Title
One-stop or multi-stop shopping for wine, beer, and spirits? An empirical analysis of product entry deregulation in alcohol retail market.

I want to submit an abstract for:
Conference Presentation

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Keywords
one- and multi-stop shopping, alcohol laws, store choice, product selection, loss leading

Research Question
This study examines how the store choices of alcohol shoppers in an unregulated retail environment are influenced by both price and product competition between large retail and specialty stores.

Methods
This study will use a pooled cross-sectional household dataset to estimate the effects of the competitive market environment for alcohol product entry on store-product selections and price differentiation.

Results
Preliminary findings indicate that households diversify their store choices in alcohol shopping where the retail environment provides the utility of one-stop shopping and entails competition among retailing channels.

Abstract
Public policies governing the manufacture, distribution, sales, and use of alcoholic beverages could influence the competition among retailers, household store and product choices, and alcohol retailer positioning strategies.

Before 1933, the alcohol laws were enacted at the federal level where the 18th Amendment prohibited “the manufacture, sale, or transportation of intoxicating liquors” throughout the United States. The ratification of 21th Amendment in 1933 repealed the national Prohibition and authorized the state governments to set the regulations on the alcohol distribution system within their own borders. The change in governance authority from the federal to the state government had since then led to the differences in the decision-making for alcohol shopping in terms of travel, search, and product selection costs across states adopting different regulatory regimes. This study concerns two aspects relevant to such institutional difference that would influence consumer shopping behavior for wine, beer, and distilled spirits: grocery store sales and organizational store ownership.
This paper will use a pooled cross-sectional household grocery-purchase dataset to examine the following questions: i) In states allowing grocery store sales of alcohol, what are the store choices by households purchasing wine, beer, and spirits? Would consumers be one-stop shoppers taking advantage of the reduced travel costs or be multi-shop shoppers favoring the potential benefits in service or quality from more specialized stores? ii) Comparing between the purchases in grocery and liquor stores, how would the average price level for specific brands and varietals differ among different retailing channels? iii) How would the effect of the potential loss leading strategy adopted by major retail stores particularly for alcoholic beverages on household store and product choices be mediated by the store entry regulation of alcohol retail distribution? Additional controls that might affect store and product choices include the number of alcohol-selling business establishments in the locality, the rurality/urbanity of the residing county, shopping frequency, and the spillover effect from neighboring states having different regulatory rules.

In states where alcohol sales are allowed in stand-alone liquor stores only, the regulated system increases the travel cost for frequent shoppers for whom the purchase of food and alcohol requires separate trips and visiting different stores. While in the states that allow grocery stores and other major retail channels to sell alcohol, the unregulated retail environment may increase utility from the overall reduced time cost on household’s regular shopping for all the food, non-food items, and alcohol products in grocery stores. In this circumstance, consumers could be more inclined to be a one-stop shopper to reap the benefits of the single-trip convenience.

From the perspective of industrial organization, retailers can maximize profits by adopting differential pricing strategies to customers varying by their shopping costs and preferences for multiple product categories. Large retailers may have the comparative advantage as they have a wide range of in-store assortments while small specialty retailers may provide better quality service and a more differentiated product lines. Large retailers can earn the largest margins by charging a below-cost price for certain product category and higher price for the other categories depending on the heterogeneity in the opportunity cost of time facing consumers. This is known as the loss leading strategy.

This strand of literature has laid a solid theoretical foundation and empirical applications for the strategic pricing behavior among large retailers facing competition from small specialty stores, which is largely dependent upon the shopping decision of consumers, one- versus multi-store shoppers. This paper resonates with this framework and applies it to the alcohol market which fits well as an empirical study for examining the competition between grocery and liquor stores and whether consumers diversify their shopping routines and store choices. In states privatizing alcohol in retail outlets, grocery stores can be viewed as large retailers that provide both a monopolized good, which is grocery items, and a competitive good, which is alcohol. Wine & spirits stores sell only alcohol, which face competition from large retailers such as grocery stores, supermarkets, and big box stores in states that allow alcohol to be sold widely.

From the managerial and marketing perspective, this research will provide implications on the retailing strategy relevant to the price competition between different retailers in states that allow alcohol sales in wider retailing channels. First, a multi-stop shopping decision that takes place in an unregulated states may provide greater utility than one-stop shopping. It could imply that the stand-alone liquor stores maintain their comparative advantage in greater product assortment depth that attracts multi-stop shoppers who value quality or service more than the benefits brought by reduced travel cost for both grocery and alcohol purchases in a single-store trip. Second, large retailers could have better bargaining power and storage capacity to increase product availability and visibility on shelf in the regular grocery shopping experience for consumers. When different outlets have different advantages in terms of location, the value of assortment depth and search flexibility may outweigh the benefit from reduced travel cost provided by the large single store format. Small retailers can increase assortment variety and depth and provide better service to attract multi-stop shoppers and avoid being displaced by the disadvantage of location, concentrated product category, and less competitive pricing for certain alcohol varietals and brands. On the other hand, the large retail outlets increase the visibility of the competitive goods in the regular shopping routine that would otherwise require different shopping trips for access. Broadening alcohol product availability in frequent food purchase routines may increase the external information sources and the level of product involvement that could lead to either variety-seeking or loyalty behavior over a longer period of time.

Privacy
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