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Wine allocation: Perspectives of restaurant and retail wine buyers

Heather M Bigley
University of Nevada, Las Vegas

WINE ALLOCATION: PERSPECTIVES OF RESTAURANT AND RETAIL WINE BUYERS

by

Heather M. Bigley

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Clark S. Kincaid
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ABSTRACT

Wine Allocation: Perspectives of Restaurant and Retail Wine Buyers

by

Heather M. Bigley

Dr. Deborah Barrash, Examination Committee Chair
Assistant Professor of Food and Beverage Management
University of Nevada, Las Vegas

Wine buyers for restaurants and retail shops consistently order various wines to satisfy the demand of their customers and to compete in the hospitality industry. Often, these wines are difficult to find due to low production and high demand. This paper explores wine allocation as well as the research and literature on related topics such as monopoly theory and deregulation. This particular study on wine allocation surveys industry professionals who buy wine for resale at restaurants and retail shops and are familiar with the struggles involved in acquiring allocated bottles.

The study uses a mail survey to explore wine allocation as an industry problem. The results of the survey offer ideas as to how distributor deregulation may help eliminate the struggles encountered with obtaining highly allocated wines. Moreover, suggestions are made on how further research among wine buyers, distributors and wineries may assist in creating a system for fairly allocating wine.

Key words: wine allocation, wine distribution, wine buyers, restaurants, monopoly theory, deregulation

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CHAPTER 1

INTRODUCTION

The food and beverage industry faces numerous important issues and problems. Many empirical studies have been conducted on customer satisfaction, loyalty, product branding, sales forecasting, labor scheduling, etc. These topics are discussed and analyzed openly at conferences, in journal articles, offices, and taxicabs. There are also some problems that are not discussed as publicly. One of these less commonly discussed problems, is the way in which highly sought after bottles of wine are allocated and distributed to restaurants and retail stores. Certainly not all distribution processes are problematic, but when wine buyers for restaurants and retail outlets are asked about the wine allocation process, the frustrating secrets are unveiled.

Very little, if any, previous empirical research has been conducted in the area of wine allocation. In addition, the term highly allocated cannot be distinctly defined. A highly allocated wine is low in supply, yet high in demand. It is one of high quality and low production. Behrens & Hitchcock, for example is a winery in Napa Valley, California that produces less than 5,000 cases of high quality wines per year. Behrens & Hitchcock wines are highly allocated. On the other hand, wineries such as Silver Oak, Joseph Phelps, and Opus One produce upwards of 25,000 cases of wine per year and are also highly allocated. These examples help explain why the term highly

allocated cannot be specifically defined, and why the number of highly allocated wines made in the United States cannot be definitively determined.

The exploratory purpose of this study is to uncover the problems and issues facing wine buyers across the country when they attempt to obtain highly allocated bottles of wine for their valued customers. In some instances, a distributor may have a case or two or twelve to allocate, but in other instances they may have only a single bottle or two. The bottom line is that the demand for these wines outweighs the supply, which sounds like it could be a simple supply and demand problem. But a boutique vineyard (10,000 case productions or less) only has so much land that constitutes a certain terroir on which the selective grapes will grow. "Terroir (French) literally means "soil," but in a viticultural sense, terroir actually refers in a more general way to a vineyard's complete growing environment, which also includes altitude, aspect, climate, and any other significant factors that may affect the life of a vine, and thereby the quality of the grapes it produces" (Stevenson, 2001, p.579). This means increasing the supply of these grapes (and thereby the quantity of wine produced from the grapes) is not an option. Hence, wineries can only produce a limited quantity of certain wines. Wineries then sell these highly allocated bottles to the distributors. Liquor distributors are in turn responsible for determining how much of each wine their customers receive. Since many distributors have exclusive rights to distribute certain wines, wine buyers typically have only one choice from whom to buy a particular wine.

The Supreme Court has come a long way since the days of Prohibition, when on May 16, 2005 it struck down state laws that restricted direct sales across state lines by wineries to consumers (Bravin & O'Connell, 2005). However, wine buyers for such

outlets as restaurants and retail shops who plan on reselling the wine to customers cannot eliminate the middle man (the liquor distributor) in the supply chain. As a result, distributors naturally have mini-monopolies on the sale of the wines they each represent. Consequently, distributors maintain quite a hold over wine buyers and the allocation of these superior bottles.

