



RESTAURANT REVENUE MANAGEMENT

WITH DATA ANALYTICS
INCREASE YOUR REVENUE
TODAY



***Restaurant Revenue Management and Best Practices
With a side of Data Analytics***

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Introduction to restaurant revenue management



This ebook will help you to grow your F&B business's revenue through restaurant revenue management strategies.

There are many reasons why you might be reading this ebook, maybe your business isn't making enough revenue, or maybe you have a thriving business and you're just looking for strategies to boost sales. Regardless of your reasons of being here, the solution remains the same: Better restaurant revenue management. Read on to understand restaurant revenue and revenue management and the strategies you can use to boost sales.

First, there is one important question to answer:

What is restaurant revenue?

Restaurant revenue is, simply, the money that your restaurant generates from all your revenue streams. This is not to be confused with profit margins, which is revenue left over after expenses are paid.

On the other hand, restaurant revenue management means selling the right seat to the right customer at the right price and for the right duration. Restaurant revenue management involves using tools like business intelligence that pull data from your Point-Of-Sales to analyze sales data so you can accurately predict future demand. From there, you can make vital decisions about price, service capacity, table turnover, and your menu to boost revenue and profits. Your goal of restaurant revenue management is to manage certain aspects like menu pricing, seats, and more to maximize your revenue, and in turn, your profits.

Revenue management was used in the airline and hotel industry to significant effect, with some companies reporting sales increasing between 2 to 5%.

It's now becoming more common in the restaurant industry because restaurants share many of the same business characteristics of airlines and hotels that made revenue management so successful. There is, however, one notable difference: The service capacity isn't fixed.

Sure, you may have a certain number of seats, but service duration is variable. For example, some guests spend two hours eating while others spend three. That's in stark contrast to hotels and have fixed check-in and checkout time or even airlines where customers board and disembark at the same time.

As a result, restaurant revenue management can be challenging. But it doesn't have to be if you implement the right strategies. Your goal of restaurant revenue management is to manage certain aspects like menu pricing, seats, and more to maximize your revenue, and in turn, your profits.

What is a reasonable average restaurant revenue?

Average restaurant revenue is a tough number to calculate, as it varies widely across the industry as is dependent on factors like:

- The size and number of seats in your restaurant
- The style of service or the concept, ie: fast casual vs. full-service.
- Your hours of operation
- The location of your restaurant

For example, a pizzeria in the midwest and one in the heart of Manhattan may serve mostly the same items, but have wildly different revenues due to overhead cost, check average, and more.

There are, however, a few stats to point to.

- **For a new restaurant**, According to Toast's 2019 Restaurant Success Report, the average monthly revenue for a new restaurant (less than 12 months old) is \$111,860.70.
- **For a new location**, it is recommended to calculate what 75% capacity would look like at your current restaurant for the first year of business at a new location.



How to calculate revenue for your restaurant business

Calculating your restaurant's total revenue is as easy as combining all of your total sales from all of your various revenue streams. However, the raw number isn't always useful on its own. To get more insights, you can further determine data like how much revenue you bring in per table. This can help you see where your attention may best be directed when it comes to revenue management.

How to calculate revenue per seat

One way to do this is to calculate how much each seat in your restaurant brings in. To do this, you can follow this formula:

Total Revenue ÷ Seat Hours (the number of seats in your restaurant multiplied by the number of hours you're open)

Say your restaurant brings in \$10,000 in revenue on a single night. If you have 100 seats, and you're open for 4 hours, you would do the following:

$\$10,000 \div (100 \times 4)$

$\$10000 \div 400$

$\$25 \text{ dollars per seat}$

From there you can determine if you need to increase the seat average, add more seats, increase prices, and more to maximize your revenue.

What is Menu Engineering

The term Menu Engineering is far more than just a buzzword for the F&B industry.

The main aim with menu engineering is to maximise a business's profitability by subconsciously encouraging customers to buy what you want them to buy, specifically the higher profit dishes that have the best margins on your menu.

