In this module introduction to restaurant revenue management, we're going to be taking revenue management principles and applying them to restaurants. And you might wonder, how can I apply revenue management to a restaurant - isn't that just for like hotels and airlines? There's a lot of potential there for the restaurant industry, and when we look at restaurants, I mean you start thinking about what type of restaurant would you rather manage? Would you rather be managing a restaurant that has a really high average check per-person? Well, that's great, to have a very high average check per-person, but what if nobody's there? And at the same time, what if you've got a restaurant that's so busy, you've got people waiting for two hours to get in, and has, so it has a very high seat occupancy, but the average check is actually pretty low?

And so what we're gonna be looking at in this course is, not only just looking at the occupancy and the average check, but what's their RevPASH? What's their revenue per available seat hour? That's a combination of looking at their occupancy, and looking at their average check. And when you look at revenue management, there are a number of different types of industries that do well with revenue management, and the restaurant industry happens to be one of them. We've got a relatively fixed capacity of seats - well, yes, sometimes we have outdoor seating, and sometimes we could squeeze another seat in - but it's pretty fixed. We also have a fairly low variable cost; when it comes right down to it, our only variable cost is food costs, which is, say, 30%, and everything above that we could use towards offsetting our fixed cost of the restaurant.

Another thing that we have going for us for revenue management is if we don't sell that seat tonight, it's gone, and so we've got to figure out ways that, okay, how can I get enough people into my restaurant while covering my food cost, so that I can help to generate enough money to be able to pay for my fixed costs?

And so, when we go through and talk about this, we're gonna have a success story: you're gonna get to hear from someone who's applied revenue management to her restaurant and how it's worked. And then, we're also going to talk about how would you actually start a revenue management program at your restaurant?
And so, it's kind of five basic steps: you're gonna start off with establishing the baseline - so that's things like what's your seat occupancy? What's your average check? How does it vary by hour? What's your party size mix? That kind of thing. We're gonna try to figure out why certain things are happening. So for example, maybe you always have a line of people waiting to come in, but your maximum seat occupancy is maybe only 50%. Well, what's going on there? Hint: you'll learn about that a little bit later. Third thing we're going to do is the fun part, is - what are the strategies that you could use to try to generate additional revenue? Fourth part is the hard part, which is, how do you actually implement it? How do you talk people into going along with you? And then the last part is going back to see, did it actually work? But after this course, you'll have a good overview of what restaurant revenue management is, and how you might be able to apply that to your restaurant.

Transcript: *Introduction to RevPASH*

The revenue management approach most common to hotels and airlines requires a focus on revenue per available inventory unit. Hotels, for example, measure revenue per available room-night (commonly referred to as RevPAR). Airlines measure revenue per available seat-mile (RPSM). Cruise lines measure revenue per available cabin. What about restaurants?

A revenue management focus on revenue per available inventory unit suggests that restaurants measure revenue per available seat-hour (RevPASH)—making time the available inventory unit. The restaurant industry has not traditionally looked at revenue this way.

Traditionally, restaurants have measured revenue by:

- Tallying the average check
- Maintaining certain labor- and food-cost percentages
- Measuring the percentage of available seats

These methods do provide information, but each has its limitations.

<table>
<thead>
<tr>
<th>Traditional method</th>
<th>The problem(s) associated with this method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tallying the average check &amp; Maintaining certain labor-</td>
<td>Tallying the average check and maintaining certain labor-and-food-cost percentages do not explicitly reflect a restaurant’s revenue-(or profit)-producing performance. Combining average check and seat use (or occupancy) provides a measure of the flow of revenue through the system that more clearly represents how effectively a restaurant is using its productive capacity. RevPASH does this.</td>
</tr>
<tr>
<td>and-food-cost percentages.</td>
<td></td>
</tr>
</tbody>
</table>
RevPASH, on the other hand, combines information from the average check and seat use (or occupancy) to provide a measure of the flow of revenue through the system and to indicate how effectively a restaurant is using its productive capacity. RevPASH is calculated by dividing the hourly revenue by the seat-hours available.

Note that if occupancy percentages increase even as the average check decreases, a restaurant can still achieve the same RevPASH. Conversely, if a restaurant can increase the average check, it can maintain a similar RevPASH with a slightly lower facility use.

