



Effective Drink Pricing Strategies

by Ian Foster

Our panel of experts gives us their thoughts on how an operator can best price their drink menu in order to maximize profits.

Booz Nooz (BN): What is the biggest mistake that you see operators make when they are pricing their drink menus?

Weinberg: Many operators fail to make a significant additional marginal profit on "upsells". Many bars price all drinks just 25¢ or 50¢ above house drinks, and price top drinks a similar margin over call drinks (e.g. \$3.50 well, \$3.75 call, \$4.25 top, etc). As a result, they fail to improve gross profits by upselling. In some cases, they actually lose money by upselling – especially on beer bottles.

Other operators go to the opposite extreme, seeking to markup each drink to maintain the same pour cost percentage. The result is usually vastly overpriced top shelf drinks and wines.

Plotkin: A big mistake is not researching their market. An operator really needs to scope out his or her direct competitors. Once you know what competitors are charging and what they are promoting, you are in better shape to decide on a pricing strategy.

Most of the time, an operator has two choices. You can meet your competitors prices and hope that your bar offers more in the way of amenities that will attract clientele. Or, you can try to beat your competitor, either on pricing or by offering bigger portions. If you try to beat your competitor's pricing, you need to be sure that you can make up the profits on increased sales and you need to be sure that you don't start a destructive price war.

BN: How much of a factor do you think drink prices are when consumers are deciding where to go?

Plotkin: There are basically three categories of consumers. There are **price-conscious**, **value-conscious** and **brand-conscious** customers. The latter are not really all that concerned about price. These are the people drinking the single-malt scotches and anejo tequilas. They are not all that concerned about an extra 50¢ here or there (as long as you don't try to gouge them).

For price-conscious and value-conscious consumers, however, pricing is a huge factor in their decision on where to go.

Goldstein: It is a factor but not as much as some operators

might think. For example, a fine dining establishment can certainly charge more for, say, a call scotch than can a sports bar right next door. It is just a matter of perception by the consumer.

BN: I have heard some operators recommend raising Margaritas in the winter and hot drinks in the summer. Do you have any suggestions on when to change prices?

Plotkin: This is an industry legend. The thinking behind it - to do it "when no one is looking" - is ridiculous. I would suggest the best idea is to raise all your prices at the same time. Just like the best way to take off a band-aid is in one motion – don't prolong the pain.

BN: Some restaurants offer a fixed dollar mark-up instead of a percentage. For example, some operators are marking up all their wines by \$20, regardless of their cost. For example, they sell a \$20 bottle of wine for \$40 and a \$100 bottle of Dom Perignon for \$120. What are your thoughts on this strategy?

Rubenstein: This strategy tends to overprice cheap wine. Most guests look at the pricing of the house wine first. If it appears overpriced, your guests will conclude that all your prices are too high. Only a very few, knowledgeable guests will appreciate the high-end values.

Wine is a funny item to price. We find that the more popular labels tend to sell best regardless of price because most customers are familiar with only a few brands of wine. To really move wine and educate your customers on different labels we find it more effective to overprice these familiar brands that move well anyway and under-price those that are less familiar to your guests.

BN: Since the customers who order more expensive drinks (ie: cognacs) are the least-price sensitive, shouldn't you have a higher mark-up on these drinks? And, since the most price-sensitive customers are beer drinkers, shouldn't a bar owner have a lower mark-up on beer to attract those customers?

Plotkin: To some extent this is true. One of my favorite sayings is "never leave money on the table." The brand-conscious, well-heeled individual is unconcerned whether the price on a Glenmorangie Sherry-Cask scotch is \$6 or \$7. As long as it is roughly in line with their expectations, they don't worry about it. The operator should price top-shelf drinks as high as they think is fair and then back off the price a little bit – say 25¢ or 50¢

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Goldstein: As for discounting for the beer drinker, I think it would be more effective, and more profitable overall, if the operator bought him a drink now and then instead of reducing the price for all beer drinkers. Most customers are thrilled and their loyalty increases tenfold if they are “comped” a drink, whereas pricing is only the deciding factor for relatively few patrons.

Weinberg: This is not always a good strategy. If beer constitutes 80% of your sales, you'd be crazy to price it as a loss leader. And if you have a fine dining restaurant, you risk losing a \$200 per dinner foursome by gouging on Grand Marnier prices.