In terms of profitability, Menu Engineering could make the difference between your business becoming one that fails or one that grows successfully. In order to understand the basics of Menu Engineering, it's important to understand exactly what it is, and why your business needs it.





Why do I need Menu Engineering?

As an F&B business owner you need to be able to analyse three elements of your menu: each individual dish, the menu sections and also your menu's overall appearance. ONLY then can you make sensible, calculated decisions about whether you need to keep or remove dishes, whether you need to change the positioning of dishes on the menu and whether changing a dish description could affect its sales.

There are 3 main areas that *menu engineering* looks at:

1. How many of each dish do you sell (in comparison to the rest of your dishes)
2. What Food Cost (including wasted product and product loss) or Gross Profit% each dish achieves.
3. How much money you make each time you sell each dish.

A detailed analysis of the above elements can tell you everything you need to know about your menu. After an item's cost and price have been determined, evaluation of an item's profitability is based on the contribution margin. The contribution margin is calculated as the menu price minus the cost. Menu engineering then focuses on maximizing the contribution margin of each guest's order.

Recipe costing should be updated (at least the ingredient cost portion) every time there are any price changes from suppliers.

Menu engineering can be simplified as the steps taken to increase the profitability of a restaurant menu. Typically, the process is broken down into two segments: **1. Menu Pricing** and **2. Menu Design**. Once you analyze all of your menu items' popularity and profitability, you can carefully engage in restaurant menu planning for your customer-facing menu to maximize profits.

Menu Analysis: Analyzing Your Current Menu's Profitability

Before you make any changes to your menu, take the time to determine what's working and what isn't. Follow these two steps:

1. The first thing you'll want to do is gather sales and profit data for every item on your menu (using Inventory Insights from BUSINESS Intelligence Tools) –preferably over a set time period (last quarter, last month, etc.).
2. Break your menu items up by their category.

Once you've broken up your menu items by category, you'll likely notice that four groups emerge from your analysis.

1. Stars: High Profit, High Popularity

The stars are the best part of the menu in both your and your customers' eyes. They're wildly popular and highly profitable for your business. While there's always room for improvement, there's a verse in the Bible that says the healthy need no doctor. In other words, you should focus the bulk of your menu engineering work on the next three categories.

2. Puzzles: High Profit, Low Popularity

Puzzles live up to their name - they're making your restaurant money with high profit margins, but not as much as they could be due to low popularity. The challenge is: how can you increase the popularity of these items?

A few common tricks to boost popularity of high-profit items are to:

- Make these items more prominent on your menu, on social media, or on your website.
- Instruct your servers to recommend these items wherever possible.
- Consider marginally lowering the price on these items to increase popularity without decreasing overall profitability.



3. Ploughhorses: Low Profit, High Popularity

Ploughhorses are a big point of frustration for menu engineers. A low profit margin suggests that the menu item should go, but high popularity means it should stay as is. What to do?

Two common courses of action to address ploughhorses are to:

- Raise menu prices on these items, provided that this doesn't drastically diminish their popularity or reduce sales.
- Look into lowering ingredient cost to keep menu prices the same by sourcing less expensive ingredients or acquiring new vendors. However, don't aim to lower ingredient cost *too* much-this can backfire and reduce the popularity of dish.

4. Dogs: Low Profit, Low Popularity

Let these sleeping dogs lie. Every menu has a few dogs, and for that reason, they're not inherently awful - rather a reality of the restaurant industry. Sometimes you need these staples to accommodate more niche groups, like those with special dietary restrictions or picky eaters who won't come to your restaurant unless that *one* item is on the menu.

If you feel that removing the dog from your menu would be a bad thing for your business, leave it on there. However, if you can afford removing the item, it could pay off in the long run. A smaller menu means fresher ingredients, since the ingredients for the dog items aren't sitting around waiting to be turned into a meal and aren't taking up space in your back of house.

INCREASE YOUR AVERAGE SPEND BY;

Creating promotions that combine Stars and Puzzles. You can also try different combinations but the important part of testing, is measuring.

