Chapter 17

Optimisation of Wine and Spirit Inventory Assets in Fine Dining Restaurants

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ABSTRACT

Research on profit optimisation in the travel sector of hospitality industry has been dominated by the development of effective revenue management techniques to help managers in situations where demand is variable, variable costs are low, assets are fixed and perishable. These techniques have been extended to the restaurant sector, with recognition that variable costs are a larger proportion of total costs and not fixed. In fine dining restaurants substantive wine and spirit inventories present operators with the challenge of how to optimise the sales per dollar of inventory. Theoretical foundations of yield management, retail inventory optimisation and menu engineering are reviewed with direct application to the development of the WINSPID model of wine list and wine inventory optimisation. Data from a successful fine dining restaurant are used to illustrate how the model can be used to improve the sales efficiency of the wine list and inventory. Opportunities to extend the model to spirit inventories are proposed.

INTRODUCTION

Archeological evidence shows that wine taken with food has been part of cultural history for more than 8,000 years. There are many motivations for the consumption of alcoholic beverages, broadly categorized as

- Hedonistic (social, religious, celebratory, etc.), and
- Utilitarian (lubrication, dependency, refreshment, health, etc.) (Charters, 2006).

Wine, beer and spirits were consumed as a safe alternative to water, which was often contaminated with e. coli, typhus, cholera and other disease causing pathogens. Beer was served to children in English public schools in the mid-19th century for health reasons (Barr, 1995). Alcoholic beverages were

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provided to labourers, served to troops and sailors on campaigns as a healthy alternative to other drinks and to improve morale. Wine, beer and spirits have been sold in inns and restaurants for profit as long as there have been travellers. Regardless of the motivations to consume or serve alcoholic beverages, most people drink because they enjoy it (Heath, 2000).

Wine plays a fundamental role in the enjoyment of the restaurant dining experience (Yuksel & Yuksel, 2002), consequently many types of restaurants offer wine selections to their customers. Berenguer et al. (2009) found that the length of the wine list differentiated top-quality fine dining establishments from those focused simply on providing excellent food. The style of the wine menu was also a significant factor in the categorization. In many instances, owners of restaurants express their own passion for wine by having wine lists that go well beyond what their customers require. National and regional awards recognise restaurants with exemplary wine menus, judged both on style and selection.

During the global recession of 2009, many fine dining restaurants in North America were challenged due to steep reductions in demand. In particular, wine sales were affected as customers who were buying premium selections switched to lower priced options. In an industry-commissioned study of 300 restaurant industry professionals, Bell (2009) reported that 60 percent of restaurant managers observed a marked decrease in wine sales after the recession and 61 percent felt that customers purchased less expensive wines than in 2008. The study goes on to report that customers were more likely to purchase wine by the glass than previously and 75 percent of the respondents were making changes to their wine lists. Fine dining restaurants often hold large inventories of wine, and the recession resulted in wine lists with many selections for which there is little or no demand. Restaurant managers were motivated to optimise their investment in wine inventory assets by revisiting the wine list, inventory turnover and pricing, however there was little or no guidance available to help them.

Much of the work on the optimisation of asset utility in the hospitality industry has been dominated by Yield or Revenue Management techniques applied to perishable fixed assets such as hotel rooms, airline seats, rental cars, etc. These assets are characteristic of travel industries, but other parts of the hospitality industry such as restaurants have adopted some of these strategies to better utilise fixed seating capacity and revenue per seat hour (Kimes, 1999). Despite these extensions to the optimisation of fixed assets, restaurant inventory assets have been largely ignored by researchers. Restaurants have significant amounts of variable assets in the form of inventory, and the management of these assets is equally important to the overall optimisation of return on assets in the business.

It is important not to confuse inventory optimisation with the management of inventory assets. Inventory optimisation deals with finding the optimum number and quantity of items in stock, and not with the management of the material flows in and out of the stockroom. In the hospitality field, substantial work has been done in the control of inventory (Green & Weaver 2008), however very little has been done regarding inventory turnover and the productivity of capital invested in inventory. Wine and spirit inventories in particular can be large in comparison to the sales they generate for fine dining restaurants, and thus pose an important optimisation problem.

Optimising inventories of wine is more complicated than simply reducing the investment because wine lists serve both as a menu and a statement of a fine dining restaurant’s quality and commitment to gastronomy at the highest levels (Gil et al., 2009). A good analogy is a hotel which has a swimming pool. Potential guests will choose a hotel with a pool (even though they will seldom use this amenity) because it is indicative of a higher class of property.

Academic research to assist fine dining managers with the construction of wine lists based on pairing with food (for example Harrington, 2007), wine menu characteristics (Yang & Lynn, 2009) and as
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