

Small winery-restaurant relationship building: challenges and opportunities

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Abstract:

Purpose Wine is an important profit center for restaurants. The purpose of this paper is to address some of the challenges and opportunities at the nexus of wine and hospitality, with an eye on relationship building between smaller wineries and dining establishments.

Design/methodology/approach The paper is essay style with acknowledgments made to extant literature, as well as US industry-based intelligence.

Findings Primary challenges facing small wineries trying to enter the restaurant market revolve around constraints imposed by the traditional distribution system mindset, as well as pricing issues affecting procurement and markup of wine for restaurant use, limited abilities to provide sufficient inventory and the lack of time and people resources. Counterpoint discussion reveals opportunities related to increased focus on experience-based wine sales in restaurants, the importance of the story and the value of co-branding.

Practical implications Partnerships with restaurants can be a delicate yet desirable part of a small winery's strategy. The key is to develop a mutually beneficial relationship, while fulfilling the objectives and missions of both winery and restaurant. When wineries and restaurants carve out the time and invest the people resources to successfully and purposefully co-brand, optimum symmetry is formed which leads to mutually valued dining and special gastronomic experiences for the winery/restaurant partners and their customers.

Originality/value In a viewpoint format, the paper outlines and discusses the key elements of relationship building between small wineries and restaurants.

Keywords: relationship building | restaurants | small wineries

Article:

Introduction

There is an adage in the restaurant business that the kitchen supports the overhead, but the bar generates the profits. While wine is a significant profit center, its role in a restaurant is far beyond economic. Wine enhances a restaurant's image and reputation. It enriches guests' dining experiences and maximizes their satisfaction. Wine has long been associated with unique stories, many of them emanating from smaller producers. These wine stories add to the special ambience in restaurants. Thus, restaurateurs continue to encourage enriched diner appreciation through expanded wine choices, food pairings and specialized wine-focused events.

The impetus for the current discussion is fueled by the critical symbiosis of wineries and restaurants. The purpose of this viewpoint paper is to address some of the challenges and opportunities at the nexus of wine and hospitality, with an eye on relationships building between smaller wineries and dining establishments. The discussion is based mainly on the US market.

Attaining a desired spot on restaurants' wine listings becomes a daunting task for smaller producers due to the overpowering role of wine distribution firms and a longstanding view that "price is king" in restaurant purchasing. Smaller wineries are the ones least assured of a place in restaurants, as they tend to have higher wholesale price points than larger wineries and may not have sufficient production to be attractive to established wine distributors that service multiple restaurants. To illustrate, the most recent report by the Silicon Valley Bank on the state of the US wine industry reveals that small wineries had the sharpest drop in sales at restaurants, plunging from 32 to 17 per cent in just three years (SVB, 2017). Such evidence from the industry suggests that business relationships between small wineries and restaurants are ill-defined or non-existent. Many small wineries enter into relationships with only a few restaurants and do so primarily for marketing reasons rather than revenue production. A small winery's primary goal for restaurant partnerships is often the activation of co-branding to raise overall consumer awareness and boost the prestige of the wine brand via association with a recognized dining establishment. Building a meaningful and lasting partnership to maximize value for both businesses starts with a fundamental understanding of challenges and opportunities. The challenges influence the formation of the relationships, whereas the opportunities stem from the relationship and also strengthen the partnership. Figure 1 frames a discussion of several key elements critical to this relationship.

Key challenges for small wine producers

Some of the challenges that exist regarding connecting small wineries to restaurants include:

- pricing issues affecting procurement and markup of wine for restaurant use;
- limited abilities to provide sufficient quantity of wine directly to restaurants or via traditional distribution networks; and
- issues with time and people resources.

