

CHAPTER

7

Introduction to Beverages

Learning Objectives

After reading this chapter, you should be able to:

- define and classify beverages;
- distinguish among various distilled beverages;
- discuss how the history of beverages affects consumption today;
- explain the health and economic impacts of alcoholism, and identify how these issues affect your sales;
- describe moral dilemmas and the law with regard to beverage sales;
- relate your pricing to the clientele and ambience of your establishment;
- calculate the cost of beverage items;
- discuss how availability and price competition affect your business;
- design your own pricing strategies.

In Practice

Two weeks before Myla Thomas was hired, the Sea Breeze Hotel lost its beverage manager. So as one of her first duties, it became Myla's responsibility to recruit and interview a new beverage manager. Myla was pleasantly surprised by the sheer number of interested candidates applying for the position. When she sat down to think about it, she realized she had a strong list of qualifications that she wanted the next manager to have:

- *An in-depth knowledge of the products, from their manufacture to their consumption*
- *Experience making beverage service profitable by implementing cost control procedures in purchasing, storage, and sales*
- *The ability to deliver customer satisfaction*
- *An understanding of the characteristics of beverage products and their consumption trends*
- *An ability to read and interpret profit and loss reports*

Myla knew that consumers could satisfy their needs for beverages in thousands of places; therefore, the next manager's chances of success among so
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much competition would depend largely on his or her knowledge and ability to manage and control costs.

Just before Myla started the first interview, she came across the following statement in the former beverage manager's file:

"Beverages differ significantly from food products in several ways. These differences will affect how you order, receive, store, monitor, and serve beverages, and can impact your cost dramatically. First, beverage packaging is standardized, unlike food packaging. The establishment of just a few packaging styles, rather than the infinite variety found in food packaging, means that storage can be planned around the forms of packaging you know you can expect. Thus, beverage shelf life is generally greater and more consistent than that of food, and the required storage temperatures are less strict. This usually makes beverages easier to order and to stock. Further, beverage costs are normally more stable and predictable, so planning for sales and profitability is fairly straightforward. Access to beverage storage areas is generally limited, so you have greater control. With beverages, you can assume 100 percent yield for what you buy, which is not the case with variable and volatile food products. Staff members are usually the sole cause of yield variances in the beverage system. When you set up strong control procedures, you can build excellent profit in this area. With all these factors making it easier to control beverages, you can do so more accurately, completely, and profitably."

INTRODUCTION

In controlling restaurant costs, you will treat food and beverages quite differently. This section addresses these differences and explains how procedures for beverage control can be employed effectively. You will learn how to approach beverage control in matters such as purchasing, inventory procedures and control, sales, and customer satisfaction. Everyone in your establishment should be asked to cooperate in this effort to ensure the most profitable beverage sales category.

BEVERAGE BASICS

Beverages are both alcoholic and nonalcoholic drinkable liquids. Nonalcoholic beverages include soft drinks, mineral water, and sparkling wines and beers containing no more than 1/2 percent alcohol. Alcoholic beverages, on the other hand, contain **ethanol** and are usually classified as either fermented or distilled spirits. Alcoholic beverages comprise a large portion—in both volume and sales—of the restaurant industry, and their purchase, sale, and consumption will be a chief concern as you work to control costs and maximize profits.

ethanol is alcohol.

Fermented Beverages

We'll start our discussion with a description of the two main categories of alcoholic beverages: fermented and distilled spirits. Fermentation is the action of yeast and grain such as wheat in a solution to form beer, or the action of yeast and grapes to form wine. Simply put, fermented grapes become wine, while wheat becomes beer. This process breaks down sugar from the grain or grapes into two components: alcohol and carbon dioxide gas. The gas escapes into the air, while the liquid alcohol remains behind and forms a fermented beverage. Figure 7-1 illustrates

the process of carbon dioxide evaporation. The amount of alcohol left behind depends on the amount of sugar in the grains. Grains with greater sugar content produce a liquid with a higher percentage of alcohol.

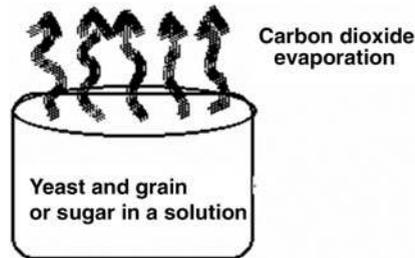


Figure 7-1 CO2 Evaporation

The fermentation process produces wine and beer containing varied amounts of alcohol. In a standard beer, alcohol content ranges from 4 to 6 percent, though some specialty imports range as high as 12 or 14 percent. Wines normally range from 12 to 21 percent. Figure 7-2 compares a 10-ounce beer with 4 percent alcohol, a 4-ounce glass of wine with 13 percent alcohol, and a gin and tonic with 1.5 ounces of gin at 45 percent alcohol.

Figure 7-2 Alcohol Content

Product	Alcohol percent	Alcohol volume	Comparison
Ten ounces of beer	4% (as an example)	0.42 ounces	
Four ounces of wine	13% (as an example)	0.52 ounces	30% greater than the beer
1.5 ounces gin	45% (as an example)	0.675 ounces	69% greater than the beer; 30% greater than the wine

The volume of alcohol is directly related to the level of intoxication a person will experience. As a seller of alcohol, it is important that you understand these characteristics of your products. According to a recent national survey of adults conducted by Macchew Greenwald and Associates, only 46 percent of adults surveyed knew that a mixed drink made with 1.5 ounces of 80-proof distilled spirits, a 12-ounce serving of beer, and a 5-ounce serving of wine all contain the same amount of alcohol. This is quite revealing, as you will see from the rest of the chapter.

