZLE	Low	Alcohol	Housewine, Red, Carafe	10,00	4,40	5,60	498	4.980,00	2.191,20	2.788,80	HIGH	LOW
PUZZLE	Low	Alcohol	Housewine, White, Carafe	10,00	4,80	5,20	498	4.980,00	2.380,80	2.579,20	HIGH	LOW
DOG	High	Alcohol	Gin Tonic	12,00	3,51	8,49	225	2.700,00	789,75	1.910,25	LOW	LOW
DOG	High	Alcohol	Whiskey Highball	12,00	2,87	9,13	145	1.740,00	416,15	1.323,85	LOW	LOW
DOG	High	Alcohol	Mojito	12,00	2,60	9,40	122	1.464,00	317,20	1.146,80	LOW	LOW
DOG	High	Alcohol	Margarita	12,00	2,45	9,55	90	1.080,00	220,50	859,50	LOW	LOW
PUZZLE	High	Alcohol	Signature Cocktail	15,00	3,88	11,02	388	5.820,00	1.544,24	4.275,76	HIGH	LOW

Here are a few pointers on how to act on your Menu Engineering findings:

Stars

Your menu should highlight these items. However, in some cases, you may want to consider pushing 'Puzzles' instead and placing 'Stars' on a secondary place on your menu. This depends from menu to menu.

Puzzles

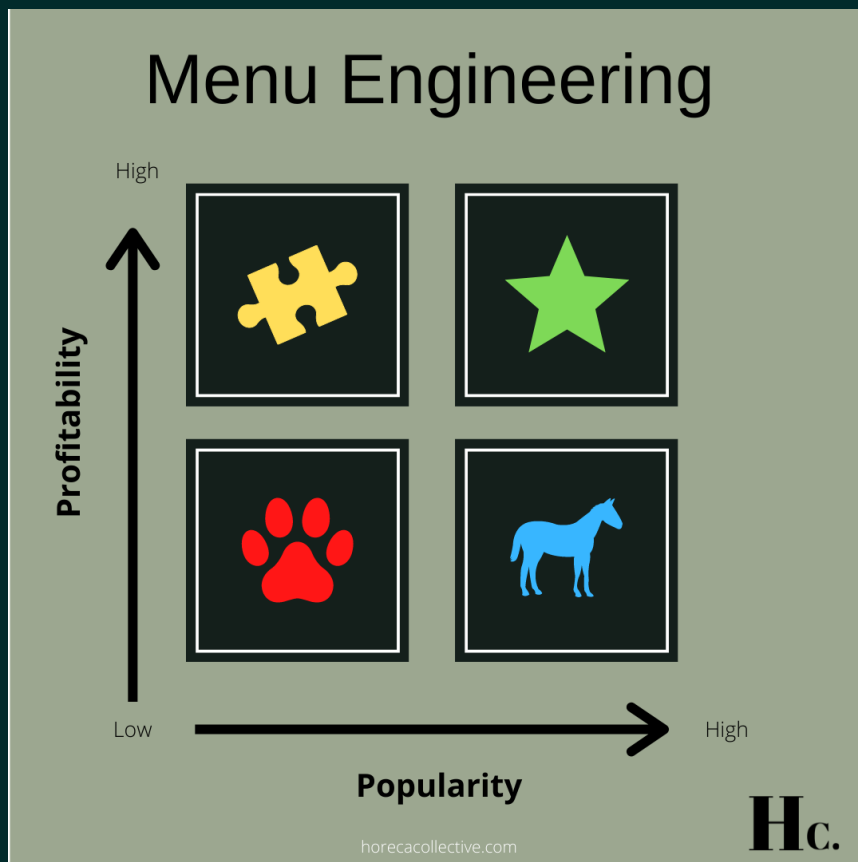
Reinvent items in this category, research guest preferences, use POSM materials, decrease price or have your waiters up/cross sell the item.

Horses

Adjust recipe or pricing strategy, develop combo-deals or a sampler menu.

Dogs

Make careful considerations. Even though you could fully remove these items from your menu, you may not want to do so due to the nature of the item in your business. Instead, consider de-emphasising the listing on your menu.



Step 4: Amplify your profits through menu redesign

Consider how you can [leverage the psychology of menu design](#) to influence consumer behaviour and direct guests into making certain decisions on your menu.

With many research and publications on the topic of human psychology, reading patterns, consumer & purchasing behaviour, we won't go much into depth on this topic now, but you can read more about the strategies and their application in restaurants [here](#).

As a multidisciplinary approach, covering many areas, there is simply no set guideline on how to approach your menu redesign efforts as it depends on the concept, amount of menu items, and other factors.

Step 5: Test, review & update your menu periodically

Depending on the restaurant concept, amount of business units, and [significance of changes](#) made to the menu, restaurants can generally realise an incremental profitability of 2-30% (and even more in combination with a new F&B strategy).

New menus should be tested over a period of time to measure their effectiveness. For multi-unit brands, testing the old layout against the new layout or implementing two revised new layouts across different units might be a good idea to test what performs best.

