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Optimizing restaurant menus to maximize profit

Introduction

"Do you want fries with that?"

Burgers and fries are a classic combination, but for those seeking to eat healthier, a juicy and sweet watermelon cucumber salad may be the preferred pick. For other consumers, they may forgo a side but want to pair their burger with a full-bodied cabernet sauvignon. Or, maybe just a simple substitution of sweet potato fries will hit the spot.

When it comes to a restaurant's menu, offering the right options has always been an exercise in maximizing consumer satisfaction. However, many organizations, even large ones, do not think about their menu in a rigorous fashion. Many do not have a standardized process to assess and execute changes, and while the data is plenty, the analysis is weak, leading to potentially unprofitable gut decisions.

According to a study commissioned by Mastercard, 70% of restaurant leaders indicated that optimizing their restaurant's menu is fundamental to achieving their organizational goals, but only 27% apply high rigor to analytical and financial analyses. Additionally, regional leaders across the globe agree on the importance of menu optimization, with each region ranking it in their top six organizational goals for the year.

The menu is the most direct lever for substantially improving financial returns, but menu optimization is a complex balancing act. After all, some customers are incredibly loyal to certain menu items and appreciate the routines, nostalgia or comfort their favorite item brings. Organizations must be careful as they adapt, remove or replace items to ensure those changes improve guest perception. Below, we will review why implementing a menu optimization analysis system of data and testing will lead to better business decisions and, subsequently, greater guest loyalty.



Menu item rationalization

For restaurants to maximize consumer reach and appeal to mass taste buds, they must be keenly aware of eating trends and preferences. Refining their menu — whether it be through the addition of limited-time offerings (LTOs), new bundled meal offerings or item rationalization — is an exercise that can drastically affect competitive positioning and growth.

Most commonly, restaurant decision-makers only assess an item's popularity and contribution margin. If the item is low or moderate volume but high margin, restaurants promote it, and if it's low volume and low margin, it's replaced. Those in between may have their prices raised or be highlighted on the menu more prominently.



Key insights on approaching menu analysis

- 62% examine **historic patterns** in sales performance
- 65% leverage in-app or website A/B testing
- 72% expressed interest in adopting products to help them apply systematic approaches to menu changes

Most restaurants are good at using historical data to inform business-as-usual decisions like demand planning but struggle to predict the impact of novel changes. And while many leverage in-app or website A/B testing to optimize their digital experience, restaurants still face challenges projecting customer behavior across channels in response to menu changes. Fortunately, that's where menu optimization tools can help, and many surveyed restaurants **want** to adopt them.

Leveraging basket analysis

A key to understanding how consumers might shift spend across items and categories when menu changes are made is uncovering which items are currently purchased together. To best project future shifts in menu mix, restaurants should identify what product the consumer is most likely to switch to and how that might impact their visit frequency. Once a restaurant feels secure in the revised financials of the category, they can confidently delete or replace.

The problem is: many organizations do not feel they can project these shifts in consumer spending accurately. To reach this level of confidence before making such moves, statistical analysis can be incredibly beneficial and for some, even critical.

The first step to identifying total impact is understanding how customers are purchasing today. An analysis tool that enables users – even non-technical business ones – to gain an understanding of check-level transaction data should lead to insights on customer purchase behavior. Answers to the following strategic business questions will create a strong foundation for menu change analysis:

- How frequently is the key item purchased? Which items might be good candidates for removal?
- How loyal are customers to this product?
- How does customer loyalty change after promotions or events?
- What changes were seen during and following a promotion?
- What is the incremental impact of this item on the menu?

Successful restaurant decision-makers unlock patterns within transaction-level data and assess incremental performance of menu changes. With tools that pinpoint problematic items, they can understand check composition, optimize their menu and gain a deeper understanding of how customers react to their offerings.

Transaction data can be leveraged across:



Delivery services



In-restaurant displays



Marketing



Omnichannel



Promotions



Sales training



Menu optimization



Pricing



Inventory management

Test & Learn®

Start maximizing the impact of your business initiatives.

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Bundle testing

Pricing is one of the most important levers for restaurants. It can immediately improve bottom line, but take too much and it can lead to a dip in customer satisfaction and traffic.

Testing is key to making sure restaurants have the best bundle of items at the right price point for customers. Testing pricing or menu changes in a small subset of restaurants is a low cost and low risk way to evaluate ideas.

For example, say a restaurant wants to test out a new bundle. They are considering offering a burger (\$8.99), sweet potato fries (\$5.99) and a beer (\$5) for \$16.99.

- For guests that already order this combination, the company will forfeit approximately \$3 of revenue per guest.
- For guests that usually only buy one or two of the bundled items, revenue is gained with this bundle.
- For guests that buy a higher revenue combination of items (like a cocktail instead of beer) revenue is lost.
- For new guests that try the bundle for the first time or visit more often as a result, the advantage goes to the restaurant.

Generally, bundles are a win-win when priced appropriately. They can increase margins with add-ons and drive traffic with strong marketing of the “deal”— not to mention, guests see an easy fixed-price option that comes with complimentary items.

In scenarios where there are similar bundles that might bring similar revenue or profit, testing can determine the best value combination. If a bundle with a beer requires a 2% increase in guest count to pay off and the dessert bundle requires only 1%, then decision makers can avoid unnecessary risk and choose the second offer.

Today, most current testing tools are rudimentary. While 82% of surveyed restaurant professionals believe measuring the true impact on revenue is essential to a menu optimization strategy, just 16% felt their organizations do it proficiently. But with the help of the right tools, restaurants can quickly quantify revenue shifts and accurately forecast incremental traffic needed to gain positive ROI.

Menu Analyzer

Get the most out of your check-level data.

[Learn more](#)

Conclusion

Menu optimization will continue to be top-of-mind for restaurants because the innovation cycle never stops. Ensuring your restaurant has the right tools and analysis is critical to being smart about optimization and customer behavior.

Many organizations partner up with companies that are best-in-class to do their analysis. Mastercard is uniquely positioned to help restaurants translate their transaction data into actions that improve the menu and drive profits. Interested in learning about Mastercard’s technology that can help address your menu challenges?

Contact us [here](#).