

Learning From Experience: The Price Has to be Right

Introduction

The story that you are about to read is from actual events that occurred in the field. Its purpose is to provide you with a real-world example from a seasoned professional in the business world.

The Price Has to be Right

Although large cities and small towns in America are filled with big-box retailers and chain restaurants, the entrepreneurial spirit produces scores of small business owners. All too common are the "Coming Soon" banners around town, the new frozen-yogurt shops, and the take-out or family-style home-cooking eateries. But too many times within a year, someone's dream is replaced with a "For Lease" sign in the window. What happened?

Talented cooks think that this skill alone makes them natural restaurant entrepreneurs. Just because they can produce a great dinner party for friends and family does not mean that their new café will be a success. This concept is imbedded in pop culture. Look at the reality television shows in which the celebrity chef comes in to save the failing small restaurant.

The restaurant business is built around very tight margins. The food may be good, but if the pricing is too high for the market, diners will come less often or choose to dine elsewhere. If the prices are too low and margins are not met, then the bills will go unpaid. In both cases, this signals the beginning of the end for the establishment. The advent of food trucks that have a lower overhead than a fixed restaurant make the food pricing equation that much more difficult.

With the proliferation of dining deal Web sites and services, using coupons has become a standard with many diners who frequent restaurants that offer some sort of price break. That is how marketing works today. The chain restaurants have the buying power to purchase ingredients at good prices and a national ad budget to keep their name at the top of the customer's mind.

For the small restaurant to survive, it cannot compete on price alone. The restaurant must offer some value of added benefits like excellent service, a unique ambiance, or a niche product that is not available in other area businesses. Independents must also find creative ways to leverage economies

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of scale in purchasing.

It is important to take the following away from this scenario:

- Pricing for retail businesses is contingent on both internal margins and external consumer perceptions in comparison to the competition.
- Smaller players may have difficulty competing on price alone and must find ways to differentiate to succeed.