With data analytic tools, you can test out different combinations real time!

Whether you have 1 outlet or 45 outlets, testing and measuring your data is important in an increasingly competitive and volatile market.

Cutting dogs also results in a more efficient kitchen. Look at Chili's, for example. After making major cuts to their menu, ticket times decreased by 12%. That sort of streamlining leads to shorter wait times after ordering, faster table turn times, and more satisfied customers.



Measure SKU efficiencies and studying your inventory usage patterns with business intelligence reporting that have several types of reports measuring dogs and will help you optimize your menu.

You can use your POS sales data to help you classify all your dishes according to these 4 quadrants. This classification is for your eyes only and will help you decide the fate of certain dishes, how to place items on your menu, and how to promote them.

Analyzing Your Menu for Success

Once you've classified and organized all of your menu items, run a recurring cost analysis for specific menu items' inventory and your restaurant menu pricing. You'll want to make sure your kitchen stays efficient and that your menu is keeping your restaurant in business rather than putting it out of business.

If your restaurant uses an inventory management data analytics (SYCARDA), you can refer to this to track your actual inputs versus your outputs to see just how efficient your kitchen is. If you don't have inventory management software, you can manually use the food cost formula to see your actual costs versus revenue for a given time period.

For your entire menu, restaurant food cost is as follows:

Food Cost = Cost of Inventory / Revenue

For specific menu items, food cost is as follows:

Food Cost = Cost of Ingredients for Dish / Revenue from Dish

Without software, you'll need to calculate this number consistently and manually. Monitoring food cost is an essential step in restaurant management and in accurately pricing menus.

If you notice that efforts to move more items into the star category are failing, or if your stars are losing their profitability, one way to change course is to implement a stringent inventory control system. Holding your back-of-house staff responsible for ensuring as little food as possible is wasted or stolen could be the fix your menu needs.

At the end of the day, menu engineering is only successful if you can control your restaurant food costs. If those costs fall out of control, your restaurant will surely follow.



4 Menu Design Steps for your restaurant

1. Determine your Menu's Layout

First, you'll want to determine which items should go where on your menu. One of the best ways to sell more with your menu is to place profitable menu items in the Golden Triangle.

The Golden Triangle is a prime real estate area on your menu where the diner's eyes naturally gravitate toward first when reading a menu. The movement of the eye leads to the formation of what looks like a triangle.

"When we look at a menu, our eyes typically move to the middle first, before traveling to the top right corner, and then, finally, to the top left," explains restaurant consultant Aaron Allen.

Next, you'll want to use specific design tactics to draw attention to other items on the menu that you want to keep top of mind. Changing fonts and text sizes or using boxes or special characters can draw catch guests' eyes as they're glancing through a multi-page menu. This is known as a "call-out". Just make sure you don't overdo these call-outs as it will contribute to a cluttered and confusing menu that detracts from the entire dining experience.

This is particularly applicable for your puzzles. If putting puzzles in the prime spot on your menu takes up valuable real estate, consider putting these items lower down on the menu but drawing attention with a boxed outline or shaded background.

Keep in mind to reduce the number of options per menu category (starter, main, and dessert). Experts suggest this number be seven or fewer. There's plenty of research which suggests that giving customers too much choice causes overwhelm and makes it harder to choose. These same principles apply to your menu.

Lastly, you'll want to optimise your menu for cross selling. Cross-selling involves encouraging diners to purchase complementary items to boost revenue. Although you should train and encourage servers to cross-sell, your menu can also be a sales tool. For example, you can pair certain wines and meals together by including a wine recommendation just below a dish description.



2. Write Your Descriptions

Descriptions *do* make a difference. While you may think your menu items are self-explanatory, writing clear and distinct descriptions have actually been shown to increase sales by 27%, in addition to measurably improving guests' attitude towards the restaurant and its food.

If you don't have the resources or space on the menu to provide descriptions for all of your items, consider a description for your stars and puzzles to get more sales to these money-makers.