Preliminary interviews in the fall of 2004 with wine buyers for restaurants and retail shops served as the catalyst for this research. Wine buying interviewees included sommeliers, wine directors, owners, general managers, and managers. The interviewees identified specific problems they face when attempting to buy wine, such as: the distributors' monopoly power on particular brands; unfair allocation of wine by distributors; not being able to afford the overpriced wine; failing to meet distributors' sales quotas resulting in being ineligible to buy highly allocated wine; and even quid pro quo – something for something. One interviewee said, "The distribution of highly sought after wines (wine allocation) is inconsistent. The demand for these wines is greater than the supply" (D. Erickson, Personal Communication, October 18, 2004). The common feeling among interviewees was that their voices were not being heard, and that the problems faced as a result of wine allocation are here to stay. This study addresses the unheard voices of these wine buyers and others across the country that have not been afforded the opportunity to share their feelings.

Wine allocation may be a necessary vehicle for the proper distribution of highly sought after, minimally produced wines. However, this does not mean wine buyers for restaurants and retail shops have to experience the troubles associated with the allocation. This study attempts to take the preliminary

interviews to the next level, using the initial responses as a springboard for a nation-wide survey. A survey was composed to capture the thoughts, feelings, and facts of wine buyers and their resale businesses. The results will further identify the problems associated with obtaining highly allocated wines.

The survey instrument was created as a vehicle for communication between the researchers and wine buyers for restaurant and retail shops. The idea for this instrument was a result of the researcher and primary investigator's management experiences in the restaurant industry. It is no surprise after years of fine dining restaurant experience, one of the great challenges has always been for the wine buyers. Wine buyers often face a daunting task when attempting to obtain highly allocated wines from their distributors for their customers, or merely for the purpose of deepening and enriching the restaurant's wine list. Even though the challenges of buying highly allocated wine are often experienced by restaurant and retail wine buyers on a daily basis, there is not much discussion on how to remedy the situation. This research was developed in an effort to identify and exploit the issues involved with buying wine for resale. This survey was created to uncover the core issues involved with wine allocation.

CHAPTER 2

REVIEW OF RELATED LITERATURE

Effects of Prohibition

Most previous research on the United States wine industry has not focused on wine allocation; instead, most research has centered on the demand for wine products and certain aspects such as quality and pricing (Blaylock & Blisard, 1993; Buccola & VanderZanden, 1997; Jaeger, 1981; Krasker, 1979; Landon & Smith, 1998; Riekhof & Sykuta, 2005). Nonetheless, wine allocation can be traced back to nearly a century ago. The Prohibition era in the United States, which started in 1919, forbade the manufacture, sale, transportation, importation, and exportation of intoxicating liquors for beverage purposes throughout the United States and all territory subject to jurisdiction thereof (Britton, Ford & Gay, 2001). The notion of low supply and high demand was at its peak during Prohibition. However, the concept of wine allocation was most likely not discussed during this period, though it is suspected this is when the controversy arose. The United States wine industry was in its infancy at the repeal of Prohibition in the early 1930's. It was at this time the famous Gallo brothers, Ernest and Julio of Modesto, California, set out to dominate what was then a relatively small and down-market American wine industry. Now the largest winemaker in the world, they compete amidst a much larger American wine market which began to develop starting in the 1960's. Not

only did the U.S. wine industry begin to grow at this time, but so did the demand for high quality wines (Britton et al., 2001).

Distributor Consolidation

As the wine industry began to expand, the United States' small wholesale liquor industry was shrinking. The wholesale industry was undergoing upheaval and mass consolidation. Small wholesalers were selling their businesses at a rapid rate. In fact, they diminished to such an extent that according to Freedman and Emshwiller (1999), the number of wholesalers shrank 97% between 1963 and 1999, to about 300 companies. The top five liquor distributors now account for a third of the market in the U.S. Moreover, in the wholesale and distributor market, companies such as Southern Wine and Spirits and Diageo have developed restricted agreements for their products in most U.S. states, and by the early 2000's, have considerably raised the bar for smaller distributors (Stone, 2003). As a result, smaller distributors have to work even harder to establish clients and diverse product bases.

Distributor consolidation is important considering the three-tier distribution system implemented by most states after the annulment of Prohibition. This system necessitates alcoholic beverages to first be sold to a state licensed distributor before the distributor then sells the alcohol to a state licensed retailer who finally sells to consumers (Riekhof & Sykuta, 2005). According to Riekhof and Sykuta (2005), a reduction in the number of distributors as a result of their consolidation means there are fewer channels for wineries to get their products onto retail store shelves and onto restaurant wine lists. In addition, Riekhof and Sykuta (2005) suggest the situation (distributor consolidation

combined with the three-tiered system) allows for a greater opportunity for conniving behavior among distributors. Such behavior includes using quid pro quo with wine buyers to get what they want. For example, if a wine buyer for a small restaurant wants to buy a case of a highly allocated wine, the distributor may only sell him that case if he also buys two cases of a more popular wine at the same time. This is a very common practice among distributors, and leads to unfair allocation of wine to retailers and restaurants.