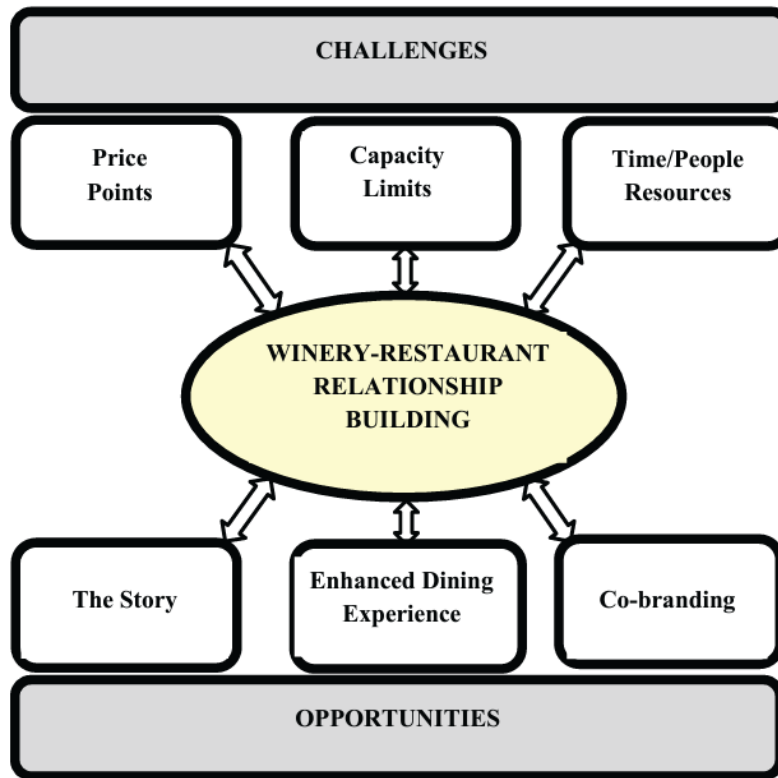


Figure 1. Small winery-restaurant relationship building framework.

Price points

A leading challenge in the case of smaller wineries pertains to wholesale wine prices and increasing markups. When sold by the bottle, restaurants typically sell wine at two to three times their wholesale price, with 400 per cent and even higher markups in some cases (Wall Street Journal, 2013). In by-the-glass (BTG) programs, restaurants aim for markups that recoup five times the initial purchase cost – with the price of the first glass typically covering the entire (wholesale) bottle cost (Kane, 2017). When a transaction involves a distributor, an additional 30 per cent fee is generally added (Kane, 2017).

As with any product market, there are perceptual ceilings on wine prices in restaurants. Industry standards dictate that the higher the cost of the bottle, the lower the markup should be. Research studies also caution that, in today’s technology-driven world, savvy diners can easily detect overpriced wine by using mobile apps and making on-the-spot price comparisons while ordering wine in the restaurant (Corsi et al., 2012; Perla et al., 2014; Terrier and Jaquinet, 2016).

Such price point constraints contribute to opinions that higher-priced small producers are not a viable source of wines for mainstream restaurants. Indeed, smaller wineries with slim margins find it difficult to achieve the lower wholesale prices that restaurants count on to keep in-dining wine selections affordable to restaurant patrons. At best, wine sales to restaurants do not generate optimal profits for small wineries. Instead, placement of smaller (often local) wineries’ wine in restaurants more commonly serves as a branding or marketing strategy with wholesale restaurant pricing usually hovering slightly above a small winery’s breakeven point. Wineries seeking higher price points need to guarantee high-quality products by submitting their wines to “outside” tasters.

For example, expert testimonials and awards can help to substantiate quality, gaining the winery a competitive advantage when negotiating with restaurant buyers.

Capacity limits

Considering traditional distribution mechanisms, a second challenge is that small wineries seldom have the ability to meet supply quantity requirements that restaurants or distributors demand as part of their contractual agreements. By the US wine industry standards, small wineries produce on average about 5,000 cases a year or less (Wines and Vines, 2018). Making the decision to set aside the quantities needed to satisfy distributors and restauranters is an important capacity consideration, particularly if it depletes the supply available for higher revenue-earning tasting room sales.

The issue of supply quantity is highly linked to the type of restaurant and to the restaurant's philosophy regarding menu consistency. Many restaurants rotate wines to match seasonal menus and change wine lists as much as six times a year (Lockshin et al., 2011; Oliveira-Brochado and Vinhas da Silva, 2014). In such cases, smaller wineries can be tapped to supply wines for a seasonal offering (or special events) rather than requiring a long-term commitment.

Time/people resources

To build solid relationships, time and commitment are required directly from restaurant owners, executive chefs, sommeliers or beverage managers. Even those wineries that rely on third-party distributors need to recognize the importance of the personal relationships with both the distributors and restauranters. For restaurants to carry a small winery's wines and for customers to select them, wineries need to help restaurants communicate their differentiated products. Regular wait staff training and tastings specific to the winery's offerings can help promote and boost wine sales (Gultek et al., 2006; Ruiz-Molina et al., 2010). Training and staff familiarization programs take time though. They require deliberate planning and release of staff from both the wineries and the restaurants. Although time-intensive, nurturing relationships between winery and restaurant owners, executive chefs, sommeliers, beverage managers and marketing staff is a key to successful partnerships among small wineries and restaurants.

Key opportunities for small wine producers

The story

The history and stories surrounding the winery or specific wine offerings capture the attention of diners and contribute to effective wine branding, marketing and sales (Alonso and Northcote, 2009). Telling the winery's story is a viable way to bolster the wine-purchase experience. Product-oriented tasting notes and wine descriptions on the menu are no longer enough to satisfy experience-seeking consumers. The storytelling of the wine and its tradition is an innovative way to engage restaurant patrons to encourage associated co-branded loyalty.