One restaurant that epitomizes awesome menu descriptions is Crave Mad for Chicken in Boston. Just see how much time and effort they put into writing about their namesake double-fried chicken and tell me you wouldn't order that as soon as you sat down.



3. Design Your Menu

Now, it's time to get creative and pair your profit-driven layout with a unique, on-brand menu design. Not an artist? No problem. There are plenty of do-it-yourself, drag-and-drop options to help build your menu online, like Canva. Alternatively, you can look into hiring a freelance designer to turn your layout into a work of art.

Remember, the importance of design cannot be overstated. For first-time guests, it's a chance to set expectations and showcase your brand in the setting of your restaurant.

One last point on design - consider removing the dollar signs from your menu prices (i.e. the menu price should be "10" instead of "\$10"). While this seems like a trivial thing, research from Cornell University found that guests who saw a menu where prices did not have dollar signs "spent significantly more than those who received a menu with prices showing a dollar sign."



4. Take it Online

The good news is there's no shortage of space online. For your website, you can upload multiple menus (i.e. brunch, dinner, and your wine list). See how Buttermilk and Bourbon, a southwestern small plates restaurant, does this below. If you're no web developer, work with your tech-savvy employees, or hire a website development team to help build this crucial part of your website out. You should also make sure that your restaurant menu is on posted on websites such as TripAdvisor.

You should also be cognizant of how your menu appears on sites where you have less direct control, like Google my Business or third-party ordering sites and apps like Grab and FoodPanda. Given that mobile online food ordering will be a \$38 billion industry by next year, you certainly shouldn't be avoiding the menu engineering work to be done online.

Online transactions are normally different than dine-in purchases so it is important to have data analytics that **combine** your online and offline sales on one dashboard so that you stay competitive on every channel your customers are buying from you.

Activity-Based Costing and Menu Engineering

Allow us to throw one more wrench into the menu engineering discussion.

Since price has such an enormous impact on menu engineering, it's worth exploring pricing at as granular a level as you can get. This is where activity-based costing (ABC) comes in, which is a costing method that attributes costs in a restaurant to the menu items created from those specific costs rather than applying a uniform markup to all items based on total overhead costs.

As an example, a pizzeria might think about how much money it costs to run its oven each month, and then distribute the cost of gas and electricity for running that oven - in addition to all other overhead costs - to the entire menu. However activity-based costing suggests all costs pertaining to the pizza oven be *only* applied to items cooked in the pizza oven, just as the costs to run the fryers should only be applied to fried foods, and costs to keep the walk-in freezer running be applied only to items stored in the freezer at some point.

To prove out this concept, a restaurant in Hong Kong that offered both individual menu items and a buffet was analyzed. The cost for the dinner buffet was 128 Hong Kong dollars, but the total cost for all menu items on the buffet was closer to 162 Hong Kong dollars from an ABC perspective.



This is a prime example as to why restaurants should consider activity-based costing in their menu engineering. Allocating costs to specific menu items results in more accurate prices and could potentially keep your restaurant in business, so track what labor, machinery, and utilities go into making a menu item – not just the ingredients.

The best way to apply ABC to menu engineering is to:

- Gather up your overhead costs for your restaurant.
- Compile your sales by menu item.
- Trace which costs can be directly *attributed* to each menu item.
- Fairly distribute each overhead cost to the menu items that are made from those overhead costs.
- Adjust your menu prices periodically to reflect changes in activity-based costs.

Bonus Revenue Management Strategies

Previously we have discussed the strategies that you can apply to increase revenue through menu engineering. In this section, we'll talk about other strategies you can use to further enhance your results. The easiest and most common way to drive revenue is to adjust your prices and offer specific promotions and specials like happy hour. But this is but one approach to better increasing sales. In the upcoming sections you'll learn about two others:

- Manage restaurant capacity
- Control table turnover

Bonus Strategy 1: Manage Restaurant Capacity

Managing your restaurant's capacity is crucial as it impacts your profits, sales, customer service, and the dining experience. If you're over capacity, you don't have enough seating to meet the demand, which means you have to turn customers away.