Beers are manufactured under consistent production standards, particularly by large breweries. However, they are also the most perishable of all alcoholic beverages once they are opened. Further, quality can vary due to improper delivery, storage, or service. Wines, too, can be greatly affected by improper storage and handling, and they can be very inconsistent products. Wine quality must be evaluated constantly because of the instability of the products' manufacture and components.

Distilled Beverages

Distilled spirits are fermented first, then the alcohol is further processed, or distilled, from the fermented liquid. In the distillation process, the liquid is heated in a still (that's where the word *distilled* comes from) to at least 175° Fahrenheit. At this temperature, the alcohol changes from a liquid to a gas and rises. Most of the water solution is left behind because

water does not evaporate until it reaches 212° F.¹ The high-alcohol-content gas is channeled off and cooled so that it condenses into a liquid again. The result is what is called a distilled spirit. These spirits are made under rigorous quality control. Because of their resulting stability, distilled spirits, cordials, and liqueurs are considered the most consistent of beverage products. This category includes rum, brandy, and whisky, and its products normally range from 40 to 70 percent alcohol.

Beverage Classification

Which of the beverages you see at a bar are fermented, and which are distilled? Given just these two categories, how can there be so many alcoholic beverages? Figure 7-3 lists the familiar names of alcoholic beverages.

Figure 7-3 Alcoholic Beverages

Fermented		Distilled							
Beers and Ales	Wine	Whiskies	Gins	Vodka	Rum	Tequila	Brandy	Liqueur	others
<i>lager</i>	table	<i>scotch</i>	<i>London dry</i>				<i>cognac</i>	<i>amaretto</i>	<i>aquavit</i>
<i>ale</i>	- white	<i>Irish</i>	<i>Holland</i>				<i>armagnac</i>	<i>b&b</i>	
<i>draft</i>	- red	<i>bourbon</i>					<i>calvados</i>	<i>benedictine</i>	
<i>stout</i>	- rose	<i>rye</i>						<i>chartreuse</i>	
<i>light</i>	aperitif	<i>blend</i>						<i>cointreau</i>	
	- vermouth	<i>Canadian</i>						<i>curacao</i>	
	- dubonnet	<i>light</i>						<i>drambuie</i>	
	dessert							<i>galliano</i>	
	- sherry							<i>irish mist</i>	
	- port							<i>kahlua</i>	
	- Madeira							<i>pernod</i>	
	- marsalla								
	sparkling								
	- champagne								
	- sparkling burgundy								

The federal government has established standards of identity for various types of distilled spirits, wines, and malt beverages. Figure 7-4 is an example of a label on a bottle of whiskey. This bottle information states certain requirements: what the liquor is made of, how it is made, the type of container it is aged in, and the alcohol content. These rigidly enforced standards



Figure 7-4 Makers Mark Symbol

¹See Appendix 380, *Critical Temperatures for Quality Control*, for details on products and temperatures.

Discussion Point

Why are beverages packaged more uniformly than food?

profit margin is determined by subtracting your cost from your sales.

proof is the measure of the alcoholic content of a spirit, each degree of proof being $\frac{1}{2}\%$ alcohol by volume, often written with the degree symbol, as 100° .

Discussion Point

As a manager, how should you determine the types and brands of spirits that you offer?

Discussion Point

What do you see as the long-range trend in beverage sales?

produce a beverage with distinguishable characteristics; federal inspections insure compliance from each manufacturer. Imported products must also meet such standards in order to enter the country. Therefore, everyone will recognize the contents as whiskey.

These standards were developed after the repeal of Prohibition in 1934. The government imposed a strict control system on the new alcoholic beverage industry to avoid the chaos of the Prohibition era. The purpose is twofold: to provide the basis for assessing and collecting federal taxes, and to protect the consumer. Beyond this, the standards can be helpful to you in understanding your products. You will know what you are buying and controlling, as well as the differences between similar products. This gives you a basis with which to analyze your **profit margin**, this chapter's primary focus.

Differences among Distilled Beverages

Distilled beverages are alike in several ways. They are all distilled from a fermented liquid. They all have a high alcohol content. And they are all served primarily before or after meals. Several distinctions are important to the beverage industry, however. Primarily, these are differences of flavor and body, two characteristics of great importance to your customers.

Each type of liquor has a distinct taste or flavor. Within each category, there are further taste differences; for example, bourbon whiskey tastes very different from scotch whiskey, and Irish whiskey tastes different from both. There are also taste differences between brands. Most guests who order these types of drinks know what kind of flavor they are looking for; in the beverage business, you will have to understand their wishes and be prepared to provide them.

Body is another recognizable characteristic. There are full-bodied and light-bodied products within several categories. Three main factors determine both flavor and body:

1. The grains or other ingredients in the original fermented liquid
2. The proof at which the beverage is distilled. **Proof** is the measure of the alcoholic content of a spirit. Each degree of proof is $\frac{1}{2}$ percent alcohol by volume, often written with a degree symbol, as 100° .
3. What is done with the spirit after distillation, such as adding flavorings or colored compounds to make the beverage distinctive

These variables make the proliferation of many brand names possible. You'll need to research the types of spirits and the brand differences in order to understand what your customer wants and will pay for. Different vendors can help you with this process, so that you can provide a range of products that is of reasonable size and cost, yet meets your clients' expectations.

THE HISTORY OF BEVERAGES

To understand the beverage industry, there are key moments in U.S. history that explain how laws and practices have evolved. Since the repeal of Prohibition in 1934, consumption trends have changed with the times. Several societal and industry factors have contributed to these changes; some are controllable, and some are not. Figure 7-5 is an example of how consumption has varied with political and social change. It can be read as a chronology of the last several decades.

