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The impact of wine franchise laws on consumer choice and pricing

A comparison between Georgia and Florida

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Abstract

Purpose – The purpose of this paper is to compare and contrast wine sales in neighboring franchise law and non-franchise law states in order to determine impact on wine price, consumer choice, consumer satisfaction, and stakeholder perception.

Design/methodology/approach – The study used qualitative interviews with 14 wineries, distributors, and retailers, statistical analysis of Nielsen Scantrack data, and an online survey of 401 wine consumers in Georgia and Florida, USA.

Findings – Results show statistical proof that Florida offers more wine selection and lower wine prices on matching brands than Georgia. Qualitative interviews indicate wineries, distributors, and retailers perceive differences in wine choice, price, and overall operating costs in these two states. However, there was no statistical difference between a sample of 401 consumers from Georgia and Florida when asked about their satisfaction level with wine choice and pricing within their state.

Research limitations/implications – For practical purposes, the research was limited to only two US states. It would be useful to duplicate this study in other states.

Practical implications – Practical implications include the need for new wineries desiring to enter franchise law states to carefully research regulations and distributors before making a commitment, as well as the social issue of less wine choice and higher prices for consumers in Georgia versus Florida.

Originality/value – This is the first empirical study in the USA to focus on the impact of wine franchise laws on consumer choice and wine price. It yields useful information that contributes to the body of knowledge for wine and policy research.

Keywords Wine franchise law, Free trade, Consumer choice, Wine price, Consumer satisfaction, Wine distributors, Wines, Prices, United States of America

Paper type Research paper

1. Introduction

From the founding of the USA until the passage of the 18th amendment in 1919 introducing prohibition, wine and other forms of alcohol were distributed and sold in a free-market system in the USA (Herman and Long, 2008). However, it was soon discovered that the experiment of prohibition, which banned the production and sales of alcohol, only forced it to move "underground." Therefore, in 1933, the 21st amendment

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was passed, ending prohibition and allowing each individual state to regulate the distribution and sales of alcohol within their borders.

This resulted in a variety of different legal systems regarding wine and alcohol sales. For example, some states elected to become "open" states that use a three-tier distribution system in which a licensed wholesaler operates between the retailer and the wine producer (Herman and Long, 2008). Others decided to become "control" states in which they act as the alcohol distributor within the state, and may also serve as a retailer. In addition, some of the open and control states chose to adopt "franchise laws" which are monopoly protection laws to safeguard the distributor. These laws often make it very difficult to terminate a relationship with a non-performing distributor without payment of compensation or other good will calculations (Strike and Hinman, 2002). There are currently 22 wine franchise law states (Wine Institute, 2012; Sorini, 2010).

Wineries that desire to sell their wine in the USA must carefully study the laws and regulations that govern the distribution and sales of wine in each state they enter. This can require much time and effort, and may result in negative financial results if they have not carefully considered the consequences of entering agreements with distributors, especially in wine franchise law states (Strike and Hinman, 2002).

The Wine Institute, which represents over 600 wineries and affiliated businesses in California, asserts that a number of regulations instituted by states since the repeal of prohibition are anti-competitive (Gross, 2002). The Federal Trade Commission (FTC) has outlined the anti-competitive nature of some of these restrictions in Illinois, North Carolina, and Massachusetts because they inhibit competition within the three-tier system and diminish consumer welfare (FTC, 2003). They create unnecessary hurdles for wineries trying to sell wine in certain states, known as franchise states.

The impact of such regulations on price and availability of wine has rarely been studied empirically. Therefore, a research study was designed to investigate wine sales in franchise law states and non-franchise law states. In order to focus the investigation, two neighboring states were selected: Georgia – an open state with franchise wine laws and Florida – an open state without franchise wine laws. The purpose of the research study was to compare and contrast wine sales in Georgia and Florida in order to determine impact on wine price, consumer choice, consumer satisfaction, and stakeholder perceptions.

2. Review of the literature

Alcohol is the most strictly regulated commodity in the USA (Cholette, 2004). Because the regulation of alcohol in the USA is given to the jurisdiction of each individual state, some experts recommend that the 50 US states be viewed as 50 separate countries with different regulations, tax structures, and laws regarding wine sales and marketing (Herman and Long, 2008). Due to this high degree of complexity, the review of the literature covers several areas of US wine law and regulations. This begins with an examination of franchise law, and then continues with the impact of the three-tier system and post/hold law, before proceeding to lessons learned from direct shipping regulations. It concludes with comments on free trade, and a description of the wine regulations in Georgia and Florida.

2.1 Wine franchise laws

In the wine industry, franchise laws generally refer to regulations that significantly limit the ability of a winery to terminate or refuse to renew its relationship with a wholesaler (Cooper and Wright, 2010). Franchise laws are a non-tariff barrier to trade that can make it difficult, if not impossible, for producers of alcoholic beverages to unilaterally terminate relations with a distributor (Everett, 2001). Such monopoly protection legislation can cause an out-of-state winery to risk locking the future of their brand into one distributor in a franchise state, even if only one consensual sale has been made through that distributor. In addition, wineries often have to pay compensation to the wholesaler or prove a narrowly defined "just cause" in order to terminate with a wholesaler.

There are currently 22 wine franchise law states (Wine Institute, 2012; Sorini, 2010): Alabama, Arkansas, Connecticut, Delaware, Georgia, Idaho, Kansas, Maine, Massachusetts, Michigan, Missouri, Montana, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Tennessee, Vermont, Virginia, Washington, and Wisconsin.

An early article by Richard L. Smith II analyzed the economic impact of state regulations pertaining to franchise distribution systems in the automotive industry (Smith, 1982). Smith concluded that the net effect of protecting dealers from franchise termination and competitor entry was increased market power leading to higher vehicle prices. The end result was a large transfer of wealth from the consumer to the dealers.

A later study focused on the effects of state laws that require good cause for the cancellation of franchise contracts (Brickley *et al.*, 1991). Economists generally argue that termination laws increase the costs of franchising relative to company ownership by making quality control among franchisees more expensive. Consistent with this argument, the authors found that termination laws reduce the amount of franchising relative to company ownership in industries where individual units typically serve non-repeat customers.

