

Determining Menu Item Prices

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Overview: The Certified Dietary Manager, Certified Food Protection Professional (CDM®, CFPP®) is responsible for setting menu prices that result in profits for their department. Setting menu item prices appropriately can mean the difference between profit and loss. The following Practice Standard will provide steps and formulas for menu pricing and profitability.

Standard 1

The Certified Dietary Manager, Certified Food Protection Professional (CDM, CFPP) prices each menu item to ensure a profit or break-even outcome, considering all costs involved with food production.

CRITERIA	IMPLEMENT & EVALUATE
<p>1.1 Raw food cost is calculated for every menu item.</p>	<p>Calculating Standard Portion Cost</p> <p>Purchase price per unit DIVIDED by the number of portions per unit.</p> <p>Example to determine the cost of a serving of canned green beans:</p> <p>Step 1: Determine purchase price per unit: Purchase price per case: 6-#10 cans = \$16.95 $\\$16.95 \div 6 = \\2.82 per #10 can or per unit</p> <p>Step 2: Determine number of portions per unit Number of portions per #10 can: 25, 4 oz portions</p> <p>Step 3: Divide purchase price per unit by the number of portions per unit $\\$2.82 \div 25 = \\0.11 per 4 oz serving</p> <p>Calculating Portion Cost with Yield Loss</p> <p>Step 1: Look up the yield loss on red potatoes (81 percent).</p> <p>Step 2: Look up the price per pound of red potatoes from the produce invoice: \$.70/pound</p> <p>Step 3: Determine the number of servings from one pound=4.7.</p> <p>Step 4: Divide the original price per pound by the yield $\\$.70 \div .81 = \\$.86$. (Note: 81 percent is .81 as a decimal)</p> <p>Step 5: Divide the new cost per pound of potato by the number of 1 oz (1/2 cup) servings of potato. $\\$.86 \div 4.7 = \\$.18$ per serving of potato</p>

1.1 Raw food cost is calculated for every menu item.

Consider the following factors that vary yield loss:

- ✓ employee skill and experience (a skilled employee will waste less)
- ✓ size of the product (large potatoes will have less waste than small)
- ✓ freshness of your product (older potatoes will have more bruising and waste)

Calculating Standard Recipe Cost

List of each ingredient's cost ADDED together DIVIDED by the recipe yield

Example: Egg Bake for 50 clients:
 50 eggs @ 1.60/doz. (\$.133/egg)
 50 x \$.133 = \$6.67 for 50 eggs

2 cups milk @ \$4.25/gallon (16 cups/\$4.25 for 1 gallon= \$.266/cup)
 2 x \$.266 = \$.53 for 2 cups milk

2 cups croutons @ \$4.25
 4 cups cheese @ \$11.80

\$6.67+\$5.3 + \$4.25 + \$11.80 =\$23.25

Total Cost per Client/Portion

Food Cost	\$23.25
DIVIDED by # of clients:	÷ 50
	\$.47 per client/portion of egg bake

1.2 Menu prices are set for each item, using a predetermined profit margin.

Method 1: Contribution Costs + Raw Food Costs

Option A
 (for healthcare or other operations that do not have an actual sales amount each month)

To calculate contribution costs:

1. Monthly Foodservice department budget MINUS monthly cost of food = COSTS OTHER THAN FOOD
2. Determine TOTAL CUSTOMERS
3. Determine NUMBER OF MEALS SERVED (customers x number of meals)
4. Total costs other than food (#1) DIVIDED by Number of meals served (#3)
5. Determine raw portion cost (Criteria 1.1 above)
6. ADD #4 to #5

1.2 Menu prices are set for each item, using a predetermined profit margin.

Example

1. Monthly Dept' Budget	\$52,000
MINUS monthly food cost	- \$24,715
	\$27,285
= Costs other than food	
2. 90 customers x 93 meals=	8,370 Meals served
3. Costs other than food	\$24,285 ÷ 8,370
÷ Meals Served	\$2.90
	\$52,000