Overall, alcohol consumption is dropping, but it is decreasing most dramatically in the category of spirits. This information affects you and your beverage outlet directly, and you will need to plan to capitalize on the purchases your customers are still making. A study by the Distilled Spirits Council (DSC) indicates that, as overall consumption drops, the percentage of premium brands consumed has increased. This indicates that people who choose to drink end up drinking lower quantities of distinctly higher-quality beverages. The DSC study confirms the decrease in overall consumption, particularly with regard to distilled spirits (Figure 7-6).

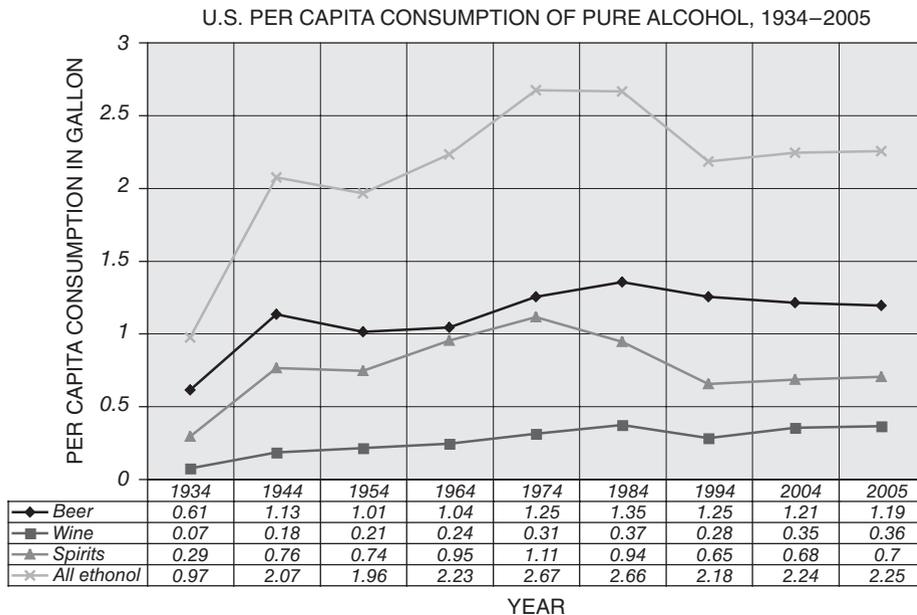


Figure 7-5 U.S. alcohol consumption. *Courtesy of U.S. Apparent Consumption of Alcoholic Beverages Based on State Sales, Taxation, or Receipt Data. U.S. Alcohol Epidemiologic Data Reference Manual, Volume 1, Fourth Edition, June 2004, NIH Publication No. 04-5563.*

In Figure 7-6 you can see that per capita consumption by people over 21 was as high as 3.14 gallons in the 1970s, but dropped to only 1.87 gallons in 2007. The decline is in part due to public awareness of the effects of alcohol on health, as well as government interventions such as drinking and driving laws. Other studies conducted by the DSC confirm a proportionate increase in sales of nonalcoholic beverages, such as mineral water and sodas, during these years. A further study, commissioned by the Beer Institute, illustrates another portentous change in beverage demand, as shown in Figure 7-7.

From this study, it is evident that malt beverages such as beer have gained a considerable market share in recent years. When we say malt beverages, we are referring to beverages made from malted grains, usually barley, that are sprouted to about 3/4 inch and then dried. The beer industry's rigorous promotional activities, as well as beer's lower alcohol content, have contributed to its successes. The same is not true with spirits. In fact, the distilled beverage industry has imposed its own restrictions against advertising in the United States; however, these restrictions have been relaxed as the industry's products have lost market share.

The overall distribution of alcohol consumption is illustrated in Figure 7-8.

Why the Changes?

Consumption patterns have changed through the actions of three major forces. Our discussion of these forces will focus on how—and whether—your food and beverage establishment can impact or control these forces while maximizing profitability. The three factors are as follows:

1. Health and economic impacts of alcoholism (uncontrollable)
2. Moral dilemmas and the law (uncontrollable)
3. Pricing and clientele (controllable)
4. The first two of these topics are discussed on the following pages; the third, being controllable, will be discussed in depth later in the chapter.

Apparent Consumption of Distilled Spirits in the United States, License and Control States, 1934 - 2003

Year	License States \a		Control States		Total		Resident Population\c (000)	Adult Population\c (21 & Older) (000)	Per Capita Consumption (Resident) (gal/person)	Per Capita Consumption (21+) (gal/adult)	Number of States
	Wine Gallons (000)	Percentage of Total Consumption	Wine Gallons (000)	Percentage of Total Consumption	Wine Gallons (000)	Percentage Change					
1934	45,892	79.2	12,073	20.8	57,965	---	126,374	77,619	0.46	0.75	28
1944	124,414	74.6	42,265	25.4	166,680	14.5	132,885	85,599	1.25	1.95	46
1954	136,956	72.3	52,515	27.7	189,471	-2.7	161,884	101,910	1.17	1.86	47
1964	209,721	76.0	66,141	24.0	275,862	6.5	191,085	113,261	1.44	2.44	49
1974	314,476	75.4	102,841	24.6	417,317	2.5	213,342	133,110	1.96	3.14	51
1984	324,226	76.0	102,512	24.0	426,738	-1.0	235,825	161,112	1.81	2.65	51
1994	252,286	75.4	82,203	24.6	334,489	-1.9	260,362	181,895	1.28	1.84	51
2003	290,800	75.9	92,582	24.1	383,382	4.6	290,811	205,473	1.32	1.87	51

NOTE: Because of rounding, detail may not add to total.

