Retail Wine Availability and Product Diversity

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Abstract: The repeal of the Prohibition Act in 1933 introduced many state-specific regulations in wine markets. As one example of this, fifteen states currently have laws that restrict wine sales in grocery stores, and some states have recently considered lifting these restrictions. Some opponents of such legislative changes claim that allowing alcohol to be more widely distributed would put smaller liquor stores out of business and eventually lead to a narrower set of product choices available to consumers. Here we use the Nielsen Homescan dataset that describes wine purchasing patterns for approximately 70,000 households between 2004 and 2012 to examine this issue empirically. We estimate the impact of grocery store wine availability on the diversity of wine products, measured using the Berry Index and the Entropy Index, and control for consumers’ general preference for variety by including the diversity of cheese purchases as an explanatory variable. Our results show that, even when controlling for preferences for variety, consumers in states that allow wine sales in grocery stores have greater diversity in their wine purchases. Overall, the findings suggest that expanding the retail availability of wine may actually increase the diversity of wine products purchased by consumers in those states.

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**Introduction.** The repeal of the Prohibition Act in the United States in 1933 introduced many state-specific regulations in wine markets. These regulations were initially designed to reduce the acute and chronic social problems associated with alcohol consumption; now it is believed that many of these regulations continue to exist for historical reasons and because of rent-seeking behavior. As one example of this, fifteen states currently have laws that restrict wine sales in grocery stores (including all outlets that sell food such as supermarkets, convenience stores, and pharmacies). Introducing wine into grocery stores certainly would have negative consequences for licensees of liquor stores (see Rickard 2012); however, the implications for consumers are more complicated to assess. Greater availability of wine is expected to lead to lower prices for consumers, yet some have argued that introducing wine into grocery stores would lead to a more consolidated set of products available in grocery stores and consequently less choice for consumers.

**Policy environment.** Proposals to allow wine sales in grocery stores have recently been initiated in Colorado, Delaware, Kentucky, Massachusetts, New York State, Oklahoma, and Tennessee. Furthermore, in many states such proposals have resurfaced several times beginning as far back as the 1960s. However, none of these recent proposals have become legislation (legislation is pending in Tennessee) and they continue to meet significant resistance from liquor store owners and from social interest groups concerned that the introduction of wine into grocery stores would increase alcohol consumption and increase the various problems associated with alcohol. Retailers, winery owners, and consumer advocate groups have been much more favorable towards legislative proposals that seek to expand the distribution of wine.

**Data and Methodology.** Here we are interested in studying the effects of legislation allowing wine to be sold in grocery stores on the diversity of wine products available to consumers. We use the Nielsen Homescan dataset that describes wine purchasing patterns for approximately 70,000 households between 2004 and 2012. These data include detailed wine purchasing information that describes the brand, varietal, and vintage for each product (UPC-level data). The dependent variable in our model is the diversity of wine products purchased by a household in a given year, as measured by the Berry Index and the Entropy Index. The key explanatory variable of interest is the presence of laws that allow wine to be available in grocery stores. We also control for households’
general preference for variety by including the diversity of cheese purchases as an explanatory variable. Subsequent models also control for total wine purchases and household-specific demographic and socio-economic characteristics.

**Results.** Summary statistics show that the index measuring the diversity of wine purchases is higher in states that allow wine in grocery stores; we also see that the index measuring the diversity of cheese purchases is nearly the same across all states. Our econometric results show that households in states that allow wine sales in grocery stores have greater diversity in their wine purchases; the estimated coefficient suggests that the level of wine product diversity increases by between 10% and 20% in states that allow wine sales in grocery stores. This result is robust across various model specifications that include additional explanatory variables. We also ran a falsification test that estimated the effect of wine sales in grocery stores on the diversity of cheese purchases, and there was no statistically significant effect on this relationship.

**Conclusion and Policy Implications.** Recently there has been a renewed interest to expand wine distribution beyond liquor stores and into grocery stores in several states. Proposals put forward have been viewed as a vehicle for state governments to raise additional revenue, yet there has been strong opposition towards these proposals from liquor store owners and social interest groups. Our analysis shows that introducing wine into grocery stores would, in fact, not lead to a decrease in product diversity and consumer choices for wine. Our analysis weighs in on the current debate regarding the costs and benefits of increased wine distribution in the United States. This is an issue that has far-reaching implications for wine producers across the United States, as well as producers in Europe, Australia, and South America. Our research also sheds some new light on the tradeoffs that various stakeholders face as they debate the economic consequences of introducing wine into grocery stores. The opposition to wine-in-grocery-stores legislation—and associated claims that it will decrease product diversity and consumer choice—is most likely driven by rent-seeking behavior among liquor store owners that would like to maintain control over wine sales.

**References.**