Monopoly Power

Distributors enjoy monopoly power in two ways. The first way pertains to the monopoly power distributors have in smaller cities, for example Albany, New York or Des Moines, Iowa. In such cities, there may only be one or two wine distributors from which buyers may choose, as opposed to Las Vegas or Chicago where buyers sometimes purchase from six or seven different distributors. The second form of monopoly power pertains to the specific labels of wine distributors carry. Distributors have control over the sale of many wines and liquors; they sell products that cannot be sold by any other distributor. For example, many distributors have exclusive contracts for certain products, i.e., only one distributor in an area can sell Caymus Vineyard's wines. Therefore, in most cases, wine buyers have only one choice from whom to buy the desired products. In effect, this is a business monopoly which has been defined in a few different ways. Monopoly has been defined by Mund (1933, p.100 as cited in Salerno, 2004) as "the antithesis of competition, i.e., a state of affairs in which rival producers lack the freedom, willingness or capability—due to want of access to a necessary resource or to an

insufficiency of market demand—to compete." According to the Sherman Antitrust Act of 1890, monopoly power is defined as "the ability of a business to control a price within its relevant product market or its geographic market or to exclude a competitor from doing business within its relevant product market or geographic market" ("Monopoly Power," 2004).

To gain a better understanding of monopoly power, the classic Microsoft case can be used as an example. In November 1999, Microsoft was declared by a federal judge as holding monopoly power in the market for personal computer (PC) operating systems and harming consumers through its anti-competitive behavior (Moore, 1999). Microsoft at the time held more than 90 percent of the market share for PC operating systems, which caused "consumer harm by distorting competition" (Moore). The federal judge acknowledged three main facts which point out Microsoft enjoyed monopoly power. The judge wrote, "First, Microsoft's share of the market for Intel-compatible PC operating systems is extremely large and stable. Second, Microsoft's dominant market share is protected by a high barrier to entry. Third, and largely as a result of that barrier, Microsoft's customers lack a commercially viable alternative to Windows" (Jackson, as cited in Moore). Wine and liquor distributors, like Microsoft, have the potential to use their dominant market share and large profits to strongly deter any distribution competition. The result is the entry of smaller distribution companies that would truly benefit consumers never comes to fruition for the sole reason they cannot compete with the power held by the existing larger distributors.

Furthermore, distributors will most likely attempt to protect their market position. Southern Wine and Spirits of America is a prime example of a wholesaler protecting its

market position. It has been the nation's largest wine and liquor wholesaler since at least 2001 when it reported $2.3 billion in sales (Britton et al., 2001). In 1996, with the threat of wineries selling high quality allocated wines over the Internet and through direct mail programs, "Southern Wine and Spirits awarded approximately $60,000 to Florida legislators and their parties" (Freedman & Emshwiller, 1999, as cited in Britton et al., 2001) until a state law passed making Internet buying of wines a felony. After Florida, Kentucky followed as the next state to make Internet sales of wine a felony (Britton et al.). "The real purpose of this Kentucky bill was to ensure that every sip of alcoholic beverage consumed in the state puts money in the bank for the monopolistic distributionships that control sales throughout the country," (Ferguson, 1996 as cited in Britton et al.). Eventually, Georgia, Maryland, Tennessee, Indiana, and North Carolina joined the group of states who employ the felony penalty as a regulation on interstate direct shipment of wine (Riekhof & Sykuta, 2005). These laws, resembling laws from the Prohibition era, are examples of how distributor monopolies are being protected and industry competition is being restricted.

Supreme Court Ruling

Recent changes in liquor distribution laws may prove beneficial for small wineries, but not yet for the restaurant and retail store wine buyers. For example, on May 16, 2005 a Supreme Court ruling rejected laws regulating out-of-state sales in New York and Michigan (Bravin & O'Connell, 2005). These states previously prohibited any citizen from buying wines directly from wineries outside their state of residence. The majority opinion declared the laws discriminatory since the affected states do allow direct-to-

consumer shipping from in-state wineries. The court dismissed arguments that under the 21^{st} Amendment repealing Prohibition, states were free to regulate interstate alcohol sales however they wished (Bravin & O'Connell). The Wine and Spirits Association of Wholesalers, a trade group, was opposed to loosening the laws (Bravin & O'Connell).