Beginning with 1992 data, apparent consumption includes low-proof data. Therefore, data before and after 1992 are not entirely consistent.

\a Includes District of Columbia; Alaska, beginning 1959; Oklahoma, beginning 1960; Hawaii, beginning 1965.

\b Population data includes all states for all years except Hawaii & Alaska from 1934-49.

\c Includes Mississippi gallonage from July through December 1966.

SOURCES: Distilled Spirits Council of the United States, Inc.; National Alcohol Beverage Control Association; Bureau of Census, U.S. Department of Commerce.

Figure 7-6 Distilled Beverages

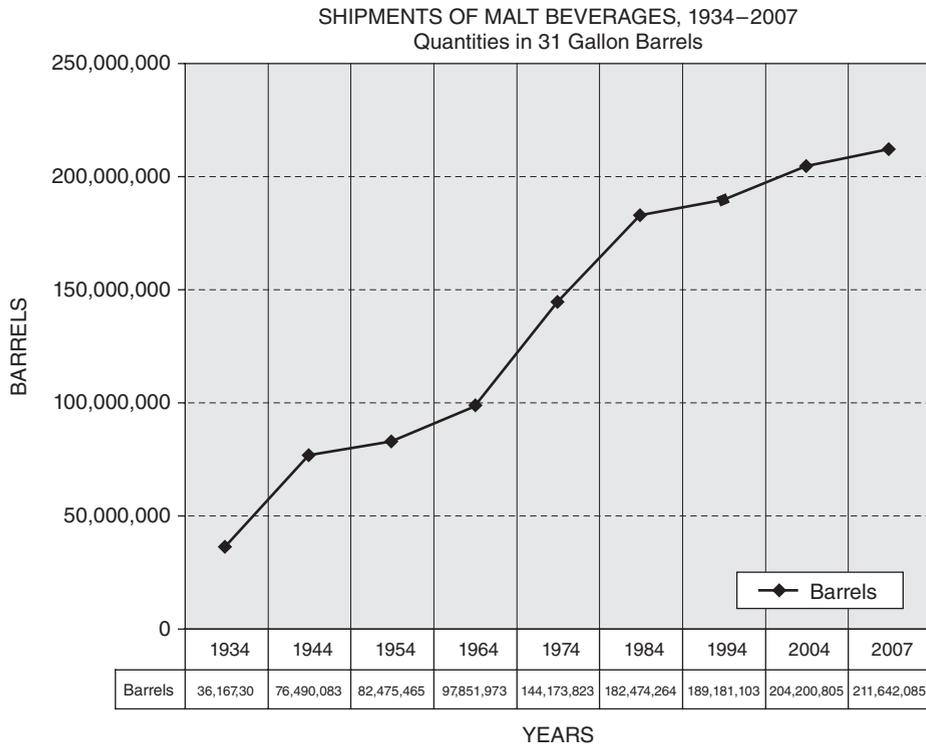


Figure 7-7 Malt Beverages Shipments. *Courtesy of the Beer Institute. Note: This chart represents apparent consumption, as it reflects shipments or sales at the wholesale level. This differs from national tax-paid withdrawals plus imports, due to reporting procedures and inventory levels.*

Figure 7-8 Ethanol Beverage Type

Proportional Changes in Kinds of Ethanol by Beverage Types, In Percentages Consumed, 1934–2004								
	1934	1944	1955	1964	1974	1984	1994	2004
Beer	63%	55%	52%	47%	47%	51%	57%	53%
Wine	7%	9%	11%	11%	12%	14%	13%	16%
Spirits	30%	37%	38%	43%	42%	35%	30%	31%
All Ethanol	100%	100%	100%	100%	100%	100%	100%	100%

Health and Economic Impacts of Alcoholism

The National Institute on Alcohol Abuse and Alcoholism (NIAAA), a branch of the U.S. Department of Health and Human Resources, as well as other organizations such as Mothers Against Drunk Driving (MADD), have been instrumental in alerting the public to the dangers associated with alcohol abuse. A major study conducted by the NIAAA reveals the following:

- In 2003, 39.9 percent of traffic accident fatalities were alcohol-related. By 2004, the percentage dropped to 39.5 percent, but in 2006 it rose again to about 49 percent. In 2006, alcohol-related crashes killed 16,919 people. Over 1.46 million drivers were arrested in 2006 for driving under the influence of alcohol. This is an arrest rate of 1 for every 139 licensed drivers in the United States.
- Arguably, alcohol abuse and alcoholism have accounted for more economic and social damage than any other public health problem. The cost to society from these disorders is

estimated at \$90 to \$116 billion annually. More than 70 percent of these costs are in the form of productivity losses due to excess morbidity and premature mortality attributed to alcohol use. Less than 13 percent of these funds are spent to treat alcohol disorders or the medical consequences of alcohol consumption.

- Alcohol misuse is involved in approximately 30 percent of all suicides, 50 percent of homicides, 68 percent of cases of manslaughter, 52 percent of rapes and other sexual assaults, 48 percent of robberies, 62 percent of assaults, and 49 percent of all other violent crimes. In addition, approximately 30 percent of all accidental deaths are attributable to alcohol abuse.
- An estimated 20 to 40 percent of persons admitted to urban general hospitals have coexisting alcohol problems and often are undiagnosed alcoholics being treated for consequences of their drinking.
- Liver cirrhosis is the ninth-leading cause of death, with an annual toll of more than 28,000 lives. Persons with alcoholism are also prone to other health problems, including neurological diseases.
- More than 100,000 deaths each year are associated with alcohol-related causes.
- Fetal alcohol syndrome (FAS) is the leading preventable cause of birth defects in the western world. FAS, one of four leading known causes of mental impairment, affects 1 to 3 infants per 1,000 live births. In 2006, the direct cost of treating FAS was about \$2.7 billion in the United States.
- Almost 14 million adult Americans meet diagnostic criteria for the medical disorders of alcohol abuse and alcoholism. About 40 percent have direct familial experience with one of these disorders.

