

## A “Case” of Wine

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Promoting wine in an Irish Pub, was that like featuring steak at Burger King? Jim Foster, Jr. (Doc) and his father Jim Foster, Sr. (Coach) opened the Selwyn Pub in June 1990. They converted an old house in the upscale Myers Park neighborhood of Charlotte, North Carolina with the intention of establishing a traditional neighborhood Pub with an Irish theme. While very successful for the past 20 years, market demands had already caused them to make two significant changes to their business model. Each time eschewing conventional wisdom in favor of innovation, they knew that local customer demographics and national beverage preferences were changing. Wine was becoming much more popular. As a traditional Pub did they need to promote wine on their menu? Would wine specials help bring in more customers during the early week when business was slow? If they decided to promote wine, how should they price it, based upon traditional practices or using their customer contribution basis? The two always believed a quote from Ralph Waldo Emerson, “*A foolish consistency is the hobgoblin of little minds...*” What should he do?

### Background

The neighborhood where the Pub was situated was known for its wide tree lined streets and large expensive homes. As one might have expected, most of the homeowners were over 40 years of age. The initial concept for the Pub was to feature upscale items including filet mignon salads and sandwiches which were designed to appeal to the anticipated upscale customer base. The inside of the bar was decorated with mahogany stained wood, designer tablecloths and curtains. To take advantage of the beautiful weather, they decided to feature outside dining. The outside patio featured expensive wrought iron furniture and umbrellas. The food was served on fine restaurant quality china. As they prepared for opening, Doc and Coach were confident that they had crafted the perfect, sleepy little upscale Pub that they had envisioned for Myers Park.

It had taken several months to complete the up fit and the construction of the patio. Bordering the street, it was in plain view of the many people who passed by every day. At the time, outdoor dining was not a part of the Charlotte restaurant scene. In fact, the concept was so new for the area that the first health inspector almost did not allow food service on the patio. Apparently, he had never had to apply the restaurant food safety rules to an outdoor environment and actually expressed concern that a bird flying overhead might “deposit” an unhealthy substance into someone’s meal. He finally agreed to allow food service as long as each table had its own umbrella in order to protect the food from “falling objects.” As Doc and Coach worked with the

health inspector to protect customers' filet mignon salads from any unfortunate "bird related" incidents, they could never have anticipated what would happen next. To their surprise, nobody came in for a filet mignon salad. Instead, the entire place immediately swarmed with customers under the age of 30. These unexpected guests wanted cold, longneck beer (in buckets of 6) and food out of the fryer. Wings, jalapeno poppers, potato skins, mozzarella sticks and finally pizza were the food of choice. They didn't care about the mahogany bar, the designer tablecloths, the wrought iron furniture or even the fine quality china. Within the first month, the Pub had sold more Miller Lite than any other venue in Mecklenburg County except the Charlotte Coliseum and the airport. The plan to open a sleepy little upscale Pub in the Myers Park neighborhood had given way to new priorities, namely to keep the beer cold and the fryer on until 2 am 365 days a year. The new plan was very successful. The wrought iron furniture was eventually replaced with plastic; the tablecloths were gone in a year and the china was shelved in favor of little green baskets. Throughout this time, Doc's policy was never to promote alcohol on the basis of price. He believed that it promoted unsafe drinking and created an atmosphere which was not in keeping with the neighborhood.

Beginning in the late 1990s and early 2000s two significant changes occurred in the Myers Park area. First, the demographics of the Myers Park residents began to change. Housing prices began to increase and more affluent families began to purchase and renovate the older homes in the area. This changing demographic led to younger, more highly educated and affluent couples moving into the homes. This newer group of residents was still interested in a local place to hang out with their friends, but their tastes began to move toward a more refined venue.

Second, Monford Drive, located in a commercial area adjacent to Myers Park was the home to numerous Asian restaurants, diners, and sandwich shops. Starting around the year 2002, most of these restaurants were converted into bars with large outdoor patios similar to the Pub. In order to attract patrons, these bars began using steep price promotions on beer, corn hole games, music, and dancing. Located in a commercial area, the music was loud and the bars often brought in local bands on weekends. The effect on the Selwyn Pub customer base was gradual but significant.