The Wall Street Journal commented on the current wine distribution situation the day after the Supreme Court ruling. On May 17, 2005 *The Wall Street Journal* reported, "Because of state limits on direct sales by producers, most wine is distributed by large, powerful wholesalers, who decide what wines to buy and sell. Wholesalers generally give preference to the largest producers, so smaller brands often are excluded from wholesaler inventories and do not make it to store shelves" (Bravin and O'Connell, p. A1). The ruling is especially beneficial to small vineyards seeking to sell their product over the Internet, but has no effect on buyers of wine for resale at a restaurant or retail shop. Wine purchases for the purpose of resale must still be through a licensed distributor, which lies at the root of the problems of wine allocation. Though the Supreme Court ruling created more channels for wineries to get their wines to consumers, the ruling has not eliminated or affected the struggles involved with retailers obtaining highly allocated wines.

Distributor Regulation

There exists a large portion of literature with reference to the economy of regulation. However, this exploratory research study focuses more specifically on the implications distribution regulation has on restaurant and retail wine buyers. One study by Riekhof and Sykuta (2005) delved into economic public and private interests that drive states to adopt a non-prohibited, deregulated method of interstate direct shipment of

wine to their citizens. The study discussed the struggles, including transaction costs, involved with wineries identifying and negotiating marketing agreements with distributors across several states. Riekhof and Sykuta's study is similar to the one being conducted here in that the tribulations involved in the three-tiered wine distribution system are being examined.

The wine and liquor distribution industry is generally highly regulated with little competition. The regulation of industries allows monopolies to develop, creating barriers to entry for start-ups and small companies. The Supreme Court modified the regulations for this industry from one that traditionally has been monopolistic to one that may begin to take on a more competitive structure. The new legislation has diminished barriers between states, but it has yet to allow for more competition in the wholesale power market. Opening competition among distributors, and allowing wines and liquors to be distributed by multiple wholesalers in one market, could alleviate some of the problems associated with wine allocation. This type of deregulation would allow two or more distributors to carry the same product, for example, escalating competition, increasing the availability of products to buyers, and lowering prices (Humphries & Wilding, 2004; Zyl, 1992).

Deregulation

Some advocates of deregulation, the reduction of statutes and oversight in an industry, argue that in theory it usually helps small companies (Kurlantzick, 2003). Deregulation has proven successful in the airline and trucking industries, the first two major industries to be deregulated by the federal government. The United States Airline

Deregulation Act of 1978 resulted in lower fares and higher productivity (Kahn, 2002). In 1980, President Carter deregulated the trucking business, resulting in the entrance of entrepreneurial development to the industry. "Some truckers feel lowered barriers to entry have fostered competition, reduced prices for consumers, and encouraged innovative people to enter the business, people who have introduced satellite technology and other breakthrough technologies to the trucking industry" (Harrett as cited in Kurlantzick). In support of this feeling, Zyl's (1992) article on the deregulation of freight transport in the U.S. reported on Rehner's findings (as cited in Zyl) that deregulation has indeed increased productivity and reduced freight costs, implying lower rates for transport users. Deregulation is also recognized for initiating new industries such as the brokerage industry (Zyl). Often, monopolistic tiers of a supply chain inevitably reduce relationship qualities due to the limited availability of options for action (Humphries & Wilding). However, deregulation may promote better relationships between supply chain partners.

This study attempts to assess whether deregulation in the wine distribution industry will benefit wine buyers for restaurants and retail wine shops. The following section describes the survey method used for examining the opinions of wine buyers across the United States on this issue: the effect distribution deregulation would possibly have on their business, from the amount of wine allocated to how wine buyers could more easily obtain the highly allocated wine. The survey and its results address the following four research questions:

Research question 1: The deregulation of wine distributors will allow more than one distributor to sell the same brand of wine.

Research question 2: The deregulation of wine distributors will increase competition among distributors.

Research question 3: Increased competition among wine distributors will result in wine distributors offering lower wine prices.

Research question 4: Increased competition among wine distributors will result in highly allocated wines being more readily available for purchase.

CHAPTER 3

METHODOLOGY

As previously mentioned, the three-tiered wine distribution system was put into place following the repeal of Prohibition. Licensed retailers are required to buy from a licensed distributor and cannot reap the benefits of the 2005 Supreme Court ruling that broke down interstate barriers on wine distribution. What is more, wine buyers only have one choice in distributors when purchasing certain brands of liquor (wine, beer, and spirits). Previous interviews with industry professionals have told us this distributor hold acts as a monopoly and often causes collusion when allocating wine and setting prices. Thus, the issue of wine allocation and distribution prompts four research questions that are addressed in the survey instrument used for this study.