A major aspect of franchise law is territorial exclusivity. Several empirical studies have been performed in the beer industry, finding that laws permitting or requiring territorial exclusivity for wholesalers of alcoholic beverages do indeed raise prices (Jordan and Jaffee, 1987; Culbertson and Bradford, 1991; Sass and Saurman, 1993). Culbertson and Bradford (1991) found that legally-mandated exclusive territories governing the wholesale distribution of beer partially explained the inter-state variance of the price of beer. Based upon panel data, Sass and Saurman (1993) found that state statutes that mandate exclusivity raise prices in the beer industry.

These types of restrictive regulations have been viewed by economists and the FTC to be harmful to consumers (FTC, 2003). The lack of competition forces consumers to pay higher prices and limits their choice of brands. For instance, The Illinois Legislature passed the Wine and Spirits Industry Fair Dealing Act in 1999, which made it illegal for an out of state supplier to cancel a contract with a wholesaler without good cause. It led to a spike in wine prices that hurt retailers' profit margins and forced consumers to pay $12.00 for a bottle that had previously sold for $10.47. An injunction was issued because the law was found to cause harm to wineries by restricting their ability to negotiate with suppliers (Murphy, 2000).

The Wine Institute asserts franchise laws that serve to protect monopolies have a detrimental effect on the range of choices available. Such laws make it nearly impossible for a winery to do business in a market where their wholesaler is underperforming (Gross, 2002). This restricts the consumers' access to a variety of wines. Many of the requirements listed above also limit the ability of small wineries to obtain wholesale representation (label and brand registration, price posting, registration and licensing of company sales agents). Such restrictions have a negative impact on consumer choice and hurt small, family owned wineries. For example, some states require that termination of a wholesaler can only occur for good cause and then very narrowly defines good cause to the benefit of the wholesaler. There are also business transfer provisions and territorial constraints (i.e. dual distributorships not allowed).

Another issue for wineries is the difficulty of finding a wholesaler in a marketplace where the number of wholesalers has become more concentrated, dropping from 450 in 1975 to 170 in 2002 (Gross, 2002). Meanwhile, the number of wineries in the USA has grown from 500-800 in 1975 to over 2,000 in 2002 due to increased demand for individualistic, hand-crafted wines (Genesen, 2002). Riekhof and Sykuta (2004) found that the wine industry is characterized by relatively few large producers and a large number of small wineries. Many of these wineries produce less than 2,000 cases each year, while the few large wineries can produce over 350,000 cases per year. The large producers have national distribution systems in place that perform well within the three tier system. For the small and medium wineries, however, there are potentially high transaction costs to identify and negotiate agreements with distributors across several states (Riekhof and Sykuta, 2004).

This consolidation has led to complaints from smaller wineries that they have problems getting wholesalers to carry their labels. If a winery cannot obtain distribution in a state, then the consumers' choices have been restricted. The American Vintners Association has ascertained that 2,600 of the 2,700 wineries in the USA face a market access crisis (Sloane, 2002).

2.2 Impact of three-tier system and post/hold laws

The three tier system is a complicated web of restrictive regulations that define the relationship between a wine supplier and wholesaler in a manner different from other general business contracts (Gross, 2002). States which use the three-tier system require wineries to sell their wine to a distributor (wholesaler). The distributor then adds a mark-up and sells the wine to a retailer, who, in turn, adds a final mark-up before the wine is sold to the consumer.

Critics of the three-tier system often argue that, in addition to inefficiencies, it gives market power to wholesalers by creating barriers to entry (state licensing) and limiting intra-brand competition by requiring producers to give exclusive territories to wholesalers (Wiseman and Ellig, 2003). Beyond monopoly protection laws, primary source regulations require that wine be purchased only from the designated distributor in an area – not from other distributors or out of state retailers (Hinman and Wright, 2000). Other restrictions include price posting, at-rest laws, credit restrictions, and product registrations (Hinman and Steinthal, 2003). These regulations protect distributors by preventing brand movement between distributors.

Cooper and Wright (2010) reported on the impact of post-and-hold laws on wine consumption. Post-and-hold laws require that distributors share future prices with other distributors by posting them publicly and then hold these prices for a period of time. That study showed that such regulations reduced wine consumption by 8-15 percent. The end result is an increased concentration of wine wholesalers and harm to consumers in the form of higher wine prices (Cooper and Wright, 2010).

2.3 Lessons from direct shipping regulations

While very little research has been done concerning franchise law, we can learn from the empirical evidence and debates concerning direct shipment of wine between states.

Since prohibition and the ratification of the 21st amendment, many states have instituted broad regulations concerning how wine and spirits are distributed. This has led to a heavily regulated industry where wineries, retailers, and consumers are generally prevented by law from dealing directly with each other.

In a report on the impact of a repeal of direct shipping laws in the state of New York, Eyler (2003) found that the potential increase in competition should result in lower prices and more wine choices for consumers. That analysis indicated that the ban on direct shipping effectively limited the breadth of consumer wine choices in New York. This, in turn, raises the price to consumers due to a reduction in the quantity available. A societal loss is incurred due to such barriers to trade. Direct shipping bans serve to debilitate consumer choice and allow higher prices.

The FTC (2003) studied the wine market in McLean, Virginia to assess the impact of direct shipping bans. That study compared the prices and choices that consumers could find in area stores to the prices and choices that consumers could find online. Price data was collected from out-of-state online vendors and compared to price data for bricks and mortar retail stores for a sample of the 50 highest point recipients among the 83 most popular wines from *Wine and Spirits* magazine. Retail stores did not carry 15 (18 percent) of those wines while all but 4 (5 percent) were available on the internet (Wiseman and Ellig, 2003).

It was also found that average savings of up to 21 percent were available on a 12-bottle case of over $40.00 wine and that the ban on direct shipping reduced the assortment of wine available to consumers. The authors added that the fact that local wine stores do not carry certain wines may result from additional Virginia laws (i.e. franchise laws) that affect the structure of the wholesale market (Wiseman and Ellig, 2003). Although there had been a wide array of theoretical arguments on direct shipping bans, this was the first empirical data to assess the impact of direct shipping policies on wine consumers.

