

Strategies for a Profitable Tasting Room

2015 Virginia Agritourism Conference

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Agenda

- Strategies for a profitable tasting room
- Agritourism in Virginia (Survey Results)



Products



Customers



Revenues

Strategies for a profitable tasting room

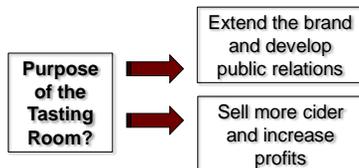
1. Establishing a tasting room
2. Signage and tasting room design
3. Selling, pricing and payment strategies
4. Tasting Room Staff

Cider tasting rooms in the Mid-Atlantic & New England

| Mid-Atlantic States | Producers and offering tasting rooms | New England States | Producers offering tasting rooms |
|---------------------|--------------------------------------|--------------------|----------------------------------|
| Virginia | 78% | Massachusetts** | 73% |
| North Carolina* | 44% | New Hampshire | 100% |
| Maryland | 100% | Vermont*** | 57% |
| Pennsylvania | 83% | Rhode Island | 100% |
| Total | 73% | Connecticut | 60% |
| | | New York**** | 73% |
| | | Total | 72% |

* One is a bar but recorded as a tasting room, and three were not confirmed as open to the public
 ** One has off-site tasting room, One may be off-site
 *** One requires a call-ahead for the tasting room, and One may be open to the public
 **** Two have off-site tasting rooms
 Source: Authors' own estimations based Mid-Atlantic-New England Hard Cider Producer Database 2014.

1. Establishing a tasting room



Given that establishing a tasting room involves large capital investments, winery owners should expect a return through increases in wine sales.

1. Establishing a tasting room

When establishing a tasting room, a series of regulatory issues must be considered:

- Permits to taste and sell alcohol
- Permits to serve or sell food
- Local zoning laws
- Road access and parking space
- Noise issues and neighbors
- Liability insurance
- Restrooms and access to people with disabilities
- Types of merchandise allowed for sales
- Permits to hold special events (e.g. weddings)
- Waste disposal
- Taxes

1. Establishing a tasting room

Should a cidery offer tours?

YES

It is advantageous for cideries to get visitors to stay for a longer time

A tour may allow for:

1. Larger expenditures
2. A more positive experience
3. A greater change to create positive brand attachment.

WAIT

Adding a tours to a cidery will increase initial and operational costs (e.g. additional staff, landscaping, liability insurance, etc.).

More affordable options include:

1. Picnic areas
2. Scheduling special tastings or events at the cidery

2. Signage and tasting room design

Signage:



When legislation place tasting room or cidery signs at least ten seconds before the entrance.

If possible, cideries may consider placing advance signage in order to let visitors know that they are approaching the tasting room (specially if gravel roads are involved!)

2. Signage and tasting room design

10 tips for designing and building a tasting room:

1. The front door should be wide enough for two people to enter/exit
2. Build a ramp rather than stairs for access.
3. Brand-supporting merchandise should be displayed in a way that customers have to go through when they go to or leave the bar area.
4. Smaller tours, more spacious bar area, and a lower visitor to staff ratio often induces higher sales.

2. Signage and tasting room design

Designing and building a tasting room (cont.) :

5. 18-inch wide tables are ideal for tastings. Furthermore, the width of a serving bar should not exceed 24 inches.
6. By placing cider stock and merchandise closer to the tasting area, staff will minimize their time away from customers.
7. To offer a closer and personal experience to their customer, the acoustics should allow for a quieter conversation and the lighting should be soft and intimate.

2. Signage and tasting room design

Designing and building a tasting room (cont.) :

8. Cash registers should be located near the exit because: (1) it helps to control theft; (2) it may remind visitors to purchase something.
9. Consider free wireless wi-fi for visitors. Staff can encourage on-the-spot social media reviews or testimonials.
10. Cideries should consider designating areas where couples and groups can sit and socialize.

3. Selling, pricing and payment strategies

Free tasting



Tasting fees



Business owners should be cognizant of the approaches used by neighboring businesses, and their fees should not vary too much - unless there is a good reason.



3. Selling, pricing and payment strategies

15 Strategies that may increase the profitability of a cidery tasting room.



3. Selling, pricing and payment strategies

Different Strategies:

1. A cidery may charge a flat tasting fee, but allow the visitor to **keep the glass**.
2. **Two different set of fees** may be offered depending on whether the visitors want to **include food pairing** in their tasting experience.
3. The fee charged should be in accordance with the **price segment** of the ciders sold.

3. Selling, pricing and payment strategies

Different Strategies (Cont.):

4. Charge customers a tasting fee, but then **reimburse it** if they purchase any cider.
5. For **larger groups** (8 or more), a cidery may consider a **reservation-only system** - separate tasting area and staff member and higher fees for the added services.
6. Keep the **tasting fees structure simple**. Tasting rooms with very complex fee structure may intimidate many customers.

