Wine Pricing
What's the Percentage in Percentages?

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Many organizations price bottled wine to meet specific cost percentage objectives. While it might be the easiest way to meet budget objectives, there are a number of problems with this approach. It used to be normal to double or triple the retail price of wine for restaurant menus. But with the recent rise in wine popularity, today's more sophisticated guests know what these wines cost in the stores and are less willing to pay high prices. While they may buy the wine at a 20 to 30 percent markup, they would be less likely to buy it at a 100 to 200 percent markup.

Percentages ignore the contribution margins, which is calculated by subtracting the menu item's cost from its selling price (that's the margin), and then multiplying by the number of that item sold (that's the contribution). Consider that bottle A sells for $25 and costs $10 (a 40 percent cost). The margin would be $15. Compare that with bottle B that sells for $40 and costs $20 (a 50 percent cost). That margin would be $20.

Beverage managers might prefer to run a 40 percent cost over a 50 percent cost, but the bank refuses to accept percentages on deposit slips. Assuming you sold 100 bottles of each, you would take $2,000 to the bank selling wine B and only $1,500 selling wine A.

The other important issue is determining the effect of pricing on number of units sold and the residual effect on other sales. Lower prices generally lead to higher unit volumes. Studies have also shown that people who order wine with meals generally purchase desserts or more expensive menu items as well. It follows then, that if you priced bottle A at $18 (instead of $25), the result could be an increase in sales that would more than offset the lower margin.

The real trick to effective wine pricing is to set margins for each bottle that will encourage guests to buy bottled wine as opposed to lower margin single glasses or none at all. While running an 80 percent wine cost might sound bad, depositing more money than you would with a 30 percent wine cost would still be preferable.

Too often, managers are evaluated based on the cost percentages they run as opposed to the profits they generate in dollars. Profit dollars generated by the department are a much better indicator of a manager's ability than a focus on percentages. In addition, full-featured F&B systems that can identify theft and other variances specifically by item are far more indicative of performance than percentages can be. The combination of control systems and margin based, competitive menu structures will result in profitable, objectively managed operations.

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK Food and Beverage Management System. He can be reached at bills@foodtrak.com.