Wine Price Markup in California Restaurants

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This study quantifies the relationship between retail wine price and restaurant mark-up. Ordinary Least Squares regressions were run to estimate how restaurant mark-up responded to retail price. Separate regressions were run for white wine, red wine, and both red and white combined. Both slope and intercept coefficients for each of these regressions were highly significant and indicated the expected inverse relationship between retail price and mark-up.

Both industry and academia have shown interest in restaurant wine pricing. Choi and Silkes looked at customer satisfaction with wine orders in restaurants and concluded that "the most important single consideration for the respondents when they order wine was type of wine (40 percent) and price (25 percent)." (Choi and Silkes 2010, p. 139). Preszler and Schmidt (2009) looked at buying decisions from the restaurant side in New York restaurants. Respondents rated the influence of 23 attributes on their wine purchasing decisions. The top two attributes were taste and value/profit margin potential, and price category was fourth. Lacey, Bruwer, and Li (2009) looked at perceived risk in restaurant wine purchases. Their review of similar studies referred to wine price in terms of "financial risk" or "economic risk." They concluded that these and other risk factors could be significantly reduced by helpful wait staff.

At the industry and/or consumer level one can easily find restaurant wine pricing discussed in publications such as the *Wall Street Journal*, *Wine Enthusiast Magazine*, and *Wine Business Monthly*, just to name a few. Gretchen Roberts writes, "A bottle priced at $10 wholesale might sell for $15 retail, but $25 to $30 in a restaurant. " She then defers to a wine list consultant who states, "Everyone knows you pay more in restaurants than at retail, but what really aggravates a lot of consumers is how wacky prices can be. A bottle may be $25 at one restaurant, $15 at another, and $40 at a third." Finally, in a remark directly related to the current study, Roberts notes, "Most lists follow a graduated markup, with the highest markups on the cheapest wines, and lower markups on higher-end wines. A $10 wholesale wine may be marked up to $30, but a $50 wine might be just $80." (Roberts 2010)

Michael Bauer, a food and wine critic for the *San Francisco Chronicle* writes in response to a question on restaurant wine pricing, "Generally, retail is 1.5 times higher than wholesale. That means a $10 bottle of wine would sell for $15 in a store. However, this is the 'suggested retail' and many retailers mark it up less. In a restaurant, a markup on that $10 bottle of wholesale wine would be $25 for 2.5, or $30 for 3 times" But, he then notes, When I write the review, I'll often use a retail price for comparison, because that's what most recognize" (Bauer 2010)

The most succinct statement from the consumer's point of view came from the *Wall Street Journal*: "Never mind trying to understand oil prices; for complexity, inscrutability, and sheer Customer frustration, its hard to match restaurant wine pricing" (Chung 2008). Most literature relates restaurant mark-up to the wholesale price, but wine patrons can only observe the retail price. Although this may vary from definition to definition, the basic restaurant pricing formula is Restaurant Price = 3X Wholesale or 2X Retail.

Current Study

In the Fall of 2009, students were given an assignment to complete over their Thanksgiving break. Each student was to obtain a wine list from a restaurant in their home town. Only lists that included at least ten whites and ten reds were to be used. They were further instructed to include this list with their report and to assure the restaurant that no names would be published without their permission and only aggregated numerical results would be released. Students were then instructed to pick one white wine and one red wine from the list and find two local retail outlets that carry this wine and to record the price at each of these establishments, being certain to indicate precisely where these prices were obtained.

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The majority of restaurants were concentrated in the San Francisco Bay area and the Los Angeles/ San Diego area. There were 59 usable wine lists obtained, with a total of 3,843 wines. A detailed breakdown of these wines is presented in Table 1. For all red and white wines recorded on the wine lists the average prices were statistically different at $\alpha = 0.05$. For the red wines and white wines chosen for retail price comparison the average prices were statistically different at $\alpha = 0.05$, but there was no significant difference for mark-ups.

Results

Ordinary Least Squares regressions were run to estimate how restaurant mark-up responded to retail price. Separate regressions were run for white wine, red wine, and both red and white combined. Results are presented in Table 2, 3, and 4. Both the slope and intercept coefficients for each of these regressions are significant at the 99.95 percent confidence level.

From Table 2 one sees that for every $1 increase in the retail price of white wine, the markup at the restaurant decreases nearly four percent. Since one might not even notice a $1 change at retail, it might be more meaningful to look at the impact of a $10 change in retail price.

For every $10 increase in the retail price of white wine, the markup at the restaurant decreases nearly 40 percent. For Every $10 increase in the retail price of red wine, the markup at the restaurant decreases approximately 15 percent (Table 3). Finally, for every $10 increase in all of the wines included for evaluation, the markup at the restaurant decreases approximately 20 percent (Table 4).

Summary

Restaurant owners may not conduct detailed searches of local retail price for wines included on their list, but it seems safe to assume that they have educated guesses of approximate retail values based on the wholesale price they pay. Furthermore, they understand that a proportionally smaller markup must be applied to higher priced wines.

While the scope of this study was somewhat limited, and the methodology far from the frontiers of academic endeavors, the results are important in quantifying the relationship between retail price and restaurant price for wine. Since these are the only prices that restaurant customers can readily observe, this may well impact purchase decisions by restaurant patrons. Furthermore, it was found that the average restaurant-over-retail markup for all of the wines evaluated averaged 106 percent, thus lending support to the often quoted industry rule of thumb that Restaurant Price = 2X Retail Price.

References

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Table 1. Price Summary for All Wines.

	Number	Percent of sample	Average restaurant price
California reds	2000	52	$65.90
Other domestic reds	67	2	$70.00
Imported reds	448	12	$90.02
California whites	977	25	$41.77
Other domestic whites	29	1	$31.24
Imported whites	322	8	$39.42
Total	3843	100	$56.39

Table 2. Markup of Restaurant White Wine Price over Retail.

Regression statistics			
Multiple R	0.57		
R square	0.33		
Adjusted R square	0.32		
	Coefficients	Standard error	t Stat
Intercept	1.817	0.108	16.812
Price	−0.039	0.005	−7.246

Table 3. Markup of Restaurant Red Wine Price over Retail.

Regression statistics			
Multiple R	0.48		
R square	0.23		
Adjusted R square	0.23		
	Coefficients	Standard error	T Stat
Intercept	1.395	0.085	16.431
Retail price	−0.016	0.003	−5.654

Table 4. Markup of Restaurant both Red and White Wine Price over Retail.

Regression statistics			
Multiple R	0.49		
R square	0.24		
Adjusted R square	0.24		
	Coefficients	Standard error	t Stat
Intercept	1.498	0.064	23.520
Price	−0.021	0.002	−8.265

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