To illustrate this, consider restaurants A and B. They have the same RevPASH, but each achieves it in a different manner. Restaurant A has a facility use of 40% and an average check of $18.00, while Restaurant B has a use ratio of 90% but an average check of $8.00. Yet the RevPASH for both restaurants is $7.20.

It is also interesting to consider how RevPASH is related to the service cycle. Because RevPASH is an expression of hourly revenue, it is linked to the rate of revenue flow through the restaurant. Given this, it is not difficult to imagine that as the service cycle is made faster, RevPASH increases.

Restaurant revenue management focuses on revenue per available inventory unit—in this case, time. RevPASH, a measure of revenue per seat-hour, is a central concept in restaurant revenue management.

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**Transcript: The Revenue Management Process**

When developing an RRM system, a restaurant operator must first understand current conditions and performance. Following this, the operator must evaluate the possible causes of that performance. This understanding will help managers accomplish the next two steps in the process: develop and implement strategies to improve RevPASH statistics. Finally, the manager must monitor the impact of implemented changes on revenue performance.
Step 1: Establish the Baseline

Most managers know their average check and their labor and food-cost percentages, but few can accurately estimate the capacity use or revenue per available seat-hour (RevPASH) of their restaurants. To develop a restaurant revenue management (RRM) program, operators must collect detailed information on arrival patterns, meal times, RevPASH patterns, and customer preferences. This information can be collected from a variety of sources, including the point-of-sale (POS) system, guest checks, and methodical observation. Once collected, the data must be analyzed to determine the mean and deviation of dining time and daily and hourly RevPASH patterns.

Step 2: Understand the Causes

Once the baseline data have been collected, managers should analyze the factors that affect meal duration and RevPASH performance. Simple tools such as process analysis, service blueprints, and fishbone diagrams can be used to better understand the possible reasons for why meals last as long as they do and to help identify the most important problems in controlling meal duration.

Step 3: Develop a Strategy

After identifying the causes of the most important problems affecting the service cycle, managers should develop detailed recommendations on how to correct those problems. Some solutions may deal with reducing the overall meal duration, while others may deal with reducing variability in particular service steps, as in order-taking or bussing, and still others may involve table management or customer-arrival management. The manager should analyze potential return on investment for each recommendation to ensure prudent decision-making.

Step 4: Implement the Strategy

For RRM to be successful, restaurant operators must ensure that managers, servers, bussers, and other employees clearly comprehend the purpose and practice of RRM. This requires a position-specific training program that helps employees understand their role in RRM and how RRM can benefit both the restaurant and the employees. Additionally, operators should align any employee-incentive programs to coincide with the objectives of RRM.

Step 5: Monitor the Impact

As with any business practice, the success of RRM cannot be ensured without measurement of improvement. After establishing the baseline and implementing RRM, operators must develop a system to measure RRM performance. One should, for instance, monitor RevPASH and the
average and standard deviation of dining time and compare those figures to baseline performance.

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**Transcript: Revenue Management Results at Chevys Arrowhead**

**Revenue Management at Chevys Arrowhead**

Chevys Arrowhead is part of the Chevys chain of casual Mexican restaurants, comprising over 200 outlets throughout the U.S. Chevys specializes in freshly prepared Mexican food and prides itself on its Mexican-American cuisine, friendly service, and family atmosphere. Chevys Arrowhead is located in a shopping mall in Phoenix, Arizona, and began its revenue management effort in the fall of 2001.

**Before and After Results**

The first step in Chevys' revenue management process involved establishing baseline data for certain factors at the restaurant. A team of consultants measured the seat occupancy (the percentage of seats that are occupied at designated time intervals), and the meal duration (how long it took customers to complete their meal). In addition, the consultants gathered data relating to the financial performance of the restaurant. Similar data was gathered after the revenue-management strategy had been implemented and used as a basis of comparison to gauge the overall success of the initiative.