In a follow-up study, Wiseman and Ellig (2007) found that the elimination of interstate trade barriers (i.e. direct shipping) served to facilitate more efficient markets. The average price differential between online and bricks-and-mortar outlets was 26-40 percent less than it had been prior to direct shipping. Product availability at retail stores increased, but not substantially (Wiseman and Ellig, 2007).

On the other side of the coin, wholesalers argue that approximately 86 percent of alcohol drinkers are satisfied with the selection of beer and wine available from local retailers. They maintain that any highly desirable wine can easily find its way into the distribution network (Gray, 2002).

The bans on direct shipping place the greatest burden on the small and midsize wineries. Some smaller wineries in tourist areas can sell directly to consumers through their tasting rooms, while large wineries have a good deal of negotiating strength. These large wineries have a broad portfolio of wines and possess enough muscle to guarantee shelf space in retail stores.

Midsize wineries, in contrast, have difficulty selling their wine through distributors who have considerable market power, especially in states where they have monopoly rights to distribute wine (Heien and Martin, 2003). Shelf space at retailers, however, is not proportional to the number of small wine producers, which adds to the difficulty of these wineries in acquiring a distributor relationship. Low volume products may not justify the marketing costs incurred by the distributor.

2.4 Free trade issues
The commerce system in the USA was set up on the premise of free trade, which is a national policy protecting the exchange of goods and services across state borders (Johnson, 2005). Ideally free trade should not be restricted by government intervention such as tariffs or discriminatory regulations. Adam Smith and many other famous economists have communicated the values of free trade policies to promote positive economic growth. However, in the case of certain consumer products, such as alcohol, there is more government scrutiny.

US states have a legitimate interest in controlling the distribution of wine and spirits because they are potentially intoxicating and addictive. McFadden (2002), however, asserts that there are many examples of restrictions, ostensibly adopted on behalf of consumers, which have actually served to protect concentrated economic interests at the consumers' expense. Eyler (2003) notes that the general outcome of these types of restricted state regulations is societal loss from the imposition of barriers to free trade. According to Hough (2010) of the American Legislative Exchange Council, legislation is often introduced in the states to insert the government between the wine producer and the wholesaler. The ultimate effect of such legislation is to create virtual monopolies for wholesalers. He asserts that these laws serve to reduce competition, foster distribution inefficiencies, and eliminate the ability of new businesses to enter the wholesale tier. The end result is higher liquor prices and fewer choices for consumers (Hough, 2010).

The complex US state alcohol regulations indicate the need for a study comparing similar geographic markets in states with different alcohol laws in order to provide information about the differences in marketing and retail institutions under different legal regimes (Wiseman and Ellig, 2003).

2.5 Wine regulations in Florida and Georgia
Florida is a non-franchise law state and allows wineries to terminate an agreement with a wine distributor at any time (Florida Statues, 2012). Georgia, on the other hand, is a franchise law state, where an agreement with a wholesaler cannot be amended or terminated without cause (Georgia Department of Revenue, 2012). Cause is determined by the Revenue Commissioner and can include business reasons such as serious financial instability, bankruptcy, and repeated violations of the law.

In Georgia, a winery must provide the wholesaler with 60 days prior notice of any changes it wants to make to the agreement including termination. In addition, the winery must specify the cause for the change and include the name of an alternate wholesaler. A hearing will then be held before the Commissioner of Revenue. Also a winery that acquires in any manner the right to sell new brands must continue to fulfill any agreements with wholesalers that were made by the brand's previous owner. A winery may grant the right to sell a specific brand to only one wholesaler in a particular sales territory (Bones, 2013).

In terms of wine sales outlets, Georgia and Florida provide similar sales opportunities for consumers. Both states are allowed to sell wine and beer in grocery stores, licensed gas stations, convenience stores, and private retail stores (NABCA, 2011). However, there are some dry counties in both states which do not allow alcohol sales. These include Union and Echols counties in Georgia and Washington, Lafayette, and Liberty counties in Florida (NABCA, 2011).

Sales tax on alcohol differs by state. In Georgia the sales taxes to consumers is 4 percent, whereas it is 6-7.5 percent in Florida, depending on the county in which the consumer resides (US Tax Foundation, 2010).

Direct shipping is allowed in both states. According to the Wine Institute (2012), Florida opened for direct-to-consumer in February of 2006 after US District Court Judge James D. Whittemore ruled that two sections of Florida's direct shipment law were unconstitutional in the case, *Bainbridge et al.* v. *Turner*. The law was unconstitutional because in-state wineries were allowed to ship to consumers, but out-of-state wineries were prohibited from shipping to consumers. Wineries must file monthly reports and pay excise taxes on direct wine shipments.

Georgia allowed direct shipping in 2008. According to the Wine Institute (2012), the permit fee is $50 and each winery may send up to 12 cases to each consumer and address each year. Wineries must pay sales and excise taxes, and use an online age verification service. Furthermore, if a Georgia consumer visits the premises of a winery, the winery is allowed to ship up to five cases annually to each consumer who purchases the wine on-site.

3. Research purpose

Based on the above review of the literature, the purpose of this research study was to compare and contrast wine sales in neighboring franchise law and non-franchise law states in order to determine impact on wine price, consumer choice, consumer satisfaction, and stakeholder perceptions. The states of Georgia (an open state with franchise wine laws) and Florida (an open state without franchise wine laws) were selected because they have large and healthy wine consumer populations and share borders in the southeastern part of the USA.

4. Methodology

In order to achieve the research purpose, the study was conducted in three phases. The first phase included qualitative interviews with 14 stakeholders to identify perceptions of issues in selling wine in wine franchise and non-franchise states. The second phase was a statistical analysis of Nielson Scantrack data for Georgia and Florida to determine wine brand availability and wine price points in both states. The final phase was an online survey of 401 consumers in Georgia and Florida to determine consumer satisfaction levels with wine selection and pricing in their state.