Clearly, sufficient reasons exist for due caution in serving alcohol. The alcohol consumer needs to understand the dangers, and your company has to take whatever steps you can to avoid negative impacts. As an outlet for alcoholic beverages, your goals are happy customers and good profits, not problems like those listed above. This brings us to the second force affecting consumption.

Moral Dilemmas and the Law

Laws governing alcohol offenses can be very inconsistent. The single exception is that the age at which one can drink has been federally mandated at 21 years. Aside from that, each state treats alcohol-related offenses very differently. In recent years, the term “third-party liability,” otherwise referred to as the **dram shop law**, has gained recognition. Under this law, not only must the consumer take responsibility for his or her actions while intoxicated; the provider of the alcohol is considered liable as well. Individuals, hotel and bar personnel, and legislators have grown concerned about the high social cost of alcohol abuse. Bars and restaurants receive money for serving alcohol; third-party liability balances that monetary gain with culpability and prudence. The dram shop law brought about many changes in attitudes and practices within the industry, including the following: encouraging designated driver programs, the sale of mocktails (cocktails without liquor), bartenders’ refusal to serve inebriated customers, and bartenders’ assisting customers with calling taxis. Manufacturers, too, show respect for the law when they include warning labels on their products or add statements such as “Please drink responsibly” to their advertisements.

dram shop law A law requiring that not only must the consumer take responsibility for his or her actions while intoxicated; so too must the provider of the alcohol.

Quiz

What is the legal drinking age in the United States? What constitutes intoxication in your state?

In 1980, a tragic event changed the gradual trend toward prudence into a virtual revolution. A drunk driver with five previous arrests killed a 13-year-old in a car accident. The child's mother formed MADD, which has become a formidable body for public awareness. Largely in response to MADD's efforts, legislators introduced laws to reduce drunk driving, often by raising the drinking age and by creating a legal definition of intoxication in terms of blood alcohol content. In Colorado, for example, legal intoxication is measured at .05 percent blood alcohol content and up. In your beverage service, awareness of these laws must be part of how you think about and do business.

Your company policy should include an awareness of these issues and specific policies for staff to follow. Your company and management must support bartenders when they refuse to serve an inebriated customer, and you must actively encourage options like mocktails, designated drivers, cab service, and staff education.

Quiz

Why is an understanding of third-party liability vital to the success of anyone engaged in selling alcoholic beverages?

PRICING AND THE CLIENTELE

Pricing and clientele are areas in which you and your company determine some of the conditions under which alcohol will be consumed in your establishment. Both factors depend largely on the type, location, and patrons of your outlet. Most businesses operate with more enthusiasm than foresight, and they rely solely on advertisement, entertainment, or someone else's successful formula to improve sales. In this section, you will learn how to price your products only after carefully considering cost, availability, competition, and environment. This will not only make you competitive, but also give you a vital edge.

Do Consumers Really Respond to Prices?

Jess Stonestreet Jackson is the founder of Kendall Jackson Winery, which specializes in making popular wines that are good enough to command a premium price. Jackson, who is now a billionaire, prices his wines a few dollars higher than other mainstream wines. For example, if a Clos du Bois chardonnay costs \$9 at retail, Jackson will charge \$11 for his chardonnay. When chardonnay became the rage in the late 1990s, Jackson tried pushing up his prices by another few dollars over the competition. Unit sales dropped by 18 percent. Jackson rolled back his prices, and the volume recovered.

Source: Tim W. Ferguson, "Harvest Time," *Forbes*, October 16, 2000, pp. 112–118. Reprinted by permission of *Forbes Magazine* © 2008 *Forbes LLC*.

Cost

The cost of a bottle of wine or beer is straightforward; it is also relatively easy to determine the cost of a mixed drink. You simply add the raw costs of the ingredients together. Figure 7-9 is an example of costing a Bloody Mary. We have added commonly used terminology to the worksheet. An explanation of the terms is below the worksheet.

Figure 7-9 One Serving Cost Worksheet

One serving recipe costing worksheet						
1. Item number		M611		2. Is the item active?		YES NO
3. Item description:		Bloody Mary		4. Revenue group:		Beverage
5. Prep location:		Lounge Bar		6. Salable?		YES NO
7. GL Account Number:		01120-130		8. Tracking period:		DAILY MID MAIN
9. Batch size:		one serving		10. Recipe group:		Beverage
11. Ingredient item number	12. Ingredient item description	13. Number of recipe units	14. Recipe	15. Unit cost	16. Total cost	17. Percent units cost
87	Vodka Smirnoff 80	1.25	fluid ounce (FZ)	\$0.24	\$0.30	31.25%
718	juice V-8	5.5	FZ	\$0.06	\$0.33	34.38%
941	pepper black ground	0.25	WZ	\$0.39	\$0.09	9.38%
617	spice celery salt	0.5	WZ	\$0.13	\$0.06	6.25%
197	sauce horseradish	1	FZ	\$0.07	\$0.07	7.29%
801	sauce Worcestershire	0.25	FZ	\$0.21	\$0.05	5.21%
555	sauce Tabasco	0.1	FZ	\$0.36	\$0.03	3.13%
631	lemon fresh	0.167	CT	\$0.18	\$0.03	3.13%
TOTALS:					\$0.96	100%

18. Potential cost:	\$0.96
19. Menu cost:	\$5.00
20. Potential percentage:	19.22%
21. Target beverage cost percentage:	20%
22. Targeted menu price:	\$4.78

This worksheet is similar to the potential costing worksheet in Chapter 10. We'll list the steps to completing this worksheet here; if you'd like more information, review Chapter 10.

