

rural new york minute

ISSUE NUMBER 36/DECEMBER 2009

Implications of Introducing Wine into NYS Grocery Stores*

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What is the Issue?

The issue of selling wine in New York State (NYS) grocery stores has received mixed reviews from grocery stores, liquor stores, wine producers, and consumers. While proposals were put forward in 1984 and 2009 to sell wine in NYS grocery stores, neither resulted in legislation. The previous two proposals generated much discussion about the possible implications of such a move, yet relatively little research has been completed to quantify the likely economic effects for the various stakeholders. Furthermore, a new bill is currently being discussed in NYS that seeks to introduce wine into grocery stores and provide compensation to liquor store owners to address their expected loss in revenues. This is an important policy issue in NYS because it is the nation's second largest wine consuming state and the third largest wine grape producing state (USDA-NASS, 2008).

The NYS context

The primary objective of the 1984 proposal was to increase market opportunities for NYS wineries, whereas the 2009 proposal's goal was to generate additional government revenue. Grocery stores favored the most recent proposal (see *Vote for wine*, 2009), liquor stores opposed it (see *Last Main Street Store*, 2009) and NYS wine producers appeared to be divided on the issue (see Frank, 2008; NYWIA, 2009). Approximately 35% of NYS wineries have publicly opposed these proposals; however, motivations for their opposition are not clear and there are reports that liquor stores have created a "blacklist" of wineries that support the policy change (Fickenscher, 2009).



What outcomes might be expected?

Thirty-five other states sell wine in food and drug stores. Overall, the introduction of wine into grocery stores in these states has increased demand for wine between 20% and 300%; the range of results is primarily due to the extent of the change and when the analysis was conducted. Although other states' experiences of introducing wine into grocery stores sheds some light on the potential impacts in NYS, the individual cases do not exhibit all of the idiosyncrasies that characterize the NYS wine sector. This analysis incorporates state-specific policy details and market conditions to understand the implications for stakeholders in NYS.

An economic simulation model was developed to assess the likely implications of introducing wine into grocery stores. Twenty-one simulation experiments were performed across various market conditions and modeling assumptions. A range of changes in demand for in-state and out-of-state wine were considered, as was a range of parameters describing how consumers would respond to changes in prices of wines.

The simulation indicated that this policy change would benefit out-of-state wineries, government revenues, and in most cases the in-state wineries, but that wine sales at liquor stores would fall by 17% to 32%. Simulation results were subsequently used to develop a framework for evaluating various proposals that would provide compensation to liquor store owners.

Industry and Policy Implications

This research indicates that future proposals need to carefully assess the benefits of provisions for liquor store owners, such as allowing liquor stores to sell beer and food, allowing liquor stores to maintain more than one sales outlet, or adopting a policy that facilitates a transfer of licenses from existing liquor stores to grocery stores. The simulation results show that expanded wine distribution and increased wine sales will generate additional (sales and excise) tax revenue annually. Moreover, these results indicate that annual government revenues from taxes on additional sales would be substantial.

In addition, while NYS's wine sector is relatively small compared to the major wine-producing regions in the world, it has experienced significant recent growth, approaching a stage in its development where it needs to review strategic marketing issues, including attracting a larger "domestic" consumer base. Introducing wine into grocery stores would increase the availability of wine to domestic consumers, and may be a mechanism to foster the development of this burgeoning industry. Introducing wine into grocery stores could be an important marketing opportunity for many wineries in rural regions of New York State that currently have access to a limited number of sales outlets. ▲

*for the full paper and references on this topic, including a detailed discussion of the conceptual model, simulation model, and results, please visit:
http://www.wine-economics.org/workingpapers/AAWE_WP48.pdf



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