4.1 Qualitative interviews and sample

A series of 14 in-depth interviews were conducted with nine wineries and five distributors/retailers operating in Georgia and Florida in order to determine key stakeholder perceptions about the research purpose. The interviews were 30-60 min in length and were conducted via face-to-face meetings or telephone. Written notes were used to document responses. Questions were open-ended and focused on issues and success tactics involved in selling and/or distributing wine in wine franchise law and non-franchise states, with a focus on Georgia and Florida. In addition basic information on company size was collected. Data were analyzed using a thematic sorting process to identify major themes.

All respondents were informed that their names and the names of their companies would be kept confidential. Responses were sorted into the two categories of winery and distributor/retailer. Table I illustrates basic information about the two stakeholder categories.

Large winery interviewees held job positions in either the legal or sales department. Small and medium winery interviewees had job titles of national sales manager or president. Distributor interviewees were all in mid-level management, and retailers were the head wine buyer for their grocery chain.

4.2 Statistical analysis of Nielson Scantrack data

The purpose of this phase of the study was to conduct a statistical analysis on major wine brands and wine pricing in Georgia and Florida. Basic descriptive statistics and regression analysis were performed on the data, using the statistical analysis software Stata.

The main data source was scanner data of retail purchases of wine at grocery stores in Florida and Georgia. Scanner data, provided by proprietors such as Information Resources Incorporate and the Nielsen Company, is increasingly becoming the primary source of data for analytics in the consumer packaged goods industry due to the ready availability of data at the item level on factors such as price, quantity, promotional activity, and sales channel.

Nielsen Scantrack data was used to construct a pooled cross section of data on point of sale purchases of wines from major retail chains in Florida and Georgia, for the years 2006-2011. The data contains all wine sales, foreign and domestic, purchased from major retail chain stores, defined as those with sales of over two million dollars per year. The data includes the price paid, quantity sold, and store keeping unit (SKU) of each item. For the price analysis, purchases of standard 750 ml glass bottles (approximately 84 percent of all purchases) are used for uniformity.

The benefit of scan data is that it represents actual purchases of wine by consumers and is thus more reflective of actual prices and consumer demand than manufacturers' suggested retail price. The drawback of scan data is that it only records purchases in major US retail chains and does not represent wine sold on premise at wineries, purchases through wine clubs or purchases at restaurants. Despite these limitations, the scan data works well for our analysis.

4.3 Online consumer survey and sample

The purpose of this phase of the study was to determine if consumers residing in a franchise state were satisfied with the selection of wines available to purchase and whether they perceived the prices they pay for wine to be more or less than consumers residing in a non-franchise state.

An online survey using Survey Monkey was created to measure perceptions of wine availability and price. Measures were developed for this study. Demographic data was also collected. The survey was β-tested and minor revisions were made before launching.

To participate in the study, respondents had to be of legal drinking age and to have consumed wine within the past month. A quota sample technique was used, matching respondents to known parameters of age and gender of wine drinkers in the USA.

Wineries (9)	Distributors/retailers (5)
5 large wineries (1 million plus cases)	3 distributors (ranked in the top 3 in size for either Florida or Georgia)
2 medium-size wineries (50-100 k cases)	2 large grocery retailers (both operating in Florida and Georgia)
2 small wineries (5-10 k cases)	

Table I. Stakeholder company size

Survey Sampling International, a provider of panel data, was used to solicit responses. A final sample of 401 respondents, 201 from Georgia and 200 from Florida were obtained. The data were analyzed using SPSS. Frequencies for each state were calculated and T-tests were performed to identify differences between Florida and Georgia.

5. Results

5.1 Results of qualitative interviews – winery issues operating in franchise versus non-franchise states

All nine wineries identified several issues they encountered in operating in franchise states, and specifically Georgia, that created hardships for them. They reported they generally do not encounter these types of issues in Florida and other non-franchise law states because they can easily re-negotiate and/or terminate contracts with non-performing distributors. Major issues identified with wine sales in Georgia and other franchise law states are:

- difficulty in expanding an existing brand or introducing a new wine brand;
- issues with a brand being traded to another distributor; and
- costs associated with terminating a contract with a non-performing distributor.

Each of these is illustrated below in the following quotes:

> (Small Winery) Georgia is a difficult market for us. We are a small fish in Georgia and have a small distributor that we can't get rid of. This makes it impossible for us to grow. If we could get rid of our distributor, we could grow our accounts in Georgia. In Georgia if you can't get a large distributor, then it is difficult to break into good retailers.

> (Medium-Size Winery) One thing that really upsets me about franchise states like Georgia is they trade wine brands like we used to trade baseball cards. It actually hurts the importers even more, but they are afraid to do anything about it, because they don't want to lose representation in those states.

> (Large Winery) We consider the US as fifty separate countries, rather than "fifty United States" – in terms of wine shipping. It is very complex, and each state is different with Georgia and Tennessee being the most difficult. If we need to re-negotiate a contract to purchase Distributor rights and transfer to another distributor it can cost us up to 2-3 times gross profits. Quite expensive!

5.2 Results of qualitative interviews – distributor/retailer perceptions

When analyzing distributor and retailer responses to working in a franchise law or non-franchise law state, comments indicated they were aware of the issues the different laws created for wineries, however, they had differing perceptions on the impact of the regulations on consumers in terms of price and choice. Some believe that consumers may be negatively impacted, but they are not sure. Others see the different regulations as balanced out due to tax structure, demographics, and a healthy wine economy in both states:

> (Florida Distributor 1) We do business in Florida, but not in Georgia. We try not to do business in Control states […] In general, I think Florida is probably slightly less expensive because it is such a competitive market, but tax structure is different here than in Georgia […] In terms of product choice, I think Florida probably has more product choice because of the huge Hotel & Restaurant industry here.

> (Florida Distributor 2) It seems to me that there is more choice in Florida than Georgia, because Georgia is a franchise state and Florida is not [. . .] In terms of wine prices, I think pricing is pretty much the same, because we work with accounts that sell in both markets, and the pricing seems comparable, but I'm not sure.

> (Georgia Distributor) In some cases our prices are lower than Florida's, because their taxes are higher than ours. However, in other cases, our prices may be higher. In general, most of our wine is priced at the Wine Spectator retail price [. . .] I think there is a lot of product choice because we have so many small mom and pop wine and liquor shops. We offer wines from around the world. Many wine suppliers are trying to get into the Georgia market.

