



Article Title

Price-Sensitivity Measurement: a Tool for Restaurant Menu Pricing [Summary]

Citation

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Abstract

Setting the correct price for hospitality products is a crucial management task that has a major influence on a firm's profitability. In general, there has been a lack of academic interest in the area of pricing in services. The restaurant industry typically establishes prices by marking up a variable cost percentage and by intuition, or by trial-and-error methods. This study illustrates how restaurant managers can use price-sensitivity measurement to assess their guests' price sensitivity. By means of a relatively simple survey, restaurant managers can gain insights about their menu pricing directly from their customers. This study uses data collected from a Hong Kong buffet restaurant, but the technique could be applied in virtually any restaurant setting. The results reveal price ranges that represent real value for dinner buffet patrons.

Summary:

The results of the study show that the PSM technique can be successfully applied to a restaurant. Thus, it supports and extends the prior work of Lewis and Shoemaker (1997). This study was able to establish an indifference point, an optimum pricing point, a stress level, and a range of acceptable prices, all of which serve as indicators for levels of price sensitivity in a market. Therefore, the study provided management with a number of insights about the restaurant's pricing structure. First, the price at which customers are least resistant to purchase the dinner buffet is HK\$139, which is HK\$11 higher than the regular buffet price of HK\$128. Second, the point of marginal cheapness was determined to be is HK\$100. Thus, it can be assumed that dinner buffet guests perceive the price range between HK\$100 and HK\$138.99 as

cheap but without major doubts about food quality. On the other hand, the point of marginal expensiveness was established at HK\$148, indicating that the price range from HK\$139 to HK\$148 is considered expensive by customers, but they still perceive that it is worth it for the quality they receive. In addition, a buffet price above HK\$148 is considered to be too expensive and beyond their purchase consideration.

On the other hand, because of the low sensitivity to price, the restaurant has some measure of pricing flexibility within this market. An excessive emphasis on price as the component of the marketing mix would be a wasted effort and might damage future marketing efforts. This information provides a framework within which the management can frame an advertising campaign. For example, the restaurant's existing promotional efforts to advertise the dinner buffet of HK\$99 were detrimental, as the threshold of marginal cheapness far exceeds this price point, which implies that potential customers may feel that the quality of the buffet may be so questionable that they avoid purchasing it. On the other hand, customers attracted by the promotion may purchase only the buffet for the promotional price, and they might not return when they have to pay the regular price.