1. *Item number.* This is the menu item number you have assigned. If convenient, you can use the same number as your POS system uses to track the item.
2. *Is the item active?* An active item is one that is being used presently.
3. *Item description.* In this case, it is a Bloody Mary cocktail.
4. *Revenue group.* In this case, the group is "beverage."
5. *Prep location.* This identifies where the recipe is used for companies with multiple locations. This helps new employees, transferred personnel, and others who might not be familiar with the item.
6. *Is it salable?* Salable means that, when this recipe is completed, you'll have a product you can sell. Contrast a recipe for a single Bloody Mary with a recipe for a gallon of Bloody Mary mix for the bar: A single drink is a salable recipe, while a recipe for a mix

that won't be sold until it's further prepared is called a prep recipe. Circle YES or NO to indicate the item's status. This information is used to determine whether this item will be counted when you report sales.

7. *GL account number.* This space lists a general ledger number to which the expenses for this item should be assigned. This is a standard accounting practice. Your department will have several GL account numbers, and you will decide which costs and revenues go to each account. Our number here is just an example; companies use many different formats for these numbers.
8. *Tracking period.* This is used in many operations to state the period of time used when tracking an item's usage. You'll circle DAILY to indicate that the item is tracked every 24-hour period, MID if the item is tracked semimonthly, or MAIN for a standard accounting period, usually one month.
9. *Batch size.* The batch size is the total amount produced by a recipe. In our example, the batch size is one serving. You should practice making the recipe to measure the accuracy of the recipe size.
10. *Recipe group.* Recipes are grouped into categories to control and report what is made and sold. In this case, the category is beverage; you might also have categories such as appetizers, entrées, side dishes, and desserts.
11. *Ingredient item number.* This is the inventory code number, used to identify and track how specific ingredients are utilized.
12. *Ingredient item description.* This is simply the name of the ingredient. It is listed with the generic name first, followed by any specific types. Vodka, juice, and sauce are the generic products, while Smirnoff, V-8, and horseradish specify which ones you should use.
13. *Number of recipe units.* Record here the number of units for each item used in the recipe.
14. *Recipe unit description.* The recipe unit description will be WZ, FZ, CT, or TS depending on whether the inventory item is measured in weighted ounces, fluid ounces, unit counts, or teaspoons, respectively. See Appendix for a detailed listing of units.
15. *Unit cost.* This is the cost per teaspoon, count, weight ounce, or fluid ounce. In the example of vodka, suppose it costs \$8.12 per 1-liter bottle (remember that 1 liter equals 33.8 ounces; see Appendix for a conversion table). Divide the price of the liter by the number of ounces to get the price per ounce, or unit cost: $\$8.12 \div 33.8 = \0.24 per ounce. This calculation is performed for all ingredients.
16. *Total cost.* Next, multiply the unit cost (Column 15) by the number of units needed for the recipe (Column 13). For example, 1.25 ounces of vodka is multiplied by its unit cost of \$0.24 per ounce, to arrive at \$0.30. Once make this calculation for all the ingredients, total all these amounts. The result is the total cost of the serving, or \$0.96.
17. *Cost percentage.* The cost percentage is the proportion of the cost of each item to the cost of the whole. Simply divide an item's total cost by the total batch cost to get this percentage. In the case of the vodka, this is $\$0.30 \div \$0.96 = 31.25$ percent.
18. *Potential cost.* This is the sum of the total costs of all ingredients, or \$0.96.
19. *Menu price.* In our example, we set the menu price at \$5.00.
20. *Potential percentage.* This is determined by dividing the cost (in our example \$0.96) by the selling price, \$5.00. This is the percentage cost you will have if you follow all control procedures accurately.

21. *Targeted beverage cost percentage.* We set 20 percent as our target in this example. That's the beverage cost percentage we wanted to achieve for this drink. This compares favorably to the potential percentage in Item 20 and gives us a small cushion in our price to cover errors.
22. *Targeted menu price.* This is derived by dividing the potential cost (Item 18) by the targeted beverage cost percentage (Item 21). It is recommended to set actual price above target price due to cost control issues, which are discussed later in this chapter.

This example lists the ingredient costs of producing a Bloody Mary, but the time and equipment used also must be considered. In these calculations, always use the replacement cost, which is the current cost of replacing the item with one of the same type. Also remember the hidden costs of doing business. While your customers may see only the quality and quantity of the Bloody Mary mix in front of them, you also must consider the costs of storing and creating the recipes. The costs of spillage, spoilage, breakage, ice, payroll, and many other items add to the hidden costs. A customer is unaware of these costs and thus may wonder why a Bloody Mary is so expensive. Managers must, nevertheless, consider these costs when calculating a fair (and profitable) drink price.

Competition and Availability

A customer might pay more for a Bloody Mary at a mountain ski resort than in a state capital, or more in an airport than in the neighboring city, because there is no competition on top of a mountain or in an airport. Competition can influence pricing strategies significantly. Your role will include watching your competition and investigating their pricing structures so that you can make good decisions about how to price your own offerings. You will also want to find out whether what you offer is available in your vicinity. If you're the only establishment offering an extensive wine list, for example, you may be able to take advantage of that lack of competition.