Sampling Design

A representative sample was taken from the larger population of all United States wine buyers so generalizations can be made about the wine buying population. The sample targets people who buy wine from distributors for resale purposes. A probability sample was obtained. Specifically, the probability sample is a simple random sample from public lists available on the World Wide Web. The preferred method of survey delivery was via email. However, due to the lack of an available email list containing information for restaurant and retail shop wine buyers, a mail survey resulted. This will

be discussed further in the limitations section. The *Wine Spectator* magazine's website (www.winespectator.com) offers a search option by which users can access lists of restaurants and retail wine shops. The restaurants on the *Wine Spectator* website were grouped into three categories according to their wine lists: expensive, moderate, and inexpensive.

Due to the superior quality, high demand, and low supply of highly allocated wines, their prices are usually quite expensive compared to wines of lesser quality that are more readily available for purchase. Therefore, the survey in this study is targeted toward upscale restaurants that fit into the *Wine Spectator* category of restaurants with "expensive" wine lists. Though "expensive" was not defined, it can be assumed that the highly allocated wines this study refers to would be found on these "expensive" wine lists (if found at all). Therefore, restaurants were chosen from the "expensive" wine list category in the United States. The complete list of United States restaurants and their addresses from the *Wine Spectator* website yielded 3,105 locations; the "expensive" category offered 503 locations.

The retail wine shop locations chosen for the survey were also obtained from the *Wine Spectator* website. The search option allows users to find retail locations first categorized by country and next by city and state; it yielded 2,560 retail locations across the United States. Rarely are retail shops categorized by pricing such as restaurants. On the contrary, unlike restaurants labeled with "expensive" wine lists, oftentimes retail locations with very expensive, high-end wine offerings are proud of being labeled "discount" liquor shops. For example, Lee's Discount Wine and Liquor in Las Vegas, Nevada offers customers the most highly allocated wines for retail purchase in the city.

Due to the lack of specific pricing categories for retail shops, the entire list of United States shops was sorted by state. Then, one in every five locations was chosen, providing 512 retail locations for the survey sample. Though not comprehensive, the total sample of both restaurants and retail shops contains 1,015 locations across the United States. Restaurant and retail lists compiled for the mail survey were obtained from www.winespectator.com which can be easily accessed without registration or a login name and password.

Survey Distribution

Prior to distribution, phone calls were placed to approximately 75% of the sample locations in order to identify the name of the wine buyer for that specific store or restaurant. Since mail surveys have a high non-response rate, and an incentive was not offered, the information gained from the phone calls allowed the survey to be addressed specifically to the person in charge of buying wine at that location, in an effort to increase the response rate. Restaurant and retail wine buyers received a professional envelope in the mail, addressed to them, with the UNLV logo and return address. Upon opening the envelope, the buyers found an informative introduction letter on UNLV letterhead explaining the purpose of the study and how the study is voluntary and confidential. This letter also introduced the study as exploratory research and asked respondents to write "copy of results requested" if they were interested in learning of the outcome of the study. Recipients also found in the envelope the twenty-question survey plus seven demographic questions. The survey instrument itself was printed in booklet style. Questions began on the cover page and when the survey was opened, additional questions

were found on both the left and right pages. Demographic questions were strategically located at the bottom of the last (third) page. In addition to the letter of intent and survey instrument, a self-addressed stamped envelope was included for easy survey return. The study did not cost the respondents anything, just approximately ten minutes of their time.

Upon receiving approval from the Office for the Protection of Research Subjects, the questionnaire was mailed via the United States Postal Service to all 1,015 locations on the compiled list between February 13th and 20th, 2006. Between February 27th and March 13th, follow-up phone calls were placed to non-respondents. The buyers were asked during this phone call if they received the survey, and if they had any questions pertaining to its content. They were thanked for their participation and encouraged to assist by sending back their survey as soon as possible. After March 24th, 2006, any surveys returned to UNLV were not considered in the data analysis.

Survey Design

Survey questions were based on previous literature on the topic of wine allocation and distribution as well as recent literature pertaining to the May 2005 Supreme Court ruling on wine distribution in the United States. Quite an unearthed topic, the lack of previous empirical research did not provide a source on which to base survey question construction. Therefore, in addition to the literature on distribution, the statements and questions created for the survey were strongly based on information gleaned from initial interviews conducted with industry wine buyers and distributors in the fall of 2004. Six interviewees from the Las Vegas area were asked a series of twelve questions either over the phone or in person. These preliminary interviews allowed the researcher to identify

common problems experienced by wine buyers when attempting to buy highly allocated wines from their distributors. The interviews also allowed the researcher to gain the distributors' perspectives on systems used for allocating wine to restaurant and retail wine shops. The results of the interviews provided common themes implemented into the survey statements and questions.