> (Grocery Retailer in Both States 1) It is much easier and less expensive to sell wine in Florida. There is more choice of wine in Florida and the prices are 10-20 percent less. Labor prices are higher in Georgia, and they don't allow the distributor employees to restock shelves in Georgia. But Georgia is a large market and sales are good, so we need to be there.

> (Grocery Retailer in Both States 2) We are not allowed to comment on that. I can say that the wine is not the same in all stores. We do look at local customer preferences and try to stock according to that.

Interestingly the Georgia distributor also described practices by distributors that negatively impact wineries attempting to enter the market, including acquiring wine brands through subterfuge and selling or trading brands:

> (Georgia Distributor) In general, people outside of the state think that the franchise laws protect the distributor, but there are pros and cons to this. On the plus side, I think the franchise laws require good distributors to communicate openly and honestly – which leads to better business. However, on the con side, things don't always run that smoothly because there are some distributors who abuse the system. For example, I know of one Georgia distributor who would encourage wineries to send samples and insist they fill out paperwork before doing so. Well the paper work was for Brand and Label Registration. Once this distributor got the brand, they would then shop it around to other distributors trying to sell it. Sometimes that works, and other times it doesn't. It can really hurt a supplier if they don't realize what is happening.

5.3 Statistical analysis – overview of wine market in Florida and Georgia

Figure 1 shows that per capita consumption of wine in Florida, measured in case volume, is two and a half times greater than per capita consumption of wine in Georgia. In 2011, purchases of wine totaled over eight million cases or just over five cases per person in Florida compared to fewer than two million cases or just two cases per person in Georgia. However, as Figure 2 shows, while Florida consumes more wine, Georgia has seen a greater growth in per capita wine consumption. Since 2006, Florida has seen an increase in per capita consumption of 2.5 percent while Georgia has seen an increase in per capita consumption approximately 13 percent.

When examined by price segment, the consumption patterns between Florida and Georgia are very similar with most, over 60 percent, consumption occurring at the "Under $6" price point, and the share of consumption decreasing monotonically as the price segment increases. With respect to domestic versus imported wines, Florida consumes more imported wines than Georgia, 34 and 25 percent, respectively. Across colors, both Florida and Georgia consume similar percentages of red wine varietals, 45 and 42 percent, respectively, white wine varietals 44 and 47 percent,

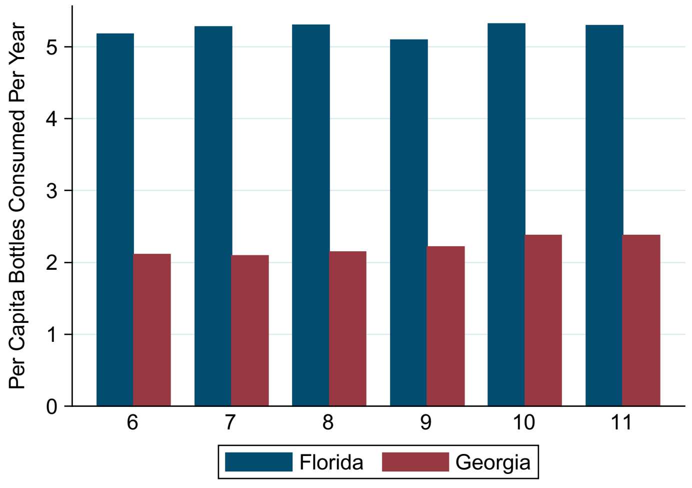

Figure 1.
Per capita wine consumption in Georgia and Florida

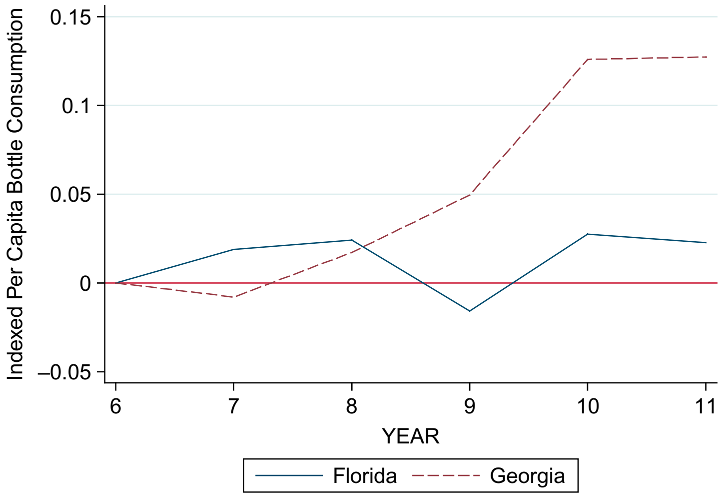

Figure 2.
Growth in per capita wine consumption

respectively, and blush wines, 11 percent for both. A similar pattern of consumption is observed across varietals between Florida and Georgia (Figure 3).

5.4 Statistical analysis – wine selection/consumer choice

Results of wine selection, or consumer choice, between states is measured by the number of unique wines available, identified by their SKU. In the data examined, there were approximately 1,000 more unique wines available in Florida than Georgia in 2011 (Table II). These differences are shown by varietal and price segment. Interestingly, while on average there are approximately 27 percent more wines available in Florida than Georgia, at the lowest price points, where most of the wine consumption occurs, there are

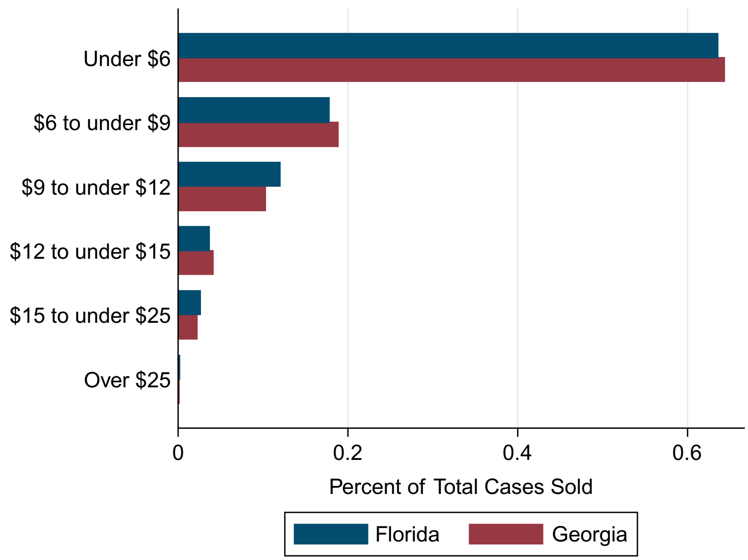

Figure 3.
Wine consumption by price points in Georgia and Florida

only a slightly greater percentage of wines available in Florida than Georgia. However, the increased variety is most prominent at the higher price points where, for example, there are 162 percent more wines available in Florida than Georgia (Table III).