Using Egg Bake Example in 1.1

4. \$2.90 + \$.47 = \$3.37

In this example, you could round up to an even price that makes sense (\$3.50)

Option B
 (for operations that have an actual sales amount each month)

To calculate contribution costs:

1. Monthly Foodservice dept' sales MINUS monthly cost of sales (include food, labor, utilities) = GROSS PROFIT
2. Determine total NUMBER of CUSTOMERS/Transactions
3. Gross Profit (#1) DIVIDED by ÷ Number of customers (#2)
4. Determine raw portion cost (Criteria 1.1 above)
5. ADD #3 to #4

Example:

1. Monthly Dept' Sales	\$52,435
MINUS monthly cost of sales	- \$47,219
= Gross Profit	\$5,216
2. Customer Count	= 2,000
3. Gross Profit	\$5,216
÷ Customers	÷ 2,000
	\$2.61

Using Egg Bake Example in 1.1 4. \$2.61 + \$.47 = \$3.08

<p>1.2 Menu prices are set for each item, using a predetermined profit margin.</p>	<p>In this example, you could round up to an even price that makes sense (\$3.10)</p> <p>Method 2: Cost Percentage</p> <p>Step 1: Determine Food Cost Percentage Predetermine a desired FOOD COST PERCENTAGE (Industry standards range from 35-50%)</p> <p>-OR- DIVIDE your monthly food cost by total sales=FOOD COST PERCENTAGE</p> <p>Step 2: Determine Price DIVIDE the portion cost of the food by the food cost percent.</p> <p>Adjust the result to meet your predetermine goal</p> <p>Example:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>1. Desired Food Cost Percentage:</td> <td>40%</td> </tr> <tr> <td>2. Raw food portion cost:</td> <td>\$2.61</td> </tr> <tr> <td>3. DIVIDE raw food cost</td> <td>\$2.61</td> </tr> <tr> <td>By food cost percentage</td> <td>.40</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;">\$6.52</td> </tr> </table> <p>4. Round to \$6.55</p> <p>Whichever method the CDM, CFPP uses, they should consider:</p> <ul style="list-style-type: none"> ✓ Raw food cost ✓ Labor hours/FTE per menu item ✓ Utilities ✓ Paper Products ✓ Marketing/POS ✓ Any cost associated with production of the menu item 	1. Desired Food Cost Percentage:	40%	2. Raw food portion cost:	\$2.61	3. DIVIDE raw food cost	\$2.61	By food cost percentage	.40		\$6.52
1. Desired Food Cost Percentage:	40%										
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By food cost percentage	.40										
	\$6.52										
<p>1.3 Consider price adjustments for employees, family, or other frequent customers.</p>	<p>Other programs to consider:</p> <ul style="list-style-type: none"> ✓ Payroll deductions ✓ Prepaid meals (punch card, credit card, etc.) ✓ Free or reduced prices for foodservice staff ✓ Special guest meals ✓ Catering, meetings or special events 										
<p>1.4 Prices and sales are monitored to maximize profits or balance costs with the department budget.</p>	<p>Consider:</p> <ul style="list-style-type: none"> ✓ Menu complexity ✓ Use of convenience items ✓ Type of service ✓ Seasonal items ✓ Novelty/theme meals 										

<p>1.5 Menu prices are compared to industry standards.</p>	<p>Compare:</p> <ul style="list-style-type: none"> ✓ Similar operations/type of facility ✓ Local retail opportunities for customers
<p>1.6 Department Policies & Procedures are maintained for menu item costs and adjustments.</p>	<ul style="list-style-type: none"> ✓ CDM, CFPP prepares a written procedure to determine menu item costs using either the Contribution Margin or Cost Percent method

References

Molt, Mary. *Food for Fifty*. 14th Edition. Pearson, 2018

Legvold, Dee, and Salisbury, Kristi. *Foodservice Management by Design*. Association of Nutrition & Foodservice Professionals, 2nd Edition, 2018.

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