Impact of Country of Origin Advertising on U.S. Import Wine Demand: A Panel Data Analysis

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Abstract

Wine consumption in the U.S. has grown dramatically since the mid 1990s. By 2005, U.S. consumption reached nearly nine liters per capita, up 36 percent from just 10 years earlier. Since 1995, consumption has increased at an annual growth rate of 3.1 percent. Imported wines are a big part of the increased consumption. The proportion of imported wines increased from 15.6 in 1995 to 24.5 percent in 2005. The annual growth rate of imports was 7.4 percent, more than three times the 2 percent growth rate of domestic wines. For the last five years, the consumption share of imports averaged nearly 23 percent and, if trends continue, imports will soon be expected to exceed one quarter of U.S. wine consumption. Imported wines have made great inroads into the North American market, both enlarging the pie and taking an ever-increasing larger slice.

Not only has the U.S. imported more wine, but the geographical origin of the imports has changed over time. Import data show that New World wines are making advances in the U.S. market at the expense of Old World wines. For example, since 1994 the combined share of U.S. imports from France, Italy, Portugal and Spain fell from 74 to 51 percent in 2005 while those from Australia and Chile grew from 14 to 36 percent; Australia alone saw its share increase from 5.4 to 27.7 percent. Australia is rapidly increasing market share, now accounting for about seven percent of the total U.S. bottled wine market.

The reasons for these consumption changes are many and complex; however, in seeking to capture a larger share of the U.S. market, importing countries have made continued efforts to inform and differentiate their wines. These activities typically involve country-specific generic and branded advertising expenditures. While over the 1995-2005 period advertising expenditures for domestic U.S. wines have doubled, expenditures for imported wine have increased much more rapidly. The effectiveness of advertising to influence consumer purchasing decisions is of great interest to both importer and domestic producers alike. This research is aimed at providing some insight into this issue. To our knowledge, this is the first empirical work to explore the role of domestic and foreign advertising on US wine imports.

Our empirical analysis reveal evidence of important price and advertising effects of domestic and imported wines on imported quantities; the advertising of imported wines significantly increases the quantity of imports while the advertising of domestic wines has a strong depressing effect on imported wine volumes. With the exception of Chile, all of the country fixed effects are statistically significant, providing evidence that imported wines are differentiated by country of origin. Some of the coefficients of country dummies are positive (France, Italy and Australia), indicating stronger preferences for these countries wine most likely due to higher quality. The opposite is found for Spain and Portugal (the country dummy
is negative). We compute the marginal returns to advertising based on our model estimates and find significant underinvestment in advertising of imported wine.