Environment

When customers pay a price for a service or product, they perceive a relationship between price and quality. As you set prices for services, you must keep your target customers' price-quality perceptions in mind. Nowhere is this more evident than in the price of beverages. People who drink wine at home, for instance, are well aware of the actual cost. At your establishment they are paying more money for a bottle of wine. Why? What is it that you offer that makes them willing to pay a premium price, when they could have the same product at home for less? You will have to identify the level of service and quality your target customers expect, which is tied to how much they will be willing to pay. Your pricing strategy can be as easy as understanding your competitors—both the successful ones and those that fail or change strategy. The tricky part, then, is calibrating a good equilibrium for your own outlet or outlets. You will want to consider service levels and ambience with respect to your target audience. If the services and entertainment you provide are extraordinary, your customers might not object to paying more. Always remember that a beverage enterprise is a business, with the goals of maintaining a competitive edge, achieving employee efficiency, and enhancing the owner's investment.

Designing Your Pricing Strategies

Your beverage pricing can affect the number of drinks you sell; therefore, you must put some time and consideration into setting your menu prices. Because of the large variety of products and brands that are found in bar and beverage operations, products are usually categorized to facilitate pricing and control. This eliminates the vast differences among the thousands of different drinks. In general, categories are based on types of drinks and cost.

What Did That Salmon Dish Cost?

Restaurants mark up food costs by an average of 300 percent to cover their overhead and to generate a profit, but the markup is not the same for all items on the menu. Some ingredients—especially prime cuts of beef and exotic seafood such as fresh scallops—are so costly that diners would not tolerate a 300 percent markup. Instead, restaurants make up the difference on the cheap stuff—vegetables, pasta, and salmon. Why salmon? The farmed variety is only \$2.50 per pound wholesale—much cheaper than prime restaurant-quality beef. At the Docks Restaurant in New York, a 10-ounce salmon dinner garnished with potatoes and coleslaw has a menu price of \$19.50. The actual cost of the ingredients is only \$1.90.

To take another example, the ingredients of the best-selling Angus beef tenderloin at the Sunset Grill in Nashville, Tennessee, cost the restaurant \$8.42. Applying the average 300 percent markup, the price of the meal would be \$33.68. Few diners would order the meal at that price, however, so the restaurant charges just \$25. In contrast, the restaurant charges \$9 for its grilled vegetable plate, whose ingredients cost only \$1.55.

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There is no industry standard for either this categorization or the practice of price markup, but the following list describes recognized categories for beverage service:

- *Well brands.* These are spirits that are poured or served to the guest when the guest does not specify a particular brand. The manager will select these carefully to balance a guest’s perception of average quality and an acceptable company cost. Remember that most guests who do not specify a brand either don’t have a preference or are price-conscious. Whoever selects your company’s well brands will have to determine what the clientele will consider mid-range. A low-quality well liquor may cause guests to complain, while a high-quality product can increase costs dramatically.
- *Call brands.* This refers to brands that a guest requests by name, such as Jack Daniels whiskey or Remy Martin VSOP. They are more expensive, and they represent a guest preference over other brands—and you should price them accordingly.
- *Premium and super premium brands.* These are the high-end examples of call brands; accordingly, they are popular with high-end guests. Louis XIII cognac could be classified as premium or superpremium because of its triple-digit price tag. Prices with these brands are virtually unlimited; you’ll have to determine which expensive brands you wish to carry, if any, based on your clientele. You can then rank them as premium or super premium based on their prices.
- *Domestic bottle beer.* These are beers made in the United States, such as Coors, Budweiser, and microbrews like Old Dominion or Fat Tire.
- *Imported bottle beer.* These are beers imported from other countries. Some examples are Dos Equis from Mexico and Guinness Stout from England.
- *Draft beer.* These are keg beers tapped through special instruments; they can be either domestic or imported.
- *Nonalcoholic drinks.* Perrier, root beer, and orange juice are examples.

Example of Wine List

SUGGESTED SELLING PRICES ARE BASED ON THE FOLLOWING MATRIX ----->

(Category c)

< \$10 = 33%
< \$15 = 35%
< \$20 = 37.5%
< \$25 = 40%
< \$30 = 45%
< \$60 = 47.5%
SUGGESTED SELLING PRICE

Product Number	Item Description	Case Description	(Category a)		(Category b)					SUGGESTED SELLING PRICE
			Case Cost	Bottle Cost	Priced at 40% cost	Priced at 35% Cost	Priced at 30% cost	Priced at 25% cost	Priced at 20% cost	
SPARKLING WINES DOMESTIC SELECTIONS										
9712	IRON HORSE BRUT	CS=12/750ML	\$165.00	\$13.75	\$34.38	\$39.29	\$45.83	\$55.00	\$68.75	\$39.29
9764	SPARKLING JORDAN "J" 90	CS=12/750ML	\$215.90	\$17.99	\$44.98	\$51.40	\$59.97	\$71.96	\$89.95	\$47.97
SPAIN SECTION										
9707	FREIXENET CORDON NEGRO	CS=12/750ML	\$59.93	\$4.99	\$12.48	\$14.26	\$16.63	\$19.96	\$24.95	\$15.12
GERMANY SECTION										
9710	CHAMPAGNE DEINHAD LILA	CS=12/750ML	\$59.88	\$4.99	\$12.48	\$14.26	\$16.63	\$19.96	\$24.95	\$15.12
ITALIAN SECTION										
9708	CA DEL BOSCO BRUT	CS=6/750ML	\$138.60	\$23.10	\$57.75	\$66.00	\$77.00	\$92.40	\$115.50	\$57.75
FRENCH CHAMPAGNE										
9723	DOM PERIGNON 1.5LT	CS=12/1.5LT	\$1,858.00	\$154.83	\$387.08	\$442.37	\$516.10	\$619.32	\$774.15	\$325.96
9669	CHAMPAGNE MOET WHITE STAR	CS=24/375ML	\$371.99	\$15.50	\$38.75	\$44.29	\$51.67	\$62.00	\$77.50	\$41.33
CHARDONNAY SECTION										
9887	CHARD FORTANT COLLECTOR	CS=12/750ML	\$71.90	\$5.99	\$14.98	\$17.11	\$19.97	\$23.96	\$29.95	\$18.15
6813	CHARD GRGICH HILLS 94	CS=12/750ML	\$287.90	\$23.99	\$59.98	\$68.54	\$79.97	\$95.96	\$119.95	\$59.98
HALF BOTTLE										
9018	CHARD GRIGICH HILLS 93	CS=12/375ML	\$155.90	\$12.99	\$32.48	\$37.11	\$43.30	\$51.96	\$64.95	\$37.11
9016	CHARD RUTHERFORD HILL 90	CS=12/375ML	\$57.50	\$4.79	\$11.98	\$13.69	\$15.97	\$19.16	\$23.95	\$14.52