Overcapacity leads to:

- Deterioration of service as staff are in over their heads
- A tense atmosphere
- Unhappy customers because employees are likely making more mistakes than usual
- Reduced revenue and profits



If you're under capacity, demand is low with lots of available seating. Being under capacity has its own set of problems.

- Fluctuating service quality from one server to the next
- Boredom among staff because they have nothing to do
- A poor atmosphere which is a turn off for many guests
- Profit erosion as there are not enough sales to cover costs

Your goal then is to achieve optimum capacity-where roughly 80% of your seats are occupied. With optimum capacity, everything is balanced. There's some open seating, but not too much, and staff have a decent amount of work to maintain the quality of service without feeling swamped. The result? You're able to maximize your revenue and profits.

But how do you properly manage capacity during high demand periods to boost sales, particularly as restaurants have limited space? The answer: Maintain flexibility in your restaurant floor plan.

Firstly, have a mix of table types to accommodate different group sizes. Having two and four-seater tables is an excellent place to start because two and four-person groups are common. You want to avoid where couples enter your restaurant and sit at a four-seater table. Your restaurant loses two seats that some other paying customers can use.

Secondly, review your customers and analyze what size groups typically arrive at certain times of the day. Then, arrange your restaurant layout to accommodate different group sizes at different times.

Finally, use the right tools to help you confidently optimize your restaurant's floor plan.

Bonus Strategy 2: Control Table Turnover

Average order value varies among customers, but you can generally expect to make more revenue if you turn over more tables. So, your goal should be to maintain a suitable table turnover. We say suitable because your servers shouldn't rush service while compromising on the quality of customer service. Instead, servers should maintain high service quality while remaining efficient. Maintaining quality service is especially important in fine dining establishments. Customers pay a pretty penny for quality food, which takes time to prepare and expect a highly personalized experience.





Here are several ways to boost your table turnover without compromising on service quality:

1. **Use music, lighting, and color strategically.** A study found that fast-paced music decreased meal duration. The one downside was that average spending also suffered.
2. **Provide subtle clues to inform guests the service is over.** You don't want to rush guests. However, your servers can deliver the check promptly or even engage guests in a closing conversation. For example, a waiter can say something like "So what are your plans now that your meals finished?" This question encourages the diner to think about what they're doing next and accept that the meal is over.
3. **Hire skilled kitchen staff and train them.** Trained kitchen staff who communicate and work well together will deliver food promptly.
4. **Ensure waiters are well-trained.** The more efficient waiters are at their jobs, the smoother and faster the service will be. Staff need to clean tables quickly, attend to guests promptly, and maintain adequate service. They should also drop off the check before customers ask for it and work in tandem with another waiter if there's a large group to speed up service.
5. **Have sufficient staffing during peak hours**
Data analytics should be able to calculate what are your peak days and dates after using a data analytics tool like SYCARDA so that you can create shifts that optimize your task force.



A Final Word on Restaurant Revenue Management In Your Restaurant

Whether you're a struggling or thriving restaurant, your goal remains the same: To maximize restaurant revenue and boost profits. Better restaurant revenue management is one solution that can help you do exactly that.

Sure, it's not without its challenges as restaurants have a relatively fixed service capacity, but that doesn't mean it's impossible. You just need to use the right strategies:

- Optimize your menu for increased sales by grouping complementary items, strategically placing dishes, and highlighting profitable dishes to guide diner choice.
- Manage restaurant capacity by adjusting your table layout and using table management software to optimize your floor plan.
- Control table turnover by ensuring both your kitchen and serving staff know how to do their job properly, and you have a strategy to deal with those annoying campers.
- Get affordable data analytics software so that every strategic decision you make is data driven and in real-time.



To find out more on affordable data analytics tool
for restaurants;

Go to www.sycarda.ai

Data analytics business intelligence tool
for SME retail and restaurants