**Seat Occupancy Prior to Strategy Implementation**

Prior to implementing its revenue management program, Chevys Arrowhead measured seat occupancy for each business hour (in military time) and each business day. The results are captured on this chart. The red sections indicate periods of high seat occupancy (any time the restaurant had customers waiting); blue sections indicate periods of low seat occupancy (whenever less than 15% of the seats in the restaurant were occupied); everything in between is white. Periods of high seat occupancy are commonly referred to as "hot" periods. Chevys Arrowhead had 11 hot hours per week, during which the average seat occupancy was only 50%. Part of the reason for such low occupancy was the restaurant's table mix. Although most of its customers arrived in parties of 1 or 2, almost all of the tables in the restaurant were 4-tops. This meant that even during hot periods when all the tables in the restaurant were occupied, most of those tables had at least two empty seats.
Seat Occupancy After Strategy Implementation

This chart illustrates the improvement in overall seat occupancy after implementing the restaurant’s revenue management program. The restaurant altered its table mix and made a number of other changes that reduced the overall dining time. The results were dramatic: the number of hot hours per week increased from 11 to 14, and the average seat occupancy during the hot periods increased from 50% to 59%.

Meal Duration

Chevys also conducted before and after time studies of the dining experience, the results of which are captured in this chart. The studies divided the dining experience into ten phases and measured the interval between each phase—in other words, the amount of time between when customers are seated and when the server greets them; the time between when the server greets them and their drinks are served; the amount of time between when their drinks are served and their order is taken, and so on. The studies also measured the average amount of variation in those intervals. (These figures, also known as standard deviation, are indicated in parentheses. They are especially important because they indicate how predictable the length of each phase of the meal is, and how predictable the overall meal duration is.)

The first column of numbers in the chart displays time intervals between each phase before Chevys implemented its revenue management program; the second column displays the same intervals after Chevys implemented its program. Note the revenue management program resulted in a drop in average meal duration from just over 53 minutes to just under 50 minutes. Even more significant was the reduction in standard deviation: from nearly 23 minutes to just over 15 minutes—an improvement of over 33%.

Financial Impact

To measure the financial impact of its revenue management program, Chevys Arrowhead gathered financial data for the six-week period prior to implementation and the six-week period following implementation for both 2001 and 2002, then compared these numbers to similar data for other Chevys restaurants over the same time period. The results are captured in this chart.

Before implementing its revenue management program, Chevys Arrowhead store had experienced a 5.7% drop in revenue from 2001 to 2002, while its sister restaurants in the same market had experienced a 10.6% decline over the same time period. After implementing its revenue management program, Chevys Arrowhead showed a 2% increase in revenue from 2001 to 2002, or a net increase in revenue of 7.7%. Meanwhile, over the same six-week period following the implementation of revenue management at Chevys Arrowhead, its sister
restaurants in the same market showed an 8% decrease in revenue from 2001 to 2002, or a net increase of only 2.6%.

One can conclude, therefore, that about 5.1% of Chevys Arrowhead's total revenue increase of 7.7% is directly attributable to its revenue management program.

Return on Investment

Chevys Arrowhead used the estimated 5.1% increase in revenue directly attributable to its revenue management program to calculate the overall return on investment—the amount of time required to recoup the expense of implementing the program.

Revenue for fiscal 2001 totaled approximately $2.4 million. Given a projected increase of 5.1% as a result of the revenue management program, revenue for fiscal 2002 could be expected to increase by approximately $120,000.

Project costs totaled just over $50,000: a little over $49,000 in capital expenses and about $1,400 in smallware expenses. Given an annual revenue increase of approximately $120,000, the restaurant can expect to recoup its investment in about five months.

Transcript: Ask The Expert: The Need for Revenue Management

What led Chevys Arrowhead to implement revenue management?

Our company had heard about the program through a mutual source, and certain locations in our company were not maximizing their seating capacity. The majority of our units were available for parties of four or more, and our goal was to fill the empty seats and reduce the wait times on our busy shifts, and increase table turns and profits.

And we did find, yes, that the program—the revenue management program—would definitely benefit this unit and several other units in our company. And it has.

Were you surprised by the results of the initiative?

We were surprised, initially, when we heard about the program and started looking to see if it would benefit us. I don't think any of the managers working the store—we tend to have tunnel vision sometimes—and we didn't even realize there was that opportunity to bring in more tables, to have a higher seating capacity in a restaurant that was, what we thought, at its
maximum capacity. And then we were also surprised by sitting down and doing the studies with Sherri Kimes to find that we definitely were not utilizing our seating in our restaurants.

I opened this unit ten years ago—nine, ten years ago—and did not know that we could satisfy all the guests that we have been satisfying, in turning tables quicker and in seating a larger occupancy. And, definitely, when it was implemented, there was a lot of surprises, and that one being that we could do more sales in less time, and, at least in the front of the house, it didn’t feel like we were busy—at all.