The survey makes statements and asks questions pertaining to the effects wine allocation and distributor monopolization have on the wine buyers of America and their business operations. The survey was constructed with the intent of yielding answers that determine whether or not the participant understands the concepts discussed in the research questions. These include the concepts of wine allocation, distributor satisfaction, challenges to business operations caused by the wine allocation practices of distributors. In addition to pointed statements directed at validating the four research questions, the survey also visits issues such as how important the wine buyers' relationships are with distributors to the amount of highly allocated wine they receive. On the contrary, it measures how important the restaurant or retail shop's sales are to the amount of highly allocated wine they receive.

The aforementioned issues are part of the survey containing eighteen statements and two questions based on the four proposed research questions. The eighteen statements use a five-point Likert scale to measure attitudes toward wine distribution. The two questions use a five-point categorical importance scale. Both scales include an additional option for "I don't know." Seven demographic questions are asked at the end of the survey. The first two demographic questions are tailored according to whether the respondent buys wine for a retail shop or restaurant. For example, the first demographic

question asks from which type of retail outlet (or restaurant) you buy wine. The remaining demographic questions range from how many years the respondent has been buying wine to how many distributors the respondent buys wine from. A few questions ask the wine buyer sensitive information, such as their location's daily wine sales. Therefore the demographic questions are positioned at the end of the survey in such a way that the respondent is subtly encouraged to spend most of his or her time and energy on the first twenty statements.

The collected data was coded and entered into SPSS. The attributes were coded for the first eighteen statements as follows: 5 = Strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly disagree, and 0 = I don't know. The last two questions were coded in the following manner: 5 = Extremely important, 4 = Very important, 3 = Somewhat important, 2 = A little important, 1 = Not at all important, 0 = I don't know. All missing questions that were left unanswered were assigned the value of 99 so they would be removed from the analysis. In addition, each survey was assigned a code for easy identification and confidentiality purposes. The codes were saved in an Excel spreadsheet for easy data entry and cross-referencing purposes.

Survey Reliability and Validity

Before being finalized and sent by mail, the survey instrument was administered as a pre-test to 12 Las Vegas industry professionals. Pre-test candidates included sommeliers, wine directors, and managers in charge of purchasing wine for restaurants and retail shops. The purpose of the pre-test was to evaluate if the statements and questions were clear and relevant to the subject. Another purpose was to assess if the

statements and questions were relevant to the research questions. The pre-test aimed to support or reject that the statements and questions were in the proper order and that the appropriate answer choices were provided. Additionally, among other things, the pre-test aimed to inform the researcher the respondents understood the choice of words used or if key word definitions were necessary. The pre-test intended to provide feedback to confirm the survey instrument was constructed in a way that targeted the intended issues.

Pre-testing the survey instrument proved successful. The pre-test provided information to the researchers about questions that were misunderstood in the way they were originally written. The survey started with fifteen statements and two questions, and as a result of the pre-test, resulted in including three additional statements. One addition was the first statement of the survey which asked respondents to agree or disagree with the definition of wine allocation. The last two questions of the survey were the other additions which asked respondents how important sales volume and relationships are, relative to other factors, to the amount of highly allocated wine they receive from their primary distributor. This pre-test brought about these three necessary additions to the survey that increased its reliability and validity by allowing the researcher to assess if the respondents understood the concept of wine allocation.

CHAPTER 4

FINDINGS OF THE STUDY

On March 24 2006, after over four weeks of receiving the exploratory surveys, data analysis began. Sixteen surveys failed to make it to their final destination, mainly due to incorrect recipient addresses, and were returned. After subtracting those from the sample size, it can be assumed that 999 surveys successfully arrived at their intended destinations. Of those 999, a total of 174 surveys were filled out and returned, making the response rate 17.42%. The following survey results in this study are based on these 174 surveys gathered from restaurants and retail shops around the United States.

Initially, there were some interesting observations about the returned surveys. One observation, for example, pertained to the number assigned to each survey, written on the back of the survey in the lower right-hand corner. This number served a valuable purpose; when returned, the restaurant or retail shop location could be noted and a follow-up call was not necessary. The survey numbers were also important in case respondents anonymously requested a copy of the results; the respondent could be referenced by this number. It was observed that some respondents tore the number off the survey paper so that there was no way to identify them whatsoever. Others crossed the number out with a marker. Most left the number untouched, and of those, 42 requested a copy of the survey results to be mailed to them. This request will be honored and a summary of the study's results will be mailed in May, 2006.