The business plan in the 1990s focused on attracting the next crop of young college graduates while mournfully waving goodbye to those who turned 30 and subsequently found the atmosphere of the Pub "too young." Doc wondered if he should fight for the customers who had brought the Pub such success. Or did the changing demographics of Myers Park coupled with the increased competition from Monford Drive bars necessitate making change? Running the numbers revealed a stark reality. Since the younger crowd was so price sensitive, the only way to compete was to dramatically lower prices and other amenities. But that made no sense in the increasingly upscale neighborhood of Myers Park. Doc went back to the drawing board. Perhaps he should change his philosophy of catering to the younger than 30 crowd and try to attract those that were now aging out of the Montford bars. By maintaining price levels, the Pub ceased to be an attractive option for the next class of college graduates. As a result, Jim decided to remodel the Pub with the replacement of the plastic patio furniture in favor of Frontgate sofas. They added a tuna wrap, Boars Head deli sandwiches and an expensive craft beer selection. A small section of name brand wines was added to supplement the house wines. Now, McCallan 25 year old scotch and Don Julio 1942 tequila were among the many upscale spirit offerings. As

a result, the age demographic in the Pub drifted up while the revenues continued to be strong. The new plan was working.

Over the next ten years the overall effect of the gradual shifting in demographics had been dramatic. In fact, sales had more than doubled and most customers were between the ages of 30 and 45. The younger customers tended to be graduates of the Montford Drive “fraternity party” scene who had looked around and determined that it was time to move on.

By 2012 the market place appeared to have changed again. The Pub had successfully migrated its customer base to an older demographic and profits were better than ever. However, Pub customers were now being courted by steak houses and upscale restaurants who wanted to supplement their “high end dinner sales” with drink promotions, typically half price bottles of wine on Monday, Tuesday and Wednesday. These half-price bottle of wine promotions had become a full scale war in south Charlotte. Doc saw business during the early week begin to decline. He wondered if it was time to change his plan again and start emphasizing bottles of wine and begin competing on price like so many of his competitors.

### **Pub Sales and Pricing Philosophy**

For the past several years Pub sales had been strong and constantly growing. During a typical week, the Pub was at or near capacity on Thursday through Sunday. As with most bars and restaurants in Charlotte, the Pub was well below capacity on Monday, Tuesday, and Wednesday. Most competitors offered deep discounts on beer and liquor but the Pub had shied away from the deep discount philosophy in an attempt to maintain its hard fought mature demographic and remain true to Doc’s belief about unsafe drinking.

Early on, Doc had embraced a nontraditional pricing philosophy. While most bars and restaurants used a cost plus approach to pricing, the Pub followed a margin per customer based pricing approach. The approach was based upon trying make from \$10 to \$15 on alcohol per customer. Since beers, wines, and mixed drinks were typically consumed in different quantities, pricing reflected the both the cost of the product and average amount consumed. Doc had always marveled at how many competitors could be so wedded to strict cost percentages and mark up formulas. If you asked the typical bar or restaurant owner which was better – a 33% return or a 77% return, most would immediately choose the latter. Doc had learned through experience that the answer to most questions was, “it depends.” For example, if the domestic beer selling for \$3.25 yielded a margin of \$2.50, the return on sales is 77%. However, if a glass of McCallan Scotch cost the Pub \$15 and they sold it for \$20, the \$5 return on cost was only 33%. Although most things “depend” Doc was fairly certain that he would rather have \$5 in his pocket than \$2.50. Even if the average scotch drinker had only two drinks, and the average beer drinker had three, the margin from the scotch was still \$2.50 more than the beer. The problem was that on Monday, Tuesday and Wednesday the Pub was well below capacity there were not enough customers generating the average of \$10 to \$15 margin. Doc wondered what could be done to increase customer traffic on Monday, Tuesday, and Wednesday.

Doc had read a recent Bureau of Labor Statistics analysis of consumer alcohol spending in stores that revealed that beer to wine sales were 3.2-1 in 1982 and 1.2-1 in 2012 (Vo, 2014). Clearly,

consumer spending reflected a stronger demand for wine. However, during the years 2012 and 2013 beer to wine sales at the Selwyn Pub remained at a stagnant 7-1. Doc wondered why the wine sales at the Pub lagged the growing national demand for wine. Were the Pub patrons merely conditioned to think of the Pub as the place to enjoy a beer? Or were they not being offered the right wines at the right price? Despite the seemingly perfect combination of beautiful weather and soft seating under a magnificent oak, customers did not seem to consider the Pub as a place to share a bottle of wine. The feeling that something seemed to be missing, was confirmed when Doc noticed a group of regulars filtering in much later than usual on a Tuesday night. Some of them actually looked a little embarrassed until one close friend confided that they had all been down the street at an upscale restaurant enjoying the half price bottle of wine special. The customer went on to say that they went there for the wine but came back to the Pub because they preferred the atmosphere and wanted to see their friends. Doc was now convinced that he needed to think through wine offerings at the Pub. Was wine the product that would encourage more customers through the door and increase the total margin? If so, he needed to discover what wines were in demand and at what price points were attractive. Wine had always been an afterthought, available if ordered but not featured. Doc believed that flexibility was the key to success. When the world changed, he should assess the alternatives and make a new plan. Was this another inflection point? Was wine the product that would increase patronage and profits? Was there a way to sell not only wine by the glass but by the bottle as his competitors seemed to be able to do successfully.