Highlighting the stories behind the wines on the restaurant's menu has been reported to enhance customers' overall dining experiences (Gil-Saura et al., 2008). This is particularly true for smaller wineries in the region surrounding the restaurant because it converts the dining experience into a larger touristic phenomenon. Industry evidence suggests that restaurants that support smaller

regional wineries report doing so because of the value that their customers place on local products. Nowadays, many patrons expect local wines to be on restaurant wine lists. Recent studies report that local food and wine attract customers across multiple price points, spiking wine profits for the establishment (Boesen et al., 2017). Moreover, how customers define local has more to do with social definitions of human communities than regulatory definitions and geographical mapping, indicating that stories rather than mileage distances are what diners wish to know (Perla et al., 2014). Smaller wineries can more easily forge relationships with respected dining establishments that are known for sourcing local products. The local winery and local farm-to-table dining venues are perfect matches.

Enhanced dining experiences

In the past, wine and food pairing interests of restaurant goers took a back seat to selection criteria such as price, origin, grape varieties, awards and tasting notes (Corsi et al., 2012). However, recent trends have reordered these elements. Diners now ask for more information on which wines complement their selected menu items. They mostly want to know if the attributes of a wine will mesh with the attributes of a particular culinary dish. A small producer's wine can be easily introduced in this way by stressing the more hedonic drinkable qualities of the wine to the diner.

By recommending wines to complement a dish, restaurants can significantly increase their average dinner checks and provide greater gastronomic satisfaction to their guests (Harrington, 2005). Wine recommendations that are part of the food menu, as opposed to being a standalone wine list, are associated with higher wine sales (Gultek et al., 2006; Ruiz-Molina et al., 2010). Likewise, studies suggest that providing regional wine information on the food menu, table tents or via trained wait staff produces higher wine sales in restaurants (Terrier and Jaquinet, 2016).

Wine recommendations can lead at times to the selection of more expensive alternatives when servers present the diner with an array of options at various price points (Corsi et al., 2012). Additional studies found that active wine recommendations increase sales by lessening perceived risk (Wansink et al., 2006). Thus, wait staff should be trained in suggestive selling techniques related to wine, including recommending a wine (or a choice of three to four wines) based on diners' menu selections and offering low-priced tasting portions or flights to allay risk prior to buying wine BTG or bottle.

Co-branding

Most winery proprietors view restaurant partnerships as branding and marketing strategies and not as profit generation centers. However, co-branding requires a deeper understanding of how the relationship provides value to both the winery and to the restaurant partner. Hariharan et al. (2012) point out that organizations need to carefully assess the spillover effects that arise in co-branding situations, as the reputation of one brand impacts consumer opinion of the partner brand. Wineries need to partner with restaurants that enhance the image of the winery and are a good fit for supporting the winery's story and values.

It is equally important to recognize that a restaurant reputation is impacted by its business partners, including its suppliers. Eating establishments have begun to recognize the impact of information about supplier-based ingredient and point-of-origin on diner purchases (Jacob et al., 2017). When wineries provide detailed background on their products, the restaurant can satisfy diners' needs with timely and accurate information. By endorsing each other, co-branded

partnerships between small wineries and restaurants strengthen customer brand loyalty for both businesses.

Conclusion

The importance of wine in restaurants continues to grow. More restaurateurs nowadays are taking advantage of consumers' growing interest in wine. Restaurants are offering a wider range of wines (including regional and local offerings) to attract customer seeking enhances dining experiences.

Selling wine in restaurants presents both challenges and opportunities. Challenges for small wineries discussed here comprise issues around higher wholesale price points, lower capacity for wine production and time/people resource limitations. On the other hand, opportunities exist in the form of offering wines as selling the regional winery's story, emphasizing food-wine pairing and hedonic diner experiences rather than traditional wine descriptors and increasing the perception of value of co-branding relationships.

Diners know that wine at restaurants costs more – substantially more. But customers are willing to pay more for enriched dining experiences, the stories behind the wine on their table and for learning how to best match wine and food to their own palates. Thus, partnerships with restaurants can be a delicate yet desirable part of a small winery's strategy. The key is to develop a mutually beneficial relationship while fulfilling the objectives and missions of both winery and restaurant. When wineries and restaurants carve out the time and invest the people resources to successfully and purposefully co-brand, optimum symmetry is formed, which leads to mutually valued dining and special gastronomic experiences for the winery/restaurant partners and their customers.

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