BN: I also see where some wineries are trying to encourage operators to sell private-label wines. The idea is that Joe's Restaurant would sell Joe's Chardonnay and that this way the operator can sell a wine that the consumer cannot buy in the supermarket (and cannot calculate the mark-up either).

Weinberg: This is not necessarily a good idea. There are thousands of good wines out there that your customers won't find in the supermarket. Operator should put in the time to find the best deals. For instance, some of my clients buy a White Cloud (New Zealand) house Chardonnay that is nearly as good as Kendall Jackson, but costs \$1.25 per bottle. I actually became a sales rep for one New York importer of fine French wines, in order to make available to my clients his superb Languedoc Merlot at \$40 a case.

Plotkin: I agree, savvy consumers know exactly what Kendall Jackson sells for in the supermarket. Going with a private label, however, means that the wine loses a great deal of the “cachet” of a real winery name. Joe's Chardonnay doesn't have the appeal of Whispering Peaks Winery. And yet your customers cannot find Whispering Peaks in the supermarket because that winery sells exclusively to restaurants to avoid this very problem.

I advise my clients to pepper their wine list with great values and charge a little extra for the well-known brands. Then they can coach their servers to tell customers in a conspiratorial voice, “that is a fine wine, but this one I think it is the best deal on the menu.” Now you have made the customer think he has been let in on an insider's secret and he has been given a better valued wine. This is the way to win those regular customers that we all want.

BN: What about corkage fees?

Plotkin: Corkage fees are a really good idea. The fact is that a real wine connoisseur may want to bring in a special bottle now and again. You need to make some money for serving him the wine, washing the glasses and, of course, the lost opportunity cost. I would suggest \$5 - \$8 per bottle.

BN: If a bar or restaurant owner has a “signature drink” should they price it a little higher to maximize their profits or a little lower to bring in new customers?

Rubenstein: Signature drinks are an excellent way to maximize profits and should be priced this way. Pick a unique, low cost drink that you can sell at a high mark-up with the proper merchandising. It will create excitement about the establishment and yet the guest will not feel like he is being overcharged.

Plotkin: This is where you really go for the profits. The customer cannot compare it to anywhere else. The key is to make sure that the drink really is unique with outstanding flavor and presentation.

BN: What about Happy Hour pricing? Is it effective? Is an operator better to offer a ½ price Happy Hour, a 2 for 1, free appetizers, \$2 U-Call-It or some other Happy Hour strategy?

Rubenstein: Happy hour is an excellent way to bring guests into an establishment during a period of time that normally loses money. By enticing a guest in, you are able to meet needs such as payroll and electricity during these hours. You have these costs anyway during slow periods - even a higher pour cost is better than no dollars brought in.

Goldstein: I recommend the ½ price and/or food promotion for the following reasons:

- The perception on ½ price is the same as a 2 for 1 yet you are apt to make more profits with a ½ price. This is because if you offer a 2 for 1, a customer ordering towards the end of Happy Hour will end up with two drinks in front of them. Compare this to a ½ price Happy Hour where a customer ordering at the end of the hour is more likely to stick around to consume another full-priced drink
- In the event of a third-party lawsuit, a 2 for 1 promotion would be seen as contributing to the intoxication of a customer. The danger, therefore, is that the bar owner may be found liable for part of the damages.
- When you promote your food, it gives your customers a chance to taste your menu. Hopefully, this will convince them to come back in for a meal in the future.

Plotkin: I always encourage my clients to offer a *Hungry Hour* rather than Happy Hour. It is generally better to discount food than alcohol. If you must discount alcohol, I would suggest a 2 for 1 – but only on well liquors and draft.

BN: Many operators remove the tax from drinks sold at the bar (as opposed to table service). The idea is that customers seated at the bar want to see a round number on their check (ie: \$4 for a cocktail rather than \$4.33). Obviously, this means that the operator makes less money on drinks sold at the bar.

Plotkin: Operational factors make this a necessity. You don't want your bartenders, or your customers, fumbling around with change – especially when you are busy.

