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ENTERPRISE

Voluntary Pricing Lets Small Eateries Give -- and Get Back

Generous Payments Of Some Patrons Offset Meals for the Needy

By **RAYMUND FLANDEZ**
August 28, 2007; Page B8

Terra Bite Lounge has no prices listed on its wall menu. The Kirkland, Wash., coffee shop's customers pay what and whenever they like and leave the money in a locked box on the counter.

Ervin Peretz, one of the cafe's founders, figures that generous patrons cover the tabs of those who pay less than what's fair. And the business saves money by not having to pay for workers or services to handle financial transactions.

FOOD FOR THOUGHT

The Situation: A handful of eateries are scrapping set prices and allowing customers to pay what they think is fair -- or can afford -- for their meals.

The Potential: It can be both a profitable and charitable approach for businesses as many customers appreciate the honor system and pay generously, offsetting those who don't. And it can help firms stand out among rivals.

The Pitfalls: Customers can feel uncomfortable about paying too little or too much.

The approach has allowed Terra Bite to *both* make money and help out those who can't always afford a good meal. "We're not nearly as selfless as a soup kitchen," says the 38-year-old Mr. Peretz, who also works as a lead software-development

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engineer for Google Inc. "We're able to operate without charity."

Profits and Charity

Such a business model contradicts the basic concept of running a business: the exchange of goods for a set amount of money. But a crop of eateries and shops in Utah, Colorado, Washington and other places are finding that doing away with set prices and making payment voluntary can be both a profitable and charitable way of doing business. And the marketing buzz such a scheme generates can help a business stand out from the pack.

While such a social and business experiment can be financially risky, it can draw the kind of clientele that understands the concept and, therefore, contributes appropriately. And it's a model that can work beyond the food industry.

"You can encourage people to donate as much as they want," says Sandeep Krishnamurthy, associate professor of e-commerce and marketing at the University of Washington at Bothell campus. "And if you do that to the right audience in the right way ... what ends up happening is that you save money [by not having to invest in a large, paid staff or credit-card services] and people feel good that you're trusting them so much. And I think you're going to end up seeing people giving good sums of money."

Tina Cooper, a 39-year-old real-estate agent, says she pays above what she would normally pay for her morning double soy latte at Terra Bite -- at least \$4. "I feel like some people might not pay, so I pay a little bit more," she says. "I want to be more than fair."

Terra Bite averages about 200 customers a day, with an



Doug Mayor

Denise Cerreta and Joel Orly working at One

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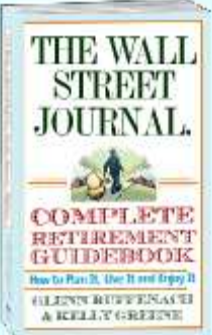
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average \$2 to \$3 payment per person. Mr. Peretz says the shop **World Cafe in Salt Lake City.** makes substantially less per food item than other establishments, but Terra Bite has been breaking even operationally since it opened in November. It also keeps costs low by having just one paid barista per shift.

Terra Bite's employee handbook even stresses the point of not suggesting a price to customers. What's OK to say: "We don't have set prices, you can pay what you feel is right." Banned words: "Free, tips, donation and contribution." A barista tip jar isn't even allowed.

"We depend on public honesty," Mr. Peretz says, "but we're also a demonstration of that high level of public honesty."

Give and Take

But can the good-karma model be a smart long-term business strategy?

It's worked for One World Cafe in Salt Lake City, which has been serving an ever-changing menu of organic fare for the past four years. The business has been profitable since 2005 and is on track to bring in revenue of \$350,000 this year, with about a 5% profit margin. Customer payments averages about \$10.

Denise Cerreta, a former acupuncturist and founder of the cafe, says the business helps in her mission to end hunger. But the cafe is a "hand-up, not a hand out," she says, meaning that people down in their luck may not be able to pay now, but they'll eventually pay later.

In resolving the business's tax obligations, 8% had been taken off the total amount collected each day. But the cafe recently received a nonprofit designation from the Internal Revenue Service and a foundation now serves to manage the cafe and promote its pay-what-you-think system around the country. Ms. Cerreta plans to move to New York in the fall to open up a similar cafe concept.

Brad and Libby Birky, who have day jobs as a computer technician and teacher, respectively, have already tapped Ms. Cerreta's experience. The couple, who were regular

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Ervin Peretz

Terra Bite Lounge in Kirkland, Wash. has no prices listed on its menu. Customers pay what they think is fair for their cup of coffee or sandwich in a locked box on the counter.

off or go get something for nothing."

Change of Opinion

But the pay-what-you-think model doesn't always pay off.

The Six 89 restaurant in Carbondale, Colo., ran a "Pay What You Think" event at the end of October for four years, where the regular contemporary American menu -- including pan-roasted angus filet with Madeira reduction -- was stripped of prices.

Mark Fischer, the restaurant's owner and chef says customers embraced the idea; check averages were identical to priced-menu dinners (about \$40 per person with wine). But last year, he says, customers' view of the event completely changed. Patrons, who didn't want to underpay or afraid to overpay, were dumbfounded. And servers were uncomfortable.

"I felt bad for everybody involved because the energy was kind of odd," Mr. Fischer says. The restaurant has shelved this year's event.

Write to Raymund Flandez at raymund.flandez@wsj.com

soup-kitchen volunteers, say they didn't quite know how to pursue their dream of providing a healthier option than soup-kitchen fare to those who couldn't afford a good meal. Then they stumbled upon oneworldeverybodyeats.org, the site of Ms. Cerreta's foundation. Ms. Cerreta moved to Denver for a month to advise the Birkys on starting SAME (So All May Eat) Cafe, a not-for-profit eatery the couple opened in October 2006.

SAME is a volunteer-run establishment, with a donation box and a rotating menu of soup, salad and pizza -- and no set prices. To give some guidance to diners, however, small posted signs alert consumers what a fair price for a full meal would be (\$5 to \$15). Mr. Birky says about 50 customers come in each day, dropping about \$7 to \$8 per visit. The business is doing a little better than breaking even, he says.

"It's been pretty gratifying to prove doubters that we're right," he says, "and that people aren't always out to rip you

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