Measuring the Return on Investment of Tasting Rooms*

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Tasting rooms represent a significant investment for wineries. The return on that investment comes in two forms. First, the tasting room acts as an on-site, direct-to-consumer retail sales outlet. This role is especially attractive since direct-to-consumer sales through tasting rooms provides wineries with a high-margin sales opportunity, bypassing distributors and traditional off-premise retail outlets such as grocery and liquor stores. The second role of a tasting room is to act as an embassy for a winery’s brand, introducing consumers to its wines, building brand recognition and brand loyalty which, hopefully, results in repeat future sales through restaurants and traditional retail outlets. While these two roles are not mutually exclusive, there is an inherent conflict that exists. As brand ambassadors, tasting room staff are tasked with creating a pleasant and informative wine-tasting experience. As sales people, tasting room staff are tasked with selling wine, often incentivized with commissions based on how much wine they sell or how many members they can sign up for their wine clubs. Although this conflict exists in most retail outlets, it is especially contentious in winery tasting rooms where visits to wineries and wine tourism in general are as much about the “wine country experience” as about the wine. The wineries’ ability to balance these dual roles will ultimately determine the return on investment of a tasting room.

While there is no question that tasting rooms provide a high margin direct-to-consumer sales opportunity, the ability of tasting rooms to create long term repeat customers has not been empirically established. We attempt to shed some light on this issue by answering two simple questions: First, what is the effect of tasting rooms on a winery’s long-term sales through the traditional retail channels? Second, if tasting rooms are effective in promoting long
term retail sales growth, what type of tasting room produces the greatest long-term growth rates?

Estimating the return on investment is always problematic, but tasting rooms pose a particularly difficult undertaking. To begin with, we start with the simple assumption that the more people that visit a tasting room, the more people are exposed to a winery’s brand and consequently the more brand identification and brand loyalty a winery can build. Unfortunately, however, very few wineries maintain data on tasting room traffic. Second, while tasting room sales are a good proxy for tasting room traffic, there is no single source of data on tasting room sales to analyse. Third, although tasting room sales can generally be extracted from point-of-sales (POS) systems, these are maintained individually by each winery’s tasting room in dozens of different formats. Fourth, even if we were to obtain data on tasting room sales from individual wineries and combine the multiple platforms into a single usable format, the sample of wineries willing to volunteer proprietary data for analysis is likely to be small. Finally, determining which type of tasting room is most effective in creating long term growth in retail sales for a winery is problematic without a metric on the “type” of environment a winery’s tasting room creates. One solution to this particular issue is to survey tasting room experiences on web sites such as Yelp. However, this would limit our analysis to only those winery tasting rooms reviewed. While these obstacles are certainly significant and would initially appear to preclude measuring the return on investment of winery tasting rooms, we propose an alternative strategy that circumvents these data limitations. Specifically, we propose treating this as a “natural experiment” by using a treatment-control group methodology.
Our first treatment group consist of wineries with high traffic tasting rooms. If tasting rooms do act as brand embassies, then wineries with higher traffic tasting rooms should experience greater growth in retail sales through traditional retail channels than wineries with lower traffic rooms or wineries with no tasting rooms.

The first sample of wineries we examine is from Sonoma County, California. We chose wineries in a popular wine-tasting area in Sonoma County along the Highway 12 corridor that runs from Glen Ellen to Kenwood; we treat this as our first high-traffic corridor. Our control group of low-traffic wineries is taken from the northern Sonoma County areas of Dry Creek and Alexander Valley, located to the west and north of Healdsburg. This sample is designated Northern Sonoma. While these are also popular wine-tasting regions that produce excellent wines, they are more remote and not as heavily visited as our high-traffic corridor of Highway 12. We should also note that on average, the wineries in our Northern Sonoma sample are smaller, in terms of case volume, than our Highway 12 corridor wineries. However, since we are examining the growth in sales and not the absolute volume of sales, this does not pose a problem with our comparison.

Our samples of high and low traffic tasting room wineries are chosen because they both have tasting rooms, and their wines are sold through traditional retail channels. Thus for wineries that sell exclusively through tasting rooms and restaurants, our results may not be relevant. As a third control, we examine retail sales of a large Sonoma County winery with no tasting room. Finally, we chose a fourth control group, the overall growth in sales of all wines (both foreign and domestic) sold in the US through the retail channel, to compare to our sample of wineries.
Figure 1 shows that throughout most of the period, the growth in retail sales at the high-traffic Highway 12 wineries is above the growth rate in sales of the low-traffic Northern Sonoma wineries. This difference is most pronounced during the holiday months, when wineries sell a disproportionate share of their annual sales. One might be tempted to conclude that tasting rooms act as an effective means of increasing brand awareness and creating brand loyalty that results in greater long term growth in retail sales. However, the greater growth in retail sales of wines from high traffic tasting room wineries could have been caused by factors independent of tasting room traffic. To investigate this, we compare the growth rate in sales of Highway 12 wineries to that of all wines and to that of a large Sonoma County winery that does not operate a tasting room.
Figure 2 shows that the growth rate in the high traffic Highway 12 wines was above the growth rate in sales for all wines from May 2007 through approximately May 2009. After that, Highway 12 wines trend downward, while the trend in all wine sales trend upward. Our next comparison group consists of wines sold under the Gallo Sonoma brand. Gallo Sonoma provides an interesting comparison because it is a large, well known winery but does not operate a traditional tasting room. Gallo Sonoma did, however, operate a small tasting room in the downtown plaza of Healdsburg, from 2003-2010. As can be seen, Highway 12 wines grew at a positive rate while Gallo Sonoma’s sales fell.