5.5 Statistical analysis – wine pricing

A cursory look at prices shows that Florida appears to have higher prices than Georgia. Figure 4 shows a box plot of prices in Florida and Georgia indicating that the interquartile range and median price are greater in Florida than Georgia. Examining mean prices, we observe a statistically significant mean differential of $1.81 with mean a price of all wines in Florida of $13.37 being greater than the mean price of all wines in Georgia of $11.56. However, as the examination of wine selection demonstrates, there is a much greater selection of wines available in Florida than Georgia. This is especially true at the higher price points where the difference in wine selection is most prominent. As a result, any price differential we observe may be the result of a difference in the sample of wines available in the two states and not necessarily any price difference between the same wines across the two states. To correct for sample selection bias only those wines sold in both states are examined. Analysis of prices with the corrected sample indicates a statistically significant price differential of 94 cents with a mean price in Florida of $12.84 and a mean price in Georgia of $11.90 (Table IV).

However, even the corrected sample may provide a spurious comparison of mean prices for two reasons. First, Florida consumes more high-priced wine than Georgia. Second, Florida has a greater selection of high-priced wines available than Georgia. As a result mean prices may be biased. When price differentials are examined by price segment, a different pattern of price differentials emerges. Table V shows regression results on price differentials between Florida and Georgia for all wines as well as for each price segment. The following simple linear regression model is estimated using ordinary least squares to examine the price differentials between Florida and Georgia:

Varietal	Number of unique wine SKU's by varietal Florida	Georgia
Assorted	2	1
Blush	37	32
Cabernet Franc		2
Cabernet Franc Blend		1
Cabernet Sauvignon	635	518
Cabernet Sauvignon Blend	83	59
Chablis	23	14
Chardonnay	689	556
Chardonnay Blend	14	9
Chenin Blanc	10	10
Chenin Blanc Blend	2	4
Chianti	110	63
Gamay Beaujolais	1	
Gewurztraminer	18	16
Lambrusco	11	9
Malbec	122	89
Malbec Blend	6	6
Merlot	497	406
Merlot Blend	32	16
Montepulciano	15	7
Muscat/Moscato	97	92
Other Red	405	260
Other Red Blend	43	37
Other White	256	167
Other White Blend	15	9
Petite Sirah	25	27
Petite Sirah Blend	1	1
Pinot Grigio/Pinot Gris	287	229
Pinot Grigio/Pinot Gris Blend	8	7
Pinot Noir	326	282
Pinot Noir Blend	1	
Riesling	163	164
Rose	74	44
Sangiovese	16	10
Sangiovese Blend	12	7
Sauv Blanc/Fume	256	197
Sauv Blanc/Fume Blend	9	5
Semillon Blend	4	4
Shiraz/Syrah	233	183
Shiraz/Syrah Blend	43	44
Tempranillo	35	19
Tempranillo Blend	22	16
Trebbiano	2	3
White Merlot	11	10
White Zinfandel	88	77
Zinfandel	129	111
Zinfandel Blend	5	2
Total	4,873	3,825

Table II.
Wine selection in Georgia and Florida

$$\text{Price}_{it} = \beta_0 + \beta_1 \textit{Florida} + u_{it}$$

where “Price_{it}” is the natural logarithm of the price of each specific 750 ml bottle of wine (i) in year t and “Florida” is an indicator variable for Florida. Because the natural logarithm of price is used as the dependent variable, the regression coefficient on “Florida” can be interpreted as a percentage price differential. As is indicated from Table V, for the two lowest price points, which constitute approximately 80 percent of all wine sales, mean prices are lower in Florida than in Georgia. The price differentials are statistically significant at the 1 percent level of significance for the “Under \$6” dollar price point, but not for the “\$6 to under \$9” price point. For the two middle price points, mean prices are greater in Florida, although these results are not statistically significant for the “\$9 to under \$12” price point but are statistically significant for the “\$12 to under

	Number of unique SKU’s by price segment		
Price segment	Florida	Georgia	Percent Difference
Under \$6	1,094	990	10.51
\$6 to under \$9	1,036	992	4.44
\$9 to under \$12	1,100	852	29.11
\$12 to under \$15	586	405	44.69
\$15 to under \$25	745	467	59.53
Over \$25	312	119	162.18
Total	4,873	3,825	27.40

