

## Food & Beverage - Pricing A Catering Menu - By Joe Dunbar

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The best tool for caterers involved in menu package pricing decisions is a fantastic cost accounting system. If all costs are known well, the job of menu pricing is simply one of determining the correct markup percentage. On the other hand, no amount of competitor analysis can compensate for poor cost analysis.

Take a serious look at your fixed costs first. Try to determine if these costs can be cut. Identify any unproductive assets and eliminate these from your balance sheet. Carefully review the need for furniture, fixtures and equipment for the year ahead. A well designed preventive maintenance program can lower the investment required in the FF&E budget. If you use a delivery fleet, keep the vehicles well maintained.

Your fixed costs will include the annual amortization and depreciation of all fixed assets, salaries and benefits for all top level management, hardware and software, occupancy costs, lease commitments, and other expenses which do not depend on the level of activity.

Try to draw the line on utilities, garbage pickup, sewage, telecommunications, marketing and promotions, and other expenses which may be lowered through cost control efforts. If you can exert control over the annual expense, leave it in the variable cost side.

Early in my audit career, I worked on a review of the world's largest TV picture tubes plant. This plant broke even (no profit or loss) despite tremendous volume. Due to intense competitive pressures, the market value of a color picture tube was falling each year. On the surface, the plant seemed to be one gigantic fixed expense. There were very few employees and these were targeted for replacement by robot arms and optical sensors. In reality, the engineers treated everything except \$5,000 (out of \$300,000,000 total budget) as variable expenses.

There were monitors on electricity, water, and telephones. Lubricants for the assembly line were tightly controlled and used at an optimal frequency. Even the top engineers were a variable cost. These people were billed to other plants as required.

Try to make as many of your operating expenses into variable costs as possible.

Once you have a system of tight cost control in place, your menu pricing decisions will be simple. Take your entire fixed expenses and divide this figure by the expected number of guests for the year. Add your variable cost per guest to this result. You now have your total cost per guest for your base menu. The final step is your markup number.

I prefer a dollar number vs. a percentage markup figure. If the operation expected to host 10 events per week with 100 guests per event, we'd serve approximately 50,000 guests this year. If we wanted to have a profit of \$250,000 for the year, a \$5 markup is our solution.

Price extras according to the core model. Take the time to cost out each extra including cost of sales, direct labor and direct operating expenses. Add a markup to these costs in line with the base menu structure.

I would avoid using a multiplier on food costs for any catering operation. Simply multiplying your recipe costs for the package by 4 or 5 (25% and 20% food cost percent respectively) is a poor approach. A great cost accounting system will provide you with the correct cost per guest. Competitor intelligence will help you in your markup decision. If you understand your costs and the competitive environment, your catering menu will be priced to produce profits.

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