**How long did it take before you and your staff were comfortable with the program?**

It took, probably, I would say a good eight weeks before we felt comfortable. We made several changes along the way, and we had to be very flexible, because what we thought we’d go forward with changes every time we’d have a busier shift or a holiday would come into play. We had to retrain our staff—and we do have a long-term staff at this location—to move quicker, to move safer. It’s like taking, I think, a blind person and moving the furniture—they were so used to the way they worked, that they didn’t think about it, and they really had to think about it now. It took about eight weeks, I think.

**Have you completed the process, or is the program ongoing?**

Well, I believe it’s, I will say, fully in place at this time. We are very comfortable now. We are running our unit and not really giving much thought to the way it used to be because it’s become habit now, and it’s just the way we run our shift, and we staff accordingly. We know what the expectations are. We are a mall location, and it is a very busy mall. And, so, we’re just now having a game plan of what we think will happen after all our practice of the last months, and again, we’ll probably have to change mid-stream and just perfect it a little bit more.

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**Transcript: Cactus Café**

Welcome to Cactus Café, an independent, mid-scale restaurant that specializes in Southwestern U.S. cuisine. Located in the suburbs of a large city, Cactus Café prides itself on the freshness of its food, its informal atmosphere, and its signature margaritas. It has been in business since 1998, and has grown in popularity each year that it’s been open.

Cactus Café features a spacious 100-seat main dining room decorated in an understated Mexican-American style that makes business customers as well as casual diners feel equally at home. There is a full bar, where patrons gather to socialize during the restaurant’s daily happy hour or to pass the time while waiting for a table. There’s also a 30-seat outdoor patio that is popular during warm-weather months.
Cactus Café’s menu features a mix of traditional Mexican fare—including fajitas, enchiladas, and tamales—and Southwestern U.S. cuisine such as barbequed ribs, chicken in a seasoned buttermilk coating, and shrimp sautéed in pasilla chilies. All of the food is cooked fresh to order and served with the customer’s choice of warm nachos or steaming tortillas.

Over the past two and a half years, Cactus Café has grown from a specialty restaurant catering to a narrow clientele to a regional destination attracting a broad cross-section of the population. There are signs, in fact, that Cactus Café may have achieved more success than it’s prepared to handle.

There is frequently a line of customers waiting for a table on weekday as well as weekend evenings, and the line on Friday and Saturday nights has begun to spill over into the parking lot. It's becoming more difficult to accommodate last-minute reservation requests, especially during peak weekend dining hours, and walk-up patrons have begun to complain about the long wait, which now averages 45 minutes during peak dining hours and sometimes exceeds one hour. Yet even while people are waiting, there invariably are empty tables in the dining room, and many of the tables that are occupied have empty seats.

In some cases, customers are also complaining that they're waiting too long after they've been seated for a server to appear; and they're waiting too long for their main courses to arrive.

Imagine you're the general manager of Cactus Café and it's your job to figure out how to reduce wait times and serve more customers more efficiently without jeopardizing the overall quality of the experience. How will you do it? The answer is by instituting a program of restaurant revenue management. Let's get started.

**Summary**

- **About the Restaurant**
  Cactus Café is an independent, mid-scale restaurant located in the suburbs of a large city and specializing in Southwestern U.S. cuisine. It has a dining room capacity of 100 tables, a full bar, and an outdoor patio with an additional 30 tables. It prides itself in the freshness of its food, its informal atmosphere, and its signature margaritas.

- **Success Indicators**
  Over the past two and a half years, Cactus Café has grown from a specialty restaurant catering to a narrow clientele to a regional destination attracting a broad cross-section of the population. There is usually a line of customers waiting for tables on Friday and Saturday nights, and frequently during the week. It's becoming increasingly difficult to accommodate last-minute reservation requests, especially for peak weekend dining hours.
The Challenge
Despite the lines of waiting customers, Cactus Café doesn't seem to be operating at full capacity. Even while people are waiting, there are frequently empty tables, and many of the occupied tables have empty seats. Customers have begun to complain about the length of time they're waiting before being seated and about how long it takes after they're seated before a server appears. They're also complaining about how long they're waiting between courses, and, after finishing their meal, the length of time they're waiting before the check appears.

