Introducing wine into grocery stores:
Understanding the economic effects in the presence of a burgeoning local cluster

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Introduction

Currently 35 states allow wine to be available in a wide range of outlets including liquor stores, grocery stores, and convenience shops. Two states, New York and Colorado, have recently proposed laws that, if passed, will allow wine to be sold in a larger number of outlets. This proposal is especially interesting in New York as it is the second biggest wine consuming state and the third largest winegrape producer. Allowing wine to be sold in food stores will have implications for the outlets that sell wine (liquor stores and food stores), wine producers and consumers, and government revenues. The purpose of this research is to carefully examine the economic consequences of liberalizing wine sales for the various stakeholders involved.

Method of Analysis

A partial equilibrium model is developed here that includes supply, demand, and market clearing conditions for a wine sector comprising four products—two types of wine (in-state and out-of-state) in two types of sales outlets (liquor stores and food stores). The model solves proportional changes in quantities and prices given a set of parameters that describe initial production and consumption quantities, elasticities, and product market shares for the wine sector in New York State. The model also includes parameters that introduce exogenous shocks to the demand for the four products as a result of allowing wine to be sold in food stores, and subsequent supply shocks as markets respond to the policy change. Supply and demand shifts are based on findings from previous research that examined the impact of grocery store sales of wine consumption in other regions.
Expected Outcomes and Policy Implications

Preliminary results indicate that allowing wine to be sold in 19,000 food stores (in addition to the 2,500 liquor stores that are currently selling wine) will increase welfare for wine consumers, out-of-state wine producers, and government revenues in New York State. The policy change would generate over $100 million in license fees and each additional percent increase in wine sales would lead to approximately $100,000 in tax revenues. Introducing wine into food stores would increase welfare for in-state wine producers under certain conditions; the results hinge on market shares of in-state wine in both types of sales outlets and the ability of the sector to respond to the policy change and compete with out-of-state wines. A crucial parameter in the model is the link between the overall demand shift for wine and the demand shift for in-state wine. In most cases, even modest increases in the demand for in-state wine would increase welfare for wine producers in New York State. We consider a range of demand and subsequent supply shifts for the four products to provide a better understanding of the economic implications of the proposed policy change. The wine sector in New York shows some resemblance to Washington State’s in the 1970s and New Zealand’s in the 1980s—times when each of these sectors introduced wine into grocery stores.