Figure 7-10 Example of Pricing Strategies

- *Wine*. Served by the glass or by the bottle.
- *Cocktails*. Also called mixed drinks, these usually contain distilled spirits mixed with soft drinks, water, or blended mixes like Bloody Mary mix or margarita mix.
- *Highballs*. These are mixtures of a spirit and a carbonated mixer or water. They are served with ice in a highball glass.

Most operators use a similar inventory grouping to determine their pricing strategies. This is very common with bottle wines. The example in Figure 7-10 illustrates how some pricing strategies might work in the bottle wine category. In Column A, fill in your cost, both by case and by bottle. This should always be replacement cost—the cost to replace the bottle at today’s prices. (This information, by the way, should always be kept confidential. You will not want to share your data with anyone who is not involved directly with your pricing policies—not even your vendors.)

Then, in Column B, a simple percentage markup is calculated. Actually, in this example, several different percentages have been offered, so that you can select the amount of markup that you deem best. You will be using your judgment and your knowledge of your client base to decide the cost percentages you can safely employ. Profitability is paramount.

Another pricing strategy is illustrated in Column C: a sliding scale. In this strategy, as the cost of an item rises, the cost percentage drops (though the actual amount of markup may still be significant).

Finally, consider the pricing principles of cost, availability, competition, and environment. When considering cost, note also that the costs of inventory maintenance, accounting, storage, personnel, spoilage, and loss of interest on inventory investment—all of which are covered in greater detail in later chapters—must be factored into what you eventually charge your customers. Weigh these factors well, so that your prices will be consistent, fair, competitive, and profitable.

SUMMARY

Beverages differ significantly from food products in several ways. These differences will affect how you order, receive, store, monitor, and serve beverages, and can impact your cost dramatically. Beverages are alcoholic and nonalcoholic drinkable liquids. Since the repeal of Prohibition in 1934, consumption trends have changed with the times. Several societal and industry factors have contributed to these changes; some are controllable, and some are not. The three factors affecting consumption trends are as follows:

- the health and economic impacts of alcoholism (uncontrollable)
- moral dilemmas and the law (uncontrollable)
- pricing and clientele (controllable)

To be successful you need to understand these factors and apply them.

CHAPTER QUESTIONS

Critical Thinking Questions

1. How can the use of a sliding scale strategy help to maximize profitability?
2. What are the factors affecting beverage consumption trends?
3. What are the societal impacts of alcoholism and alcohol abuse?

Objective Questions

1. The most distinctive trend in the consumption of alcoholic beverages has been the decrease in the consumption of distilled spirits over the past decade. True or False?
2. The most important factor in maximizing profitability of the entire beverage operation is maximizing the profit margin on each drink sold. True or False?
3. Because well brands are typically the least expensive of brands available in the house, it is desirable to purchase whatever brand is currently least expensive. True or False?
4. Beer is the most perishable of alcoholic beverages. True or False?

Multiple Choice Questions

1. Which of the following is typically the most consistent?
 - A. beer
 - B. wine
 - C. distilled spirits
 - D. fortified wines
2. While overall consumption of alcoholic beverages has decreased,
 - A. wine sales have more than doubled in the past decade.
 - B. beer sales have more than doubled in the past two decades.
 - C. nonalcoholic beverage sales have increased dramatically.
 - D. prices for supplies have dropped significantly, thus creating greater profitability.
3. Third-party liquor liability laws are also known as
 - A. dram shop laws.
 - B. responsible service laws.
 - C. driving under the influence laws.
 - D. none of the above.
4. If the total potential ingredient cost for one drink is \$0.72 and the targeted beverage cost percentage is 18, what is the targeted menu price?
 - A. \$1
 - B. \$2
 - C. \$3
 - D. \$4

-
5. If the cost of vodka in a screwdriver is \$0.38 and the total cost of the screwdriver is \$0.83, what is the cost percentage of the vodka?
- A. 40.2 percent
 - B. 45.8 percent
 - C. 38 percent
 - D. 21.8 percent
6. If a 750-milliliter bottle of vodka costs \$8.90, what is the cost per ounce?
- A. \$0.35
 - B. \$0.38
 - C. \$0.32
 - D. \$0.40
7. Portion size, portion control, and standardized recipes are essential for
- A. maintaining consistency.
 - B. controlling costs.
 - C. customer satisfaction.
 - D. all of the above.