Transcript: The Numbers Behind the Scenes
In this exercise, you examine baseline meal—duration and seat—occupancy data for Cactus Café, in order to determine whether this restaurant is a good candidate for revenue management. Review both sets of data and explore clickable areas to get more information.

In this chart, the service cycle at Cactus Café is broken into easily identifiable steps and time data is given for the intervals between each step. The times presented are averages over many measurements, with the standard deviation (variation) appearing in parentheses. Each interval is defined below.
<table>
<thead>
<tr>
<th>Task</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seat</td>
<td>1:58 (1:54)</td>
</tr>
<tr>
<td>Greet</td>
<td>5:21 (4:00)</td>
</tr>
<tr>
<td>Drinks</td>
<td>5:09 (4:02)</td>
</tr>
<tr>
<td>Order</td>
<td>12:06 (7:34)</td>
</tr>
<tr>
<td>Entree</td>
<td>29:16 (13:48)</td>
</tr>
<tr>
<td>Change returned</td>
<td>8:11 (9:02)</td>
</tr>
<tr>
<td>Departure</td>
<td>4:08 (5:34)</td>
</tr>
<tr>
<td>Bussed</td>
<td>10:42 (13:23)</td>
</tr>
<tr>
<td>Reseated</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62:01 (25:27)</strong></td>
</tr>
</tbody>
</table>
Definitions of intervals:

- **Seat/Greet**: The interval between when customers are seated and their server greets them.
- **Greet/Drinks**: The interval between when the customers are greeted and their drinks are served.
- **Drinks/Order**: The interval between when customers' drinks are delivered and the server takes their meal order.
- **Order/Entrée**: The interval between when the server takes the meal order and the entrée is delivered.
- **Entrée/Change returned**: The interval between when the entrée is delivered and the change is returned.
- **Change returned/Departure**: The interval between when the change is returned and the guests leave.
- **Departure/Table bussed**: The interval between when the guests leave and the table is bussed.
- **Table bussed/Reseated**: The interval between when the table is bussed and the next party is seated.

Note that some intervals have a long average time, and some time—interval measurements have a large standard deviation associated with them. These intervals are of particular interest: long time intervals can often be reduced, and a large standard deviation often can be improved.

Pay particular attention to the intervals at the beginning and end of the meal—these are the intervals that can be manipulated with the most favorable impact on customer satisfaction.

To summarize, the time study—data for Cactus Café shows several large standard deviations, in addition to long time intervals that could be shortened. Needless long service cycles have a negative impact on total revenue as well as customer satisfaction. The data indicates that some action is required.

Next, you'll examine arrivals and occupancy data. Here are the numbers of customers arriving at the restaurant on a typical Friday night. With 100 seats in the restaurant, you might guess that the corresponding seat occupancy would be something like this.
However, customers are arriving in various mixes of one, two, three, four, or more per party. Your tables are for two or four or six, so you fill tables only partially as you seat customers. Depending on the sizes of your tables, you may end up with a few—or many—unused seats, even when your restaurant is "full" (that is, when all the tables have been taken). In reality, seat occupancy may never get above 75%!

<table>
<thead>
<tr>
<th>Arrival Time</th>
<th>Arrivals</th>
<th>Seat Occupancy Ideal</th>
</tr>
</thead>
<tbody>
<tr>
<td>18:00</td>
<td>6</td>
<td>6%</td>
</tr>
<tr>
<td>18:30</td>
<td>42</td>
<td>48%</td>
</tr>
<tr>
<td>19:00</td>
<td>48</td>
<td>90%</td>
</tr>
<tr>
<td>19:30</td>
<td>48</td>
<td>96%</td>
</tr>
<tr>
<td>20:00</td>
<td>36</td>
<td>84%</td>
</tr>
<tr>
<td>20:30</td>
<td>30</td>
<td>66%</td>
</tr>
<tr>
<td>21:00</td>
<td>24</td>
<td>54%</td>
</tr>
<tr>
<td>21:30</td>
<td>10</td>
<td>34%</td>
</tr>
<tr>
<td>22:00</td>
<td>6</td>
<td>16%</td>
</tr>
</tbody>
</table>
Table occupancy, however, can reach 100% swiftly and stay there! With an apparently full restaurant, some parties will choose to stay and wait for a table, and some will leave and go elsewhere. This data indicates that customers are waiting to be seated, but it’s possible that some chose not to wait. Cactus Café, it seems, is a good candidate for revenue management.

