

the basis for successful value pricing, as was demonstrated by Taco Bell who created its very successful 59-cents value menu based on such an analysis (Lewis and Shoemaker, 1997).

References

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Variable costs

A variable cost varies in direct proportion to the level of business activity. Thus, where the level of business increases by 10%, variable costs can be expected to rise by approximately 10%. Examples of variable costs include cost of casual labor, guest supplies, travel agents commission, laundry in a hotel, and beverage cost of sales and the cost of raw material such as food in a restaurant. If variable costs are linear, then the cost per unit is independent of the volume (remains constant) and there are no economies or diseconomies of scale effects. When variable cost per unit is decreasing (e.g., if there are discounts for the purchases of larger quantities of raw material), there are scale advantages, but when variable cost per unit is increasing (e.g., need for more overtime work if the volume increases) there are scale disadvantages.

The balance between fixed and variable costs is open to strategic choice. Variable costs can be turned into fixed costs through automation. Fast food chains normally have comparatively high fixed costs. Purchasing semi-finished dishes may be a means to turn fixed labor costs into variable costs.

References

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Variable costs in foodservice

Total variable costs change based on the number of customers patronizing a foodservice establishment. As the number of customers increases, the total variable costs for that restaurant also increase. Conversely, if the number of customers decreases, the total variable costs decrease. However, over the short term, the variable cost per customer will not change. This means that for each customer who patronizes the establishment, total variable costs will increase by the same amount, on average. Examples of variable costs include food, beverages, and some labor costs, as well as some costs of supplies used in food production and service areas.

In larger operations, variable costs may not be as linearly correlated with guest volume as is the case in smaller restaurants. This is due to rebate programs and other economies of scale that allow larger-volume operators to reduce variable costs increasingly with guest patronage. This has ramifications for pricing strategies and break-even analysis. It is also important in budgeting and places even more importance on the accuracy of related forecasts.

Reference

- Reynolds, D. (2008). *Foodservice Management Fundamentals*. Hoboken, (NJ): Wiley & Sons.

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Vegetarianism

Although diets based on animal-based foods are generally the most valued sort of human