One very obvious statistic realized about the surveys was the small number of restaurant respondents. There were 51 surveys returned by restaurants making up 29.3% of the total, as opposed to 123 retail locations, which represent 70.7% of the respondents. This may be attributed to the structure of the different types of locations. Managers and wine directors at restaurants have quite a different schedule than do those who work in retail shops. Though both can be extremely busy, guests at restaurants tend to demand more of the wine buyer's undivided attention, leaving little or no time to fill out a survey. This is just one possible reason as to why there was such a low restaurant response rate.

Another interesting feature is that 90.7% of respondents worked in independently owned locations (see Table 1). This may have something to do with how the *Wine Spectator* chose the restaurants and retail shops included in their public list on the World Wide Web. This factor limited the ability to make comparisons between the responses of independently owned, chain and franchise locations. Another limiting, yet interesting, factor was that the majority (43.5%) of respondents were owners of their restaurant or retail shop (see Table 2), leaving little room for comparisons among respondents' positions.

Table 1

Type of Location

Type of Location	n	%
Independently Owned	156	90.7
Chain	14	8.1
Franchise	2	1.2
Total	172	100.0

Table 2

Position Held by Respondent

Position	N	%
Wine Director	42	24.7
Sommelier	12	7.1
Owner	74	43.5
General Manager	20	11.8
Manager	18	10.6
Other	4	2.4
Total	170	100.0

It seems the respondents have quite a bit of experience buying wine; 65.2% have been buying wine for resale for five or more years. And of those, 94 respondents (54.7%)

have been buying wine for resale for over seven years. The respondents were an experienced group, and most likely very knowledgeable on the topic of buying wine.

When asked from how many distributors the respondents buy wine, 72.1% said they buy from seven or more distributors. This is most likely due to the contracts distributors have with brands, and that if a wine buyer wants a certain brand of wine, there is only one distributor who offers that particular brand. From this data, it can be observed that oftentimes wine buyers find themselves buying wine from more than seven distributors. Additionally, survey recipients were asked to provide the percentage of wine they purchase from their primary distributor (see Table 3). Of the seven categories provided, an overwhelming 36.5% buy 21-30% of their wine from their primary distributor and 17.4% of the respondents buy 31-40% from their primary distributor.

Table 3

Percentage of Total Wine Purchases from Primary Distributor

% Category	n	%
0-1	7	4.2
11-20	28	16.8
21-30	61	36.5
31-40	29	17.4
41-50	18	10.8
51-60	10	6.0
61+	14	8.4
Total	167	100.0

The survey question with the potential to be the most sensitive was the second to last. It asked wine buyers to provide their average wine sales volume per day. Only one respondent specifically skipped this question, where the rest chose a category from a provided range of daily sales. There were nine sales categories on the survey, which were reduced to three categories for data analysis purposes (see Table 4). Since only 8.3% of respondents' businesses have an average daily sales volume of $10,001 or more, this was taken into consideration when analyzing data.

Table 4

Average Daily Sales Volume of Respondents

Average Daily Sales Volume	n	%
<$2000	61	36.1
$2001-$4000	54	32.0
$4001-$10000	40	23.7
$10001+	14	8.3
Total	169	100.0

The final question asked the respondents to report their gender. Males dominated the sample (78.6%) and females constituted 21.4% of respondents. These demographics were taken into consideration when analyzing the survey responses, and help to better categorize the respondents for future research.

Support of the Research Questions

The investigative nature of this study and its survey has yielded exploratory results. Some of the survey statements were made solely with the intention of gaining an understanding of the respondents' knowledge of the topic at hand. The first statement of the survey, for example, stated "wine allocation is the process by which wineries and distributors allocate highly sought after, high end wines." Almost all (90.6%) of the respondents agree or strongly agree with this statement, proving a large majority have an understanding of what the term wine allocation is referring to in this survey. Such a high

percentage also contributes to the validity of the statement and its contents because it was agreed upon by most all respondents.

The next two statements and the ninth statement of the survey test the first research question which states that the deregulation of wine distributors will allow more than one distributor to sell the same brand of wine. A large majority (82.6%) of all respondents agrees or strongly agrees that if they want a certain brand of wine, there is only one distributor from whom they can buy that particular wine. In addition, 70.7% of all respondents agree or strongly agree that the deregulation of distributors would allow more than one distributor to sell the same brand of wine. The average response to these two statements tells us that almost three-quarters of respondents agree that wine brands are specific to distributors and that the deregulation of distributors would allow brands to be shared among distributors.