3. Selling, pricing and payment strategies

7. Charging a **small fee** to consumers who made **large purchases** can be **counterproductive** and may be regarded as **distasteful**.
8. Staff should encourage visitors to "**Like or Follow**" the cidery's social media pages as well as to share their tasting room memories on internet review sites like **Yelp** and **Trip Advisor**.
9. Learn **why visitors decided to stop** by the cidery and tasting room.

3. Selling, pricing and payment strategies

10. Tasting room staff should carefully monitor when the bottles that are open and should not pour **oxidized cider/wines**.
11. Accommodate **visitors with children** by offering coloring books or kid-friendly dogs and cats and even complimentary snacks.
12. Cater to the **designated drivers** (e.g. offer bottle water, soft drinks or juices, etc.).

Prevent an overcrowded tasting room!



3. Selling, pricing and payment strategies

13. Put out a "No Vacancy" sign when the parking lot is full.
14. When the weather permits, staff members may place some chairs or tables outside for the overflow.
15. If budget and staff numbers allow, it is advisable to have a second tasting room in the event of a larger crowd.

3. Selling, pricing and payment strategies

There are lessons from wine tasting room that apply to both cideries and breweries.



3. Selling, pricing and payment strategies

Lessons from the wine tasting rooms (2012/2013 Wine Business Surveys):

- Most Virginia wineries now charge a tasting fee.
- A total of 68 % of the respondents stated that they reimbursed the fee when a purchase was made. In Virginia only 17% do this.
- The national average tasting room purchase was \$70. In Virginia it was \$51.

3. Selling, pricing and payment strategies

Lessons from the wine tasting rooms (2012/2013 Wine Business Surveys):

- 36 % of tasting room visitors do not purchase any wine, and only 29 % of customers signed up for the winery mail list.
- Wineries that are open only by appointment registered average expenditures of \$294 in comparison to \$70 average for those open to the public.
- The national average wine club sales was \$309. In Virginia it was \$276

3. Selling, pricing and payment strategies

Lessons from the wine tasting rooms (2012/2013 Wine Business Surveys):

- Formal seated tasting lead to higher average sales per customer (\$172) in comparison to those conducted standing at bar (\$78) or casually seated at a bar (\$95).
- For a higher fee many wineries now offer reserve tastings.

4. Tasting Room Staff

When establishing a tasting room, service provided by the winery is often found to be the most enjoyable aspect of the visit.



Hiring the right staff for a tasting room is a very important decision.

Nevertheless, most U.S wineries hire part-time employees who are often paid minimum wage or a little above

4. Tasting Room Staff

What ranks high among wine tourists?

- Friendliness of staff,
- Service provision,
- Courteousness,
- Knowledge,
- Professional attitudes and believability

4. Tasting Room Staff

Some useful tips:

1. Managers must be flexible with the **working schedules** of their staff.
2. While ideally staff members should have a **friendly demeanor** and knowledge about cider. It is important to recognize that new employees can be trained in the latter.
3. Do not ignore **single customers**.

4. Tasting Room Staff

4. While employees should be professionals and avoid excessive sales push, they should ask customers about their purchase intentions and create an environment that is conducive to higher cider sales.

4. Tasting Room Staff

To focus tasting room staff on increasing sales, cideries can implement various incentive programs:

- Cash commission plans
- Bonuses
- Free merchandise
- Paid time off
- Prizes
- Bottles of cider
- Profit sharing

Agritourism in Virginia: A Discussion of Survey Results



Agritourism activity . . .

Code of Virginia § 3.2-6400. (Effective October 1, 2008) Definitions.

In Virginia there is a specified definition of an "agritourism activity," and for the purpose of law, an agritourism activity is defined as:

"any activity carried out on a farm or ranch that allows members of the general public, for recreational, entertainment, or educational purposes, to view or enjoy rural activities, including farming, wineries, ranching, historical, cultural, harvest-your-own activities, or natural activities and attractions. An activity is an agritourism activity whether or not the participant paid to participate in the activity.

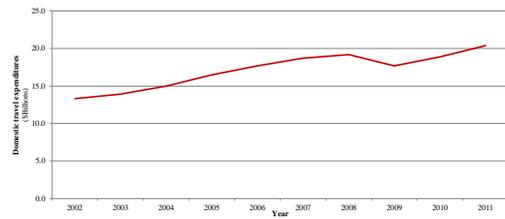
<http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+3.2-6400>

Why Agritourism?