### **The Wine Industry**

The 21<sup>st</sup> amendment of the US Constitution repealed prohibition and granted states the authority to regulate alcohol sales. As a result, each state developed their own unique system to control the distribution and consumption of alcohol. In North Carolina, wine was distributed in a 3 tier system. The winery sold the wine to a distributor and then the distributor sold the wine to a retailer. The retailer was required to have a license to then resell to the Public. An on premise license allowed a retailer to sell wine that was consumed at the point of sale. An off-premise license allowed a customer to purchase a bottle of wine to be consumed at home or in any place where Public consumption was permitted. Selwyn Pub had both an on premise and off-premise license to sell wine. Although there were some exceptions, wine was typically priced in the following manner. For example a winery would sell a bottle of wine to a North Carolina distributor for \$8.00. The wine distributor typically marked the wine up between 25-30 percent. So, the price to the restaurant or bar was now about \$10. Restaurant pricing to the customer usually followed the industry model. Under this model, a glass of wine was priced the same as the cost of a bottle. Therefore, if purchased by the glass a bottle that cost the restaurant \$10.00 was sold for \$40.00 (\$10 per glass times 4 glasses per bottle or \$40.00 per bottle and \$30 margin per bottle). Portion control ensured that a bottle yielded four glasses. In fact, many restaurants served wine in little cruets that were then poured into large glasses at the table to demonstrate to the customer that the little bit of wine swirling in the bottom of their large glass was indeed a full portion. The conventional way to price a bottle of wine in a restaurant was to multiply the price of a glass by four and then subtract \$2 as the bottle discount. The margin per glass on a bottle of wine with a cost of \$10 would be \$7.50 per glass (\$10 price per glass-(\$10 per bottle/4 glasses per bottle)) and \$28 per bottle (\$7.50 per glass times 4 glasses) -(\$2 bottle discount). See Table 1.

Table 1: Restaurant Wine Pricing

Cost per Bottle	Price per Glass	Glasses per Bottle	Price		Margin	
			Bottle by Glass	Bottle	Per Glass	Per Bottle
\$10.00	\$10.00	4	\$ 40.00	\$38.00	\$7.50	\$28.00
\$20.00	\$20.00	4	\$ 80.00	\$78.00	\$15.00	\$58.00

In the case of the half price bottle of wine, the numbers looked like the following; a bottle that cost \$10 would have had a bottle price of \$38 ( $10 \times 4 - 2$ ), the price would be reduced to \$19 ( $38/2$ ).

### Proposed Pub Pricing Model

Current Pub wine pricing by the glass differed from conventional pricing. The Pub did not adhere to the four times markup formula. The Pub maintained a customer margin based approach. Since the average customer's wine consumption was two glasses per visit, wine prices needed to be about \$8.50 per glass on a wine costing \$10.00 per bottle to equal the targeted \$10.00 to \$15.00 customer margin. The net result was that many wines that were sold by the glass in competing restaurants for \$10.00 were priced at \$8.00 to \$9.00 per glass at the Selwyn Pub less than competitors but not significantly. Bottle pricing used a four times glass price (not bottle cost) minus \$2.00, which maintained the margin per customer objective. See Table 2 for a spread sheet on Pub pricing. However, despite the somewhat more attractive pricing, bottle sales at the Pub were insignificant. While at lower bottle cost levels the difference in price between the Pub and local restaurants would not be substantial, for better wines at higher cost levels the price difference between the Pub and local restaurants would be significant. Since the Pub based its bottle pricing on four times the glass price rather than the bottle price, a bottle of good wine (\$20 cost to the Pub) would be \$48.00 while at a local restaurant it would be \$78.00 or 62% more than the Pub.

Table 2: Proposed Pub Bottle Wine Pricing

Cost per Bottle	Price per Glass	Glasses per Bottle	Price		Margin	
			Bottle by Glass	Bottle	Per Glass	Per Bottle
\$10.00	\$ 8.50	4	\$ 34.00	\$32.00	\$6.00	\$22.00
\$20.00	\$12.50	4	\$ 50.00	\$48.00	\$7.50	\$28.00

### Decision Time

As Doc reflected on the new information that he had gathered about national wine sales, the local wine market, and the role of half price wine bottle specials he wondered if it was time to take on the restaurants head on. If he decided to take them on, was the half price special the way to do it, and if so, was his own pricing scheme the right method.

## **References**

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