<table>
<thead>
<tr>
<th>Arrival Time</th>
<th>Arrivals</th>
<th>Seat Occupancy Real</th>
</tr>
</thead>
<tbody>
<tr>
<td>18:00</td>
<td>6</td>
<td>6%</td>
</tr>
<tr>
<td>18:30</td>
<td>42</td>
<td>48%</td>
</tr>
<tr>
<td>19:00</td>
<td>48</td>
<td>65%</td>
</tr>
<tr>
<td>19:30</td>
<td>48</td>
<td>68%</td>
</tr>
<tr>
<td>20:00</td>
<td>36</td>
<td>73%</td>
</tr>
<tr>
<td>20:30</td>
<td>30</td>
<td>69%</td>
</tr>
<tr>
<td>21:00</td>
<td>24</td>
<td>54%</td>
</tr>
<tr>
<td>21:30</td>
<td>10</td>
<td>34%</td>
</tr>
<tr>
<td>22:00</td>
<td>6</td>
<td>16%</td>
</tr>
</tbody>
</table>
In this exercise, you have determined that Cactus Café is a good candidate for revenue management based on your review of baseline meal—duration and occupancy data. The two data sets indicate that certain aspects of meal duration could be shortened or at least made less variable, and arrivals could be handled more effectively.

In this exercise, you have determined that Cactus Café is a good candidate for revenue management based on your review of baseline meal—duration and occupancy data. The two data sets indicate that certain aspects of meal duration could be shortened or at least made less variable, and arrivals could be handled more effectively.

**Transcript: Managing Hot/Warm/Cold**

There will be hot and cold periods to every business week in the life of a restaurant. For restaurant managers, the challenge is to manage these periods as effectively as possible, getting the most out of hot and cold periods alike.

Because you are interested in implementing revenue management at the Cactus Café, you want to know what strategies can be employed during hot and cold periods to maximize revenue at the restaurant. You know that, in general terms, a hot strategy is designed to increase volume
at a maximum price, increasing throughput of customers and disallowing discounts. A cold strategy is designed to increase the number of customers.

Using RevPASH data, it’s possible to determine hot and cold business periods during the week. To increase restaurant revenue, a manager will select appropriate strategies to manage these periods. You have seen here how to correctly apply certain strategies to maximize revenue during hot and cold periods.

Next you will consider nine strategies that might be applied in the management of hot and cold periods at Cactus Café, or anywhere! Use the RevPASH chart to determine which periods are hot and which are cold. Then select the time slot that is most appropriate for each strategy given. Feedback will be provided.

1. Instruct servers to bring the dessert cart at the end of the meal.

**Sunday 17:00** - Correct! This is called "suggestive selling." Suggestive selling of appetizers and desserts is appropriate during low-RevPASH (cold) times, but is a poor tactic during high-demand (hot) times. Bringing around the dessert cart may increase the average check, but runs the risk of reducing RevPASH during busy times.

2. Use a streamlined menu.

**Thursday 19:00** - Correct! Use a streamlined menu during hot times. The menu items are selected to reduce customer ordering times and to speed up preparation time. A streamlined menu could also focus on items with a high contribution margin.
3. Promote a two-for-one deal.

**Monday 17:00** - Correct! Two-for-one specials provide discounted prices and should be allowed only during cold times. Discounting methods include discount coupons, frequent-dining programs, happy hours, and two-for-one specials.

4. Decline reservations.

**Friday 19:00** - Correct! During hot hours, you may want to decline reservations since problems can arise when customers do not honor their reservation or when they show up late.

5. Schedule a dedicated host.

**Thursday 18:00** - Correct! During high-demand (hot) hours, a dedicated host is necessary and should be visible to arriving customers. The host can greet customers when they enter the restaurant, add those customers to the waiting list, quote an accurate wait time, and otherwise assist with seating. During cold times, the host can perform other duties while keeping aware of arriving customers.

6. Advertise a happy hour.

**Sunday 16:00** - Correct! Happy hours provide discounted prices and should be allowed only during cold times. Discounting methods include discount coupons, frequent-dining programs, happy hours, and two-for-one specials.