We turn now to our second question, what type of tasting room produces the greatest long term growth in sales at traditional retail outlets? Specifically, we want to know whether a
relaxed tasting room environment is more effective at creating long-term brand loyalty than more congested and commercially oriented tasting rooms. To answer this question, we examine another set of wineries along one of the most famous wine tasting corridors in the world, Highway 29 in Napa County California that runs through Yountville, Rutherford and St. Helena. We treat these wineries, along the Highway 29 corridor as our high-traffic “commercial” tasting rooms. While more traffic is generally considered better than less traffic, as indicated in the Sonoma analysis, there may be diminishing returns and at some point too much traffic may have negative effects on retail sales. To test this, as always, the choice of a proper control group is needed for a valid comparison. Fortunately, we have a nearly ideal control group in the nearby but much less visited Highway 121 corridor. In particular, we examine retail sales of wines from wineries with tasting rooms along Highway 121 or the Silverado Trail that runs parallel to our Highway 29 sample of wineries. Despite their close proximity, less than a mile at some points, the Silverado Trail wineries are generally less crowded and offer a much more relaxed atmosphere than the Highway 29 wineries, which are frequently visited by bus tours as well as individual wine tourists.
Figure 3 shows the indexed growth rates in retail sales of wines from our two Napa County samples as well as the overall growth rate in sales of all wines. There are several points worth noting in Figure 3. First, the Silverado Trail wineries experienced a growth rate in retail sales equal to or better than their Highway 29 counterparts in the off months. Second, during the all-important holiday months, the growth in sales of the Silverado Trail wineries significantly outperforms the Highway 29 wineries. Third, since November 2008, the growth rate in sales of the Silverado Trail wineries has been increasing while that of the Highway 29 wineries has remained flat. Fourth, the growth rate of all wine sales is slightly greater than that of the Highway 29 wineries, but less than that of the Silverado Trail wineries. Finally, while not shown
together, our analysis indicates that the trend in retail sales growth of wines from the Silverado Trail behave very similar to that of the Sonoma wineries along the Highway 12 corridor.

**Open versus Reserved Tasting Rooms**

Thus far, our results from Sonoma indicate that wineries with higher traffic tasting rooms result in greater retail sales growth through the off-premise channel than lower traffic wineries. Our analysis of Napa wineries, which experiences greater tasting room traffic than Sonoma, indicate that the lower density, more relaxed tasting rooms of the Silverado Trail experience greater growth in sales through the off-premise retail channel than the higher traffic, more commercial oriented Highway 29 wineries.

Clearly not all of the tasting rooms along Highway 29 in Napa are crowded and commercially oriented. Ideally, we would like to test for differences across wineries along the same stretch of Highway 29. Unfortunately, as noted earlier, unlike wine which has many third party rating agencies, there is no formal third-party measure of a tasting rooms’ ambiance. Rather than survey web sites like Yelp, or wine blogger sites for tasting room reviews, we use a proxy variable. All of the tasting rooms we have examined thus far in both Sonoma and Napa are open to the general public. However, that is not true of all of the tasting rooms in our sample areas. Specifically, we examine a subset of tasting rooms along the Highway 29 corridor that require reservations prior to visiting. We test whether a reservation requirement, which ostensibly reduces traffic through a tasting room, acts as an effective proxy in differentiating our subsample of tasting rooms from those open to the general public. If a reservation requirement does differentiate wineries from the more highly trafficked and commercially oriented tasting rooms, then these tasting rooms should experience greater retail sales growth
than the Highway 29 wineries that are open to the public. Since many of the reserved tasting rooms are next to the open tasting rooms, these would appear to compose an ideal control group for the open Highway 29 tasting rooms.

As Figure 4 indicates, the difference in the growth rate in retail sales is stark. Not only is the growth rate in retail sales of wines from wineries with reserved tasting rooms greater than that of wineries with open tasting rooms during the off season, but during the critical October, November, December (OND) period, retail sales growth of wines from wineries with reserved tasting rooms is significantly above that of those with open tasting rooms. In addition, the trend in retail sales growth of wines from wineries with reserved tasting rooms has been increasing while that of wineries with open tasting rooms is relatively flat.

![Figure 4](image-url)
It would appear that wineries with reserved tasting rooms along Highway 29 benefit from both the high profile of Highway 29 and the relaxed environment of the reservation requirement.

The growth in retail sales of wines from wineries with reserved tasting rooms along Highway 29 is not only greater than the growth in retail sales of wine from wineries along Highway 29 with open tasting rooms, but is also greater than the growth in retail sales of the Silverado Trail wineries and the Highway 12 wineries.

The data examined paints a pretty clear picture. Our analysis of Sonoma tasting rooms shows that more tasting room traffic is better than less tasting room traffic. However, as that great economist Shakespeare once asked, “can one desire too much of a good thing?” The answer with respect to tasting room traffic is yes. The law of diminishing returns and the benefits of creating a relaxed tasting room environment are evident from the higher growth rates in retail sales of wines from wineries with lower traffic tasting rooms of the Silverado Trail and those from wineries with tasting rooms along Highway 29 that require a reservation. As noted earlier, wine tasting is as much about the wine country experience as it is about the wine. While those visiting Disneyland expect congested traffic, long lines and a highly commercial environment, those visiting wine country do not. Our analysis of retail wine sales through traditional off-premise channels shows that wineries with low density tasting rooms create a more relaxed and enjoyable tasting room experience and build greater brand loyalty, ultimately resulting in greater growth in retail sales than their high density counterparts.