Keep reviewing your menu periodically and never leave any potential profits on the table. There will always be ways to squeeze out a little more profit from your current menu.



HOW MUCH ADDITIONAL PROFITS CAN YOU MAKE WITH MENU ENGINEERING?

On the next page, you can find an example of three cases – a café, casual restaurant and fine dining restaurant, in which significant additional inflow of cash (33k, 110K, 131K) can be observed from **creating small increments in average check performance**. This example case displays changes in performance based on a single business unit. Naturally, multi-unit brands would be able to leverage the effects of menu engineering across all their units and multiply the effect.

To further enhance restaurant and menu performance – Menu Engineering does not have to be a standalone marketing tactic, but should be accompanied by up/cross sell strategies throughout your restaurant and from your waiters/sales staff.

Ultimately, the whole process should contribute to an overall better customer experience, easing the decision-making process for your guest and enhancing your profitability.



*** Pre and Post Menu Engineering per F&B concept	Cafe (current)	Cafe (new)	Casual (current)	Casual (new)	Fine Dining (current)	Fine Dining (new)
Average Spend Per Customer	€4,50	€4,95	€20,50	€23,50	€55,00	€63,00
Average Daily Traffic	200	200	100	100	45	45
Daily Sales	€900,00	€990,00	€2.050,00	€2.350,00	€2.475,00	€2.835,00
Daily Increase		€90,00		€300,00		€360,00
Monthly Sales	€27.375,00	€30.112,50	€62.354,17	€71.479,17	€75.281,25	€86.231,25
Monthly Increase		+€2.737,50		+€9.125,00		+ €10.950,00
Yearly Sales	€328.500,00	€361.350,00	€748.250,00	€857.750,00	€903.375,00	€1.034.775,00
Yearly Increase		+€32.850,00		+€109.500,00		+ €131.400,00
*** Note how a small increase in average spend will have a significant impact on your sales						

Hc.

Made by www.horecacollective.com



"DRIVING LONG-TERM SUSTAINABLE RESTAURANT PROFITABILITY IS ALL ABOUT MANAGING WHAT YOU CAN, NOT WHAT YOU CAN'T. START WITH A FUNDAMENTALLY STRONG BUSINESS MODEL AND DRIVE PERFORMANCE THROUGH PROFIT-MAKING FOOD AND BEVERAGE STRATEGIES."

Other great reads, studies, articles & resources:

- **Study:** [The Relationship between Psychological Pricing and Consumer Buying Behavior](#)
- **Study:** [Eye Movements on Restaurant Menus: A revisitaton on gaze motion and consumer scanpaths](#)
- **Study:** [Slim by Design: Menu Strategies for promoting high-margin, healthy foods](#)
- **Study:** [Psychological Prices and Price Rigidity in Grocery Retailing: Analysis of German Scanner Data](#)
- **Article:** [Leveraging the psychology menu design: how to influence consumer choices and menu profitability.](#)
- **Article:** [Menu Engineering: How to raise restaurant profits 15% or more](#)
- **Article:** [How to Write Powerful menu descriptions that increase profits](#)
- **Article:** [The Psychology of Menu Design](#)
- **Article:** [Menu Engineering: How to make a profitable restaurant menu](#)
- **Article:** [The Psychology of Pricing \(Price options, comparison & number psychology\).](#)
- **Video:** [Psychological effects on price options by Dan Ariely](#)



Make recipe & menu costing simple

Free



Menu Matrix Free Tool

[DOWNLOAD TOOL HERE](#)

*** The Free Tool comes with a set of reduced functionality and is recommended for small independent businesses.

**IN NEED OF
MORE
ADVANCED
TOOLS AND
STRATEGIES?**

**CLICK HERE to
access your
discount codes**

Make F&B Management Simple & Profitable

Best Value



Food & Beverage Management Bundle Deal

[PURCHASE TOOL HERE](#)

*** Simplify your menu costing process, store all your F&B data in one overview, control food cost and have all your industry best practices at hand.

Make recipe & menu costing simple



Menu Matrix Advanced Tool

[PURCHASE TOOL HERE](#)

*** To unlock the full potential of the Menu Matrix - we recommend medium-large sized businesses to upgrade to the Advanced Menu Matrix Tool.

Improve your restaurant performance



Restaurant Profitability Strategy Playbook

PURCHASE TOOL [HERE](#)




NOT SURE ON WHERE TO START? SEND US A MESSAGE AND WE WILL HELP YOU OUT.

The Horeca Collective is a social enterprise and restaurant strategy consultancy helping the world's most ambitious F&B companies achieve and drive extraordinary results.

Feel free to reach out to us in case you need help. Our team of experts are happy to assist you with your restaurant strategy.

You can email us at support@horecacollective.com or contact us by clicking [here](#)

- ✓ F&B Strategy
- ✓ Restaurant Marketing
- ✓ Menu Engineering



For more information about our services, tools and guides visit www.horecacollective.com