

Pricing Your Nonprogram Foods

Calculate Costs and Revenue

By Kim Hofmann, RDN, LD

In June 2011, the USDA published an Interim Rule addressing revenue generated from the sale of nonprogram foods. Based on this rule, school food authorities must calculate whether the revenue they receive from selling nonprogram foods covers all the food costs.

According to NFSMI, “Nonprogram foods are defined as foods and beverages sold in a participating school, other than the reimbursable meals, purchased using funds from the non-profit foodservice account.”

Pre-pricing Considerations

When pricing nonprogram food items, it is important to keep in mind that they must be priced to cover all the costs incurred to produce them. Nonprogram food items cannot be subsidized by Federal reimbursement, student payments, or other unassigned nonprofit foodservice revenues.

However, based on its research, the USDA has found that schools, on the whole, are covering only 71 percent of what it costs them to sell nonprogram foods. As a result, food programs have been absorbing the nearly 30 percent shortfall. In these times of serious deficits, that is not a good thing.

Therefore, it is vital that schools begin to price items in ways that assure the total revenue these nonprogram foods generate, is in proportion to the total food costs they produce.

Two Pricing Formulas

Most schools have a habitual formula they use for pricing nonprogram food items. However, to work well, every pricing method should first take several things into account: (1) the demand for the item; (2) the total cost to prepare the item, including all labor and benefit costs; (3) the marketing costs; (4) the customers’ perceptions of value received versus the cost; (5) what the market will bear; (6) the prices nearby districts charge, and; (7) your program’s financial goals.

Here are two industry-standard formulas you could use for pricing nonprogram foods:

1. The “Desired Food Cost Percent Mark-up” Method

The most common method used for pricing schools’ nonprogram food items is the desired food cost percent

mark-up. This simple method, based on food cost, requires three steps:

1. Determine the raw food cost
2. Determine/identify the desired food cost percent
3. Divide food cost by the desired food cost percent mark-up

Example: Pricing an à la carte item

Raw food cost = \$0.55

Desired food cost percent markup = $\$0.55 \div 38 \text{ percent}^*$

Base selling price = \$1.45 (\$1.50 if rounded).

* **NOTE:** Your food cost percent is set by your program, and is the difference between your desired purchased food cost percent, 40 percent in this example, minus USDA Foods value of two percent.

The disadvantage with this method is that other costs, such as labor and benefits, are not considered before determining selling price.

2. The “Overhead Contribution Plus Desired Profit Percentage” Method

A second method for pricing nonprogram food items is called the overhead contribution plus desired profit percentage. This is perhaps a more reliable method, because it includes all nonprogram food costs, including labor and benefit costs. Therefore it provides a more dependable selling price. In many schools, labor cost percent, including benefits, is higher than food cost percent.

The formula for this method is:

Selling Price = Raw Food Costs \div 100 percent minus (Total of Nonprogram Food Cost Percentages + Profit Percentage) = Percent Allowed for Food Costs

Example: Pricing an à la carte item

Raw food cost = \$0.55

Selling Price = $\$0.55 \div 0.30 = \1.83^*

* **NOTE:** Assuming a 65 percent nonprogram food cost and a five percent profit, the selling price would be \$1.83, or rounded to \$1.85. To determine the percent allowed for food cost, take 100 percent, minus nonprogram food cost, plus profit.

Determining your preferred pricing method is step one. Step two is determining your customer’s perceived value of each item. This needs to be weighed when doing your pricing.

1. Martin, J. and Oakley, C., *Managing Child Nutrition Programs-Leadership for Excellence*, 2nd Edition.
2. National Food Service Management Institute, *Financial Analysis and Program Evaluation*.
3. National Food Service Management Institute, *Financial Management: A Course for School Nutrition Directors*, 2nd Edition.
4. Pannell-Martin, D. and Boettger, J., *School Food and Nutrition Service Management for the 21st Century*, 6th Edition.