Table III. Number of wine SKU’s by price point in Georgia and Florida

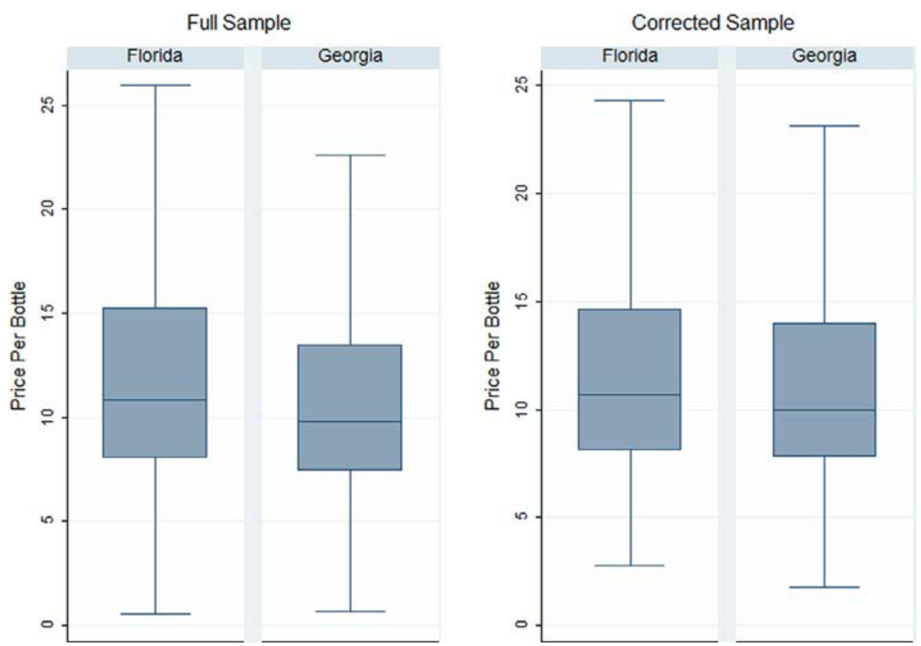

Figure 4. Box plot of wine prices in Georgia and Florida

Table IV. Wine price comparison with corrected sample

	Price comparison			
	Full sample		Corrected sample	
Price segment	Florida	Georgia	Florida	Georgia
All	\$13.37	\$11.56	\$12.84	\$11.90
Under \$6	\$4.74	\$4.86	\$4.83	\$5.10
\$6 to under \$9	\$7.57	\$7.61	\$7.59	\$7.69
\$9 to under \$12	\$10.41	\$10.29	\$10.40	\$10.29
\$12 to under \$15	\$13.42	\$13.41	\$13.55	\$13.34
\$15 to under \$25	\$18.89	\$18.67	\$18.66	\$18.79
Over \$25	\$39.69	\$37.46	\$41.22	\$36.75

Table V. Price differential regression results

Price differential regression results[a, b]

	All wines	Under \$6 wines	\$6 to under \$9 wines	\$9 to under \$12 wines	\$12 to under \$15 wines	\$15 to under \$25 wines	Over \$25 wines
Florida	0.051	− 0.036	− 0.005	0.003	0.009	− 0.001	− 0.015
	[0.01]**	[0.00]**	[0.17]	[0.22]	[0.00]**	[0.82]	[0.57]
Constant	2.349	1.618	2.023	2.329	2.587	2.925	3.641
	[0.00]**	[0.00]**	[0.00]**	[0.00]**	[0.00]**	[0.00]**	[0.00]**
Observations	2,532	1,554	3,534	4,005	1,985	2,335	901
Adj. R^2	0	0.01	0	0	0	0	0

Notes: Significance at: *5 and **1 percent levels; [a]dependent variable is log prices; [b]regression results are for the corrected sample; *p*-values in brackets

\$15” price point. At the two higher price points, once again mean prices are lower in Florida than in Georgia, although neither result is statistically significant.

While the magnitude of price differentials may not appear significant, the lower prices in Florida are surprising given the nearly 50 percent greater excise tax on wine in Florida compared to Georgia. Specifically, Georgia distributors pay a \$1.51 excise tax on every gallon of wine, while Florida distributors must pay a \$2.25 excise tax per gallon. Since the excise taxes are imposed at the distributor level, these raise the cost to retailers and ultimately to consumers and are thus reflected in the retail scan data. Consumers in Georgia pay 4 percent sales tax on alcohol, whereas Florida consumers pay 6-7.5 percent depending on the county in which they reside (US Tax Foundation, 2010). Despite the greater excise tax on alcohol, Florida wines are marginally less expensive.

5.6 Consumer survey results – demographics

The demographics of the 401 wine consumers who participated in the online survey are illustrated in Table VI. The findings show that the Florida sample had more female participation than Georgia’s sample. It also had more core consumers. The two samples were also significantly different in term of ethnicity with Florida having a greater number of Hispanic respondents and Georgia having greater number African American respondents. While the samples are different in term of their gender and ethnic make-up, they reflect

Item	Florida n	Georgia n	χ^2-value (significance)
Gender			6.345 (0.012)
Female	124	99	
Male	75	98	
Ethnicity			38.84 (0.00)
African American	15	47	
Asian	5	3	
Caucasian	147	139	
Hispanic	28	4	
Native American	2	0	
Mixed	3	7	
Wine consumption frequency			*Total*
Core (at least 2-3 times per month) (%)	65	53	58.9
Marginal (at least once a quarter) (%)	35	47	41.1
	Mean	*Mean*	t-*value (significance)*
Age (4 item scale)	2.53	2.42	1.02 (0.310)
Education (6 point scale)	3.58	3.60	− 0.097 (0.923)
Income (8 point scale)	4.34	4.22	− 0.458 (0.648)

Table VI. Demographics

the states from which they were drawn. There is the also potential for the different ethnicities represented in each state, primarily the percentages of African Americans and Hispanics, to have different purchase patterns, but none have been documented in previous research. There were no differences in terms of age, education and income levels. Therefore, the two samples were considered adequate for further comparisons.

5.7 Consumers survey – perceptions of wine availability (choice)

13 items were used to measure perceptions of wine availability and are presented in Table VII. Respondents were asked to consider the purchase of wine for a typical dinner at home. Five point Likert scales were used where respondents indicated (1) strongly disagree to (5) strongly agree. T-tests were used to identify differences in means between residents of Florida and those of Georgia. Out of the 13 items, only one significant difference ($p = 0.05$) was found. Respondents from Florida were more likely to agree that if they read a review about a wine they would like to try, they were would be able to find the wine for purchase in their local store or wine shop. There were no significant differences on the remaining 12 items, leading to the overall conclusion that residents of both Florida and Georgia have similar views about the availability of wine within their respective state.