- Agritourism is a value added strategy that:
 - Generates additional income from the land
 - Introduces farm product/brand to customers
 - Helps farmers coping with bad crops, rising input costs

Virginia Tourism Industry

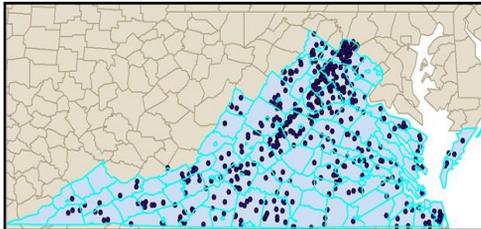
Figure 1: Virginia Domestic Travel Expenditure (2002-2011)



Source: Virginia Tourism Corporation (VTC, 2011)

Virginia Agritourism Industry

Figure 2: Agritourism Operations in Virginia



Source: VDACS Virginia-Grown 2013; Virginia Wine 2013; Pickyourrown.org; extension agent correspondence (ArcMap 10.1)

Virginia Agritourism Survey

Survey characteristics:

- The initial database consisted of 511 enterprises
- The final database included 471 enterprises
- There were a total of 243 responses (52 percent response rate)
- Wineries make up 44 percent of Virginia agritourism operations surveyed

Virginia Agritourism Survey

Survey characteristics:

It was composed of 33 questions separated into six sections:

- 1) Demographic Attributes
- 2) Operation Characteristics
- 3) Financial Positioning
- 4) Obstacles to Success in the Industry
- 5) Factors of Success in the Industry
- 6) Future Plans and Feedback

Survey Results

- Most commonly offered agritourism events:

- (1) **Tours**
- (2) **Tastings**
- (3) Picnics
- (4) Pick-your-own
- (5) Special events
- (6) On farm stands

Survey Results

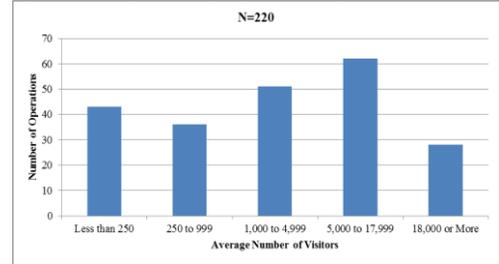
Table 1: Virginia Agritourism Enterprises Months of Operation (n=213)

| Month | # of farms | % |
|-----------|------------|-------|
| January | 129 | 53.3% |
| February | 131 | 54.1% |
| March | 144 | 59.5% |
| April | 179 | 74.0% |
| May | 195 | 80.6% |
| June | 199 | 82.2% |
| July | 205 | 84.7% |
| August | 201 | 83.1% |
| September | 204 | 84.3% |
| October | 204 | 84.3% |
| November | 184 | 76.0% |
| December | 165 | 68.2% |

Busiest months for VA agritourism

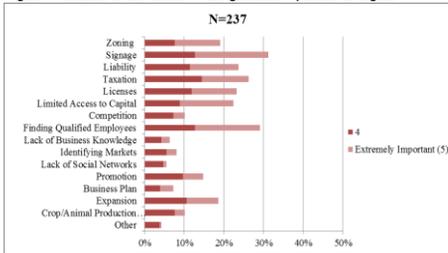
Survey Results

Figure 3: Number of Operations in Virginia by Estimated Average Number of Visitors



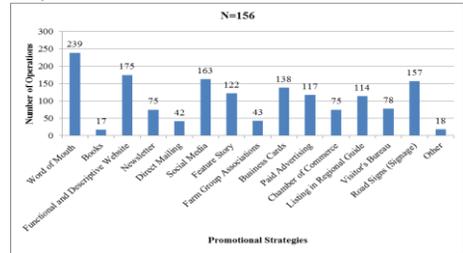
Survey Results

Figure 4: Obstacles to the Success of an Agritourism Operation in Virginia



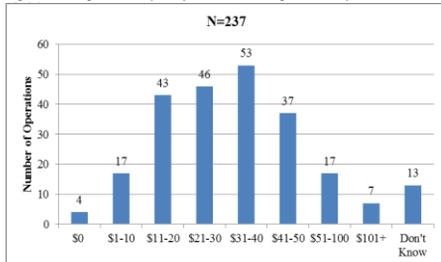
Survey Results

Figure 3: Number of Agritourism Operations Using Specific Promotion Strategies in Virginia



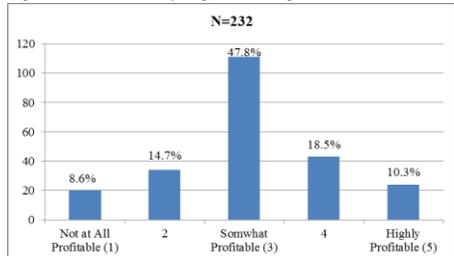
Survey Results

Figure 4: Average Dollars Spent by Each Visitor to Agritourism Operations in



Survey Results

Figure 5: Perceived Profitability of Agritourism in Virginia



Statistical Analysis

Variables that may increase profits:

- Higher education levels,
- The motivation of additional income
- Amount of acres
- Percentage of gross income generated from agritourism
- The average money spent per visitor

Variables that may decrease profits:

- Being a winery
- The distance from the operation to the nearest interstate
- More difficult access to capital