7. Promote "special" entrées that provide a high contribution margin and are quick to prepare.

**Any** - Correct! Suggestive selling of desserts or appetizers is not recommended during hot hours, but this kind of suggestive selling (where quickly prepared entrées with high contribution margins are promoted) is fine during hot hours and cold hours alike. Any time!

8. Use a menu with special, higher prices.

**Friday 20:00** - Correct! It is possible to raise menu prices during high-demand times, up to a point. It's also true that lower prices can be provided during cold times to help increase business.

9. It's difficult to know what strategy.
Thursday 22:00 - Correct! It's difficult to know what strategy to use during "warm" hours, since business is neither hot nor cold. It may make more sense operationally to redefine the warm hours as either hot or cold and apply strategies accordingly.

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Transcript: **RevPash**

RevPASH indicates the rate at which revenue is generated. The easiest way to calculate RevPASH is to divide revenue for the desired time period by the number of seat-hours available during that time period. In this calculation, the desired time period could be a day part, a day, or even a month. The greater the time period, however, the greater the number of seat hours available during that period.

\[
RevPASH = \frac{\text{Revenue}}{\text{Seat-Hours Available}}
\]

For example, assume a 100-seat restaurant makes $1,500 on Fridays between 6 and 7 PM. Its RevPASH would be $1,500 divided by 100 seats-hours (100 seats x 1 hour), or $15.

\[
\begin{align*}
\text{RevPASH} &= \frac{1,500}{100} \\
&= \frac{1,500}{100} \\
&= 15
\end{align*}
\]

If that same 100-seat restaurant made $5,000 over a four-hour meal period, its RevPASH would be $5,000 divided by 400 seat-hours (100 seats x 4 hours), or $12.50.
RevPASH is also the product of seat occupancy times average check. If one of these variables changes, RevPASH changes. However, if both variables (seat occupancy and average check) change, RevPASH could remain the same.

For instance, if the average check decreases but seat occupancy increases, RevPASH could remain the same. Conversely, if the average check increases, RevPASH could go unchanged if seat occupancy decreases.

To illustrate this, consider restaurants A, B, C, and D. All four have the same RevPASH ($7.20), but each achieves it in a different manner, according to a different ratio of average check to seat occupancy.
RevPASH is closely related to dining time or, more accurately, the length of the service cycle (the time that elapses between one seating and the next). As the service cycle decreases, the RevPASH increases. Even a one-minute reduction in the service cycle during a high-demand period can lead to an increase in RevPASH of 1.5 to 2.0 percent. How is that possible?

To find out how this works, return to our hypothetical 100-seat restaurant with its four-hour dinner shift. The average service cycle is 60 minutes, meaning the dinner shift allows for four complete seatings. With 100 seats, the restaurant can potentially handle 400 customers per night (four "turns" per night).

<table>
<thead>
<tr>
<th>Meal Duration (mins)</th>
<th>Turns</th>
<th>Revenue</th>
<th>RevPASH</th>
<th>Percentage Increase</th>
<th>Cumulative Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>4.00</td>
<td>$6,000</td>
<td>$15.00</td>
<td>- - -</td>
<td>- - -</td>
</tr>
<tr>
<td>59</td>
<td>4.07</td>
<td>$6,102</td>
<td>$15.25</td>
<td>1.69%</td>
<td>1.69%</td>
</tr>
<tr>
<td>58</td>
<td>4.14</td>
<td>$6,207</td>
<td>$15.52</td>
<td>1.72%</td>
<td>3.45%</td>
</tr>
</tbody>
</table>

If the average check is $15, you can calculate the maximum nightly revenue by multiplying $15 by 400 customers. That’s $6,000.

The restaurant’s potential RevPASH (for 100% seat occupancy) is $15.

Consider how these numbers change if the service cycle can be reduced to 59 minutes. In this case, turns increase to a value you can calculate this way:

240 total minutes divided by 59, or about 4.07 turns.

The number of turns multiplied by the number of seats is 4.07 x 100 seats, or 406.8 customers. That’s 6.8 more customers than were possible with a 60-minute service cycle.

If the average check remains at $15, the potential nightly revenue increases to $6,102 and its potential RevPASH increases to $15.25—an increase of 1.69 percent.

Note that with the increased volume, the check average could even drop by $0.20, and revenue would still increase.