5.8 Consumer survey – perception of wine prices

It has been proposed the wine prices in franchise states will be higher than those in non-franchise states due to reduced levels of competition. The purpose of this analysis is not to find out if differences in prices actually exist, but to see if consumer perceptions of wine prices are different within the two states, Florida and Georgia. Four items below, based upon Orth *et al.* (2004), were used to measure perception of price. Responses were coded:

- not at all;
- seldom;

Table VII.
Perception of wine availability

Item	Florida Mean	Georgia Mean	*t*-value (significance)
I am satisfied with the selection of wines available at my local store	4.08	4.03	1.28 (0.200)
I have difficulty finding the exact wine I want	2.58	2.61	− 0.723 (0.470)
I find the selection of wines to be too small	2.32	2.32	0.738 (0.461)
I wish I had greater variety of wines from which to choose	2.62	2.71	− 1.54 (0.293)
The store or wine shop I usually go to has an adequate selection from which to choose	4.06	4.00	0.885 (0.377)
The store or wine shop I usually go to has too many wines from which to choose	2.89	2.78	1.24 (0.218)
I often become frustrated because I cannot find the wine I want to buy in my local stores	2.31	2.30	0.064 (0.949)
When I read a review about a wine I might like to try, I know I probably will be able to find it in my local wine shop	3.64	3.36	2.99 (0.003)
I wish the store or wine shop where I usually shop carried wines from more states	3.00	2.98	0.190 (0.849)
I wish the store or wine shop where I usually shop had wines that came from lesser-known wine regions of the USA	3.10	2.99	0.986 (0.325)
I wish the store or wine ship where I usually shop carried more imported wines	3.03	2.99	0.333 (0.739)
I wish the store or wine shop where I usually shop had wines from lesser-known areas in other countries	3.07	2.93	1.39 (0.165)
I wish the store or wine shop where I usually shop had greater selection of expensive wines	2.69	2.65	0.322 (0.748)
I wish the store or wine shop where I usually shop had greater selection of inexpensive wines	3.10	3.15	− 0.517 (0.606)

- occasionally;
- often; and
- all the time.

None of the items were significantly different for Florida versus Georgia respondents (Table VIII).

6. Discussion

This three-phase study highlights several key findings and implications regarding wine sales in Georgia and Florida for wine price, consumer choice, consumer satisfaction, and stakeholder perception. These are as follows.

Table VIII.
Perception of wine price

Item	Florida Mean	Georgia Mean	*t*-value (significance)
The wines that are available to me are reasonably priced	3.98	3.94	0.501 (0.729)
The wines that are available to me offer good value for the money	4.11	3.96	1.86 (0.064)
The wines that are available to me are good products for the price	4.14	3.96	1.19 (0.235)
The wines that are available to me are very economical	3.73	3.70	0.331 (0.741)

6.1 Wineries perceive it is more challenging to operate in franchise law states
In general winery stakeholders believe that it is more difficult to gain entry, find a good distributor, and continue to work with distributors in a high-performing manner in franchise law states, such as Georgia, than in non-franchise law states where contracts allow for termination of non-performing distribution partners.

Implications indicate that new wineries desiring to enter franchise law states should research regulations and potential partners very carefully before making a commitment. In addition, they should be careful about completing paperwork and sending samples to distributors that have not researched in advance. Furthermore, they should be aware that their brands may be traded to another distributor without consultation if they have not established a positive working relationship.

6.2 Distributors and retailers operating in Florida and Georgia are aware of franchise law impact but have mixed views on severity
This study illustrates that distributors and retailers working in Florida and Georgia are aware of potential differences in wine choice and pricing in both states, but are mixed in their opinion on the severity of the issue. Some believe there may be minor choice and price differences due to tax structures and consumer preferences, but are not always sure. They do agree that the current wine market in both states is healthy and growing, but identify different challenges in wine sales.

Implications indicate that in order to be successful, these Florida and Georgia distributors and retailers must operate within the regulations of their own state, and that it may not be prudent for them to challenge “antiquated” systems and tax structures – even though they recognize that these systems may create higher costs and potentially less choice for themselves and consumers.

6.3 Florida offers more wine brands and competitive pricing compared to Georgia
This study highlights that Floridians had nearly 1,000 more unique wines available to them than Georgians in 2011. Moreover, the increased variety is most prominent at the higher price points. Additionally, it also appears that the greater concentration in Georgia results in less selection of wines available in Georgia relative to Florida.

With respect to price, the data shows that identical bottles of wine are often more expensive in Georgia than Florida. This is especially true at the low end, under $6 per bottle, where most wine is consumed. While the magnitude of price differentials may not appear significant, the lower prices in Florida are surprising given the nearly 50 percent greater excise tax on wine in Florida compared to Georgia.

While these differences may be attributed to factors other than the states’ franchise laws, the fact that the differences are consistent with the predicted effects of franchise laws, ostensibly designed to protect distributors, indicates this may be highly likely. At the same time, there is a negative impact on consumer wine choice and price in Georgia versus Florida.

6.4 Consumers in Georgia and Florida are equally satisfied with wine selection and price
No significant differences were found between respondents of Georgia and Florida in terms of perception of wine availability or price. Consumers in both states felt that they were receiving good value for their money and felt that they had access to quality wines.

Implications of the consumer satisfaction portion of this study suggest that residents of franchise states do not believe they have fewer wines to choose from nor do they believe they pay higher prices for the wines they purchase. This phase of the study does not provide evidence that such differences do or do not exist, but rather, any differences that do exist go unnoticed by residents of the respective states.

7. Limitations, future research and conclusion

An obvious limitation of this research is the fact that is only focuses on two US states. This give rise for future research opportunities to expand this study to other franchise law and non-franchise law states. Furthermore, comparisons could be made between different geographical areas of the USA in terms of franchise laws, and differences in how each state implements and monitors regulations, and its impact on wine marketing and sales.

In conclusion, based on the major phases of this study, there does appear to be statistical proof that Florida offers more wine selection and lower wine prices on matching brands than Georgia. Qualitative interviews also indicate that wineries, distributors, and retailers perceive that there are most likely differences in wine choice, price, and overall operating costs in these two states. However, when a representative sample of 401 consumers from both states was asked about their satisfaction level with wine choice and pricing, there was no statistical difference between Georgia and Florida residents. This indicates that, though a wine selection and price disparity may be present, the consumer is not aware of it. If it was deemed necessary to educate the consumer on this issue, then information would need to be shared with them in an objective fashion.

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