Weinberg: Since most of you competitors do not tax at the bar, a bar that does will draw complaints and drive off customers. By the same token, since all food must be taxed, most customers don't even notice the fact that the drinks on the dining check are also being taxed.

The policy also encourages customers to arrive early and drink at the bar, or leave the dining table and return to the bar for an after dinner drink, thus enabling staff to turn the tables.

Rubenstein: A drink price should be rounded up to include taxes so that they are built into the price (in 25 cents increments). The operator does not have to make less money on a bar tab this way - it's just an accounting function after the fact.

Goldstein: I am not so sure. It certainly may help staff make change and complete transactions faster but, on the other hand, if I am charged \$4.33, I will probably just leave a \$5 bill and let the bartender keep the change.



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WINE BY THE GLASS: A MISSED OPPORTUNITY

By Ian Foster

Most operators follow the tired industry practice of offering a very limited selection of wines by the glass. Generally, most restaurants offer five or six choices of wine. The choices generally include the house wine and a low-mid priced alternative. And rarely do the choices ever vary from the usual chardonnays, white zins, merlots, and cabs.

I believe that restaurateurs are missing a fantastic opportunity to offer an expanded wine by the glass program that will make their customers visit more enjoyable **and** increase profits.

In the *Hospitality Industry Report* (Vol. 5, Jan 2000), William Orilio makes this very point on the front page. Orilio writes that "a large number of guests won't buy a bottle of wine when all they want is one glass. As a result of this, the sales opportunity is ultimately lost."

In today's world, consumers are much more knowledgeable about wine than a few years ago. Many new wine varietals, such as zinfandel, sangiovese, voignier, and California meritages are seeing a steady growth in popularity. Restaurant patrons often remark that they would like to try some of these unique wines but are reluctant to commit to a whole bottle.

In part, the familiar labels sell so well because consumers know what they can expect and are fearful of spending \$40 - \$60 on a bottle of wine that they haven't tried before. Here is where you can offer a spectacular cab or an Italian barolo at \$15 per glass. This allows your customers to try something truly special without a big risk. Your delighted customer will appreciate it and you will be rewarded with higher guest checks.

I have seen several clients apprehensively add an expensive wine to their wine by the glass menu. In every case, they have been pleasantly surprised by its popularity.

Restaurant-Label only wines

In his article, Orilio notes that "one of the things customers are looking for is a wine that they can't get at a grocery store at a discounted price." He suggests offering "restaurant-label only wines. These are wines that you can't purchase at a grocery store or a liquor store." They give "restaurateur every opportunity to 'WOW' their customers with what looks like an expensive wine list by the glass, but really isn't."

You need to make sure that your staff is well-trained to promote the great value of your expanded wine-by-the-glass program. Once a customer has tried an unfamiliar wine, Orilio says, they might "realize they can't get this wine anywhere else and they very well may opt to have a second glass thus increasing the average per-person check. And in most cases, it's that second glass of restaurant-label wine that makes the memorable experience for the guest...If they don't see it on other wine lists, then they are going to return to your restaurant - possibly just because of the wine itself."

William Orilio publishes The Hospitality Industry Report. His company Grantham, Orilio & Associates, offers a mystery spotting service and specializes in consulting to the hospitality industry. Call 1-800-711-7776



Are your drinks priced correctly?

- Many operators are losing profits because of poor pricing strategies

Starting on page one, Ian Foster interviewed several industry experts on such questions as how to price well-drinks, what to do about corkage fees, when to raise prices, whether they recommended carrying private label wines and more.

We talked to **Robert Plotkin**, one of the hospitality industry's top consultants. Mr. Plotkin is the publisher of the forthcoming 2nd Edition his popular "*Reducing Bar Costs*." The new edition is entitled "*Successful Bar Management: Proven Strategies for the on-premise operator*." Mr. Plotkin also publishes *American Mixologist* newsletter for bar and restaurant owners. He can be reached at www.barmedia.com or **1-800-421-7179**.

We also talked to **Larry Goldstein**, BEVINCO auditor in Colorado (**303-357-7030**), **Mark and Lori Rubenstein**, BEVINCO Nashville (**1-888-553-8316**), and **Marc Weinberg**, who oversees BEVINCO's New Jersey operations (**973- 691-1902**).

For more - see articles on pages **1 & 3**



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