RevPASH indicates the rate at which revenue is generated. It can be calculated as the relationship either between revenue per time period and number of seats available during that time period, or between seat occupancy and average check.
Transcript: *Ask The Expert: Hot Warm Cold!*

What is meant by "hot, warm, and cold" in the context of restaurant management?

It's kind of an easy way of just being able to signify to you and to your staff when you're busy and when you're not. And so if you think about hot times or times when you've got customers waiting, and you're really busy; cold times is when you're very slow and you don't have so many customers, and warm times are kind of in-between. And what's nice about using the hot-warm-cold analogy is that it's very easy for people to understand and you can set up your training accordingly.

Isn't the fact that there are cold hours really beyond my control as a manager?

Well, yes and no. I mean, there's some times where, let's say, mid-afternoon or maybe Tuesday night dinners, where you're traditionally very slow. Well, if you went ahead and set up some promotions, for example, such as birthday parties or office parties or maybe you tried to attract some non-profit groups, you might very well be able to build demand during those periods. So there are some things that you can do with marketing and promotion that can help build demand during otherwise slow periods.

Hot hours are great. Why would I change anything about how I manage those times?

Well, hot hours are great, but if you could operate more efficiently, you might be able to get even more customers through. So if you think about it, again in a very busy period, you've got a lot of customers waiting, and if you could go ahead and get everyone else served more efficiently, you might be able to serve them as well, plus some other people. And in addition to this, is that when you're really busy, customers obviously want to come to your restaurant, and it might be possible to offer some higher prices during that period. And if you could offer higher prices, obviously, and you're able to maintain the same volume, you're going to be able to make more revenue.

Transcript: *Hot/Cold Strategies*

Sometimes a restaurant is busy, and sometimes it's quiet—it's that simple! The busy periods can be referred to as "hot," whereas the quiet periods can be referred to as "cold." For restaurant managers, the challenge is to manage these periods as effectively as possible, using the right strategies to help maximize revenues during hot periods and cold periods.
Here is a set of strategies—hot strategies for hot periods and cold strategies for cold periods—that can be employed to maximize revenue at the restaurant under those conditions.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Cold</th>
<th>Hot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suggestive selling</td>
<td>Suggestive selling can work in both hot and cold hours. Suggestive selling of quickly prepared entrées with high contribution margins may be helpful during high-demand (hot) hours. Suggestive selling of appetizers and desserts is appropriate during low-RevPASH (cold) hours, but is a poor tactic during high-demand (hot) hours when it may actually reduce RevPASH—even though it increases the average check.</td>
<td>Appetizers, entrées, desserts</td>
<td>Quickly prepared entrées with high contribution margins only</td>
</tr>
<tr>
<td>Reservations</td>
<td>Reservations can help restaurants manage demand, but can cause problems when customers do not honor their reservation or when they show up late. During cold hours, take reservations from all party sizes. During hot hours, take no reservations or take only large parties (six or more). To reduce the risk associated with any reservation, reservations can be guaranteed with a credit card, or you can institute a policy by which a reserved table is held for no more than ten minutes.</td>
<td>Accept</td>
<td>Decline</td>
</tr>
<tr>
<td>Host</td>
<td>During high-demand (hot) hours, a dedicated host is necessary and should be visible to customers when they arrive. The host can add those customers to a waiting list, quote an accurate wait time, and otherwise assist with seating. During cold hours, the host can perform other duties while keeping aware of arriving customers.</td>
<td>Multiple duties</td>
<td>Dedicated host</td>
</tr>
<tr>
<td>Menu variety</td>
<td>During hot hours, a streamlined menu can reduce customer ordering times and speed up preparation time (by including mostly quick-preparation items).</td>
<td>Wide</td>
<td>Narrow</td>
</tr>
</tbody>
</table>
Discounted prices should be allowed only during cold hours. Discounting methods include discount coupons, frequent-dining programs, happy hours, and two-for-one specials. Special, higher prices can be used during hot hours.

During cold hours, the menu can feature special promotional meals to help build demand.

During hot hours, staff can preset tables with chips and salsa. During cold hours, chips and salsa can be brought by request or only after the order has been taken.

You have seen a set of strategies that can be employed to maximize restaurant revenue under hot and cold conditions. Put these strategies into action in "Managing Hot/Warm/Cold."