Also supporting research question 1 is the fact that 82.4% of all respondents disagree or strongly disagree that if they want to buy a specific wine, there is at least one distributor in their area that carries that wine. Unfortunately for wine buyers this means not only are they limited to one distributor when attempting to buy a certain brand of wine, but that oftentimes the available distributors do not carry the desired wine. These limitations are felt when wine buyers attempt to satisfy their clients' desires for certain wines. As reflected in the eighth statement of the survey, 89% of all respondents agree or strongly agree that they will be better able to satisfy their customers' needs if they were more likely to obtain highly allocated wines due to distributor deregulation. The second research question, stating that the deregulation of wine distributors will increase competition among distributors, was supported by 77.4% of all respondents. Three-

fourths of all respondents also supported the third research question by agreeing or strongly agreeing with the statement that increased competition among wine distributors will result in wine distributors offering lower wine prices.

The fourth research question was not as strongly supported as the first three. It stated that increased competition among wine distributors will result in highly allocated wines being more readily available for purchase. This statement was analyzed in two ways: first by the percent of all respondents who agree or disagree, and then by the percent of respondents in different sales categories who agree or disagree. Of all respondents, 45.3% disagree or strongly disagree with research question 4 (most of these were owners of their establishment). As seen in Table 5, 20% provided neutral answers and 34.7% agree or strongly agree that increased competition among wine distributors will result in highly allocated wines being more readily available for purchase.

Table 5

Wine Buyers' Responses to Increased Competition

	n	%
Strongly Disagree	21	12.4
Disagree	56	32.9
Neutral	34	20.0
Agree	30	17.6
Strongly Agree	29	17.1
Total	170	100.0

Note. Increased competition among distributors means highly allocated wines may be more available for purchase.

The fourth research question was then evaluated from the perspective of wine sales per day. As previously mentioned, the majority of all respondents' businesses sell less than $2,000 of wine per day. Interestingly, the respondents in this sales category equally agree and disagree (40.6% and 40.7%, respectively) that highly allocated wines would be more readily available for purchase if there was an increase in competition among wine distributors. As Table 6 shows, 18.6% of the businesses in the low category of sales responded neutrally about research question 4.

Table 6

Wine Buyers' Responses to Increased Competition According to Wine Sales Volume per Day

	<$2000	$2-4000	$4-10000	$10000+
Strongly Disagree	10.2	11.3	17.5	14.3
Disagree	30.5	37.7	35.0	21.4
Neutral	18.6	18.9	22.5	21.4
Agree	20.3	18.9	12.5	14.3
Strongly Agree	20.3	13.2	12.5	28.6
Total	100.0	100.0	100.0	100.0

Note. Wine buyers' responses to the statement: Increased competition among wine distributors means highly allocated wines may be more available for purchase.

Another survey statement pertaining to the fourth research question read: If I were afforded the opportunity to buy a certain brand of highly allocated wine from more than one distributor, I am more likely to obtain it. Over half of all respondents, 57.4%, agree or strongly agree with this statement (see Table 7). In addition, Table 7 shows about one quarter of all respondents disagreed that they would have a better chance at obtaining those desired brands if more distributor competition was the case. One possible conclusion pertaining to research question 4 may be that respondents feel no matter how

many distributors offer the same brand of wine, there are only so many highly allocated bottles available for distribution.

Table 7

Wine Buyers' Responses to Distributor Brand Sharing

	n	%
Strongly Disagree	13	7.7
Disagree	29	17.2
Neutral	30	17.8
Agree	54	32.0
Strongly Agree	43	25.4
Total	169	100.0

Note. Wine buyers' responses to the statement: If I was afforded the opportunity to buy a certain brand of highly allocated wine from more than one distributor, I am more likely to obtain it.

The responses to the same statement in Table 7 were broken down even further for a different perspective; the responses were observed of wine buyers who have been buying wine for more than seven years and of those who are in the lower category of wine sales per day. Overall, over half of the respondents (52.3%) have been buying wine for resale for more than seven years. Of those who have been buying wine the longest,

over half (57.2%) also agree that the availability of highly allocated wines would increase with distributor competition. Perhaps these seasoned wine buyers are more inclined to think they will be able to better obtain highly allocated wine if distributors shared brands. Or, perhaps this suggestion is the first of its kind, and the experienced wine buyers are yearning for a change of any type.

Interestingly, 61.7% of the restaurants and retail shops with lower sales volumes ($4,000 or less) agree or strongly agree that distributor competition will allow buyers to more likely obtain highly allocated wines (see figure 1). This percentage may be due to the fact that wine buyers whose businesses have lower sales depend more on their relationships with their distributors than they on their sales volume when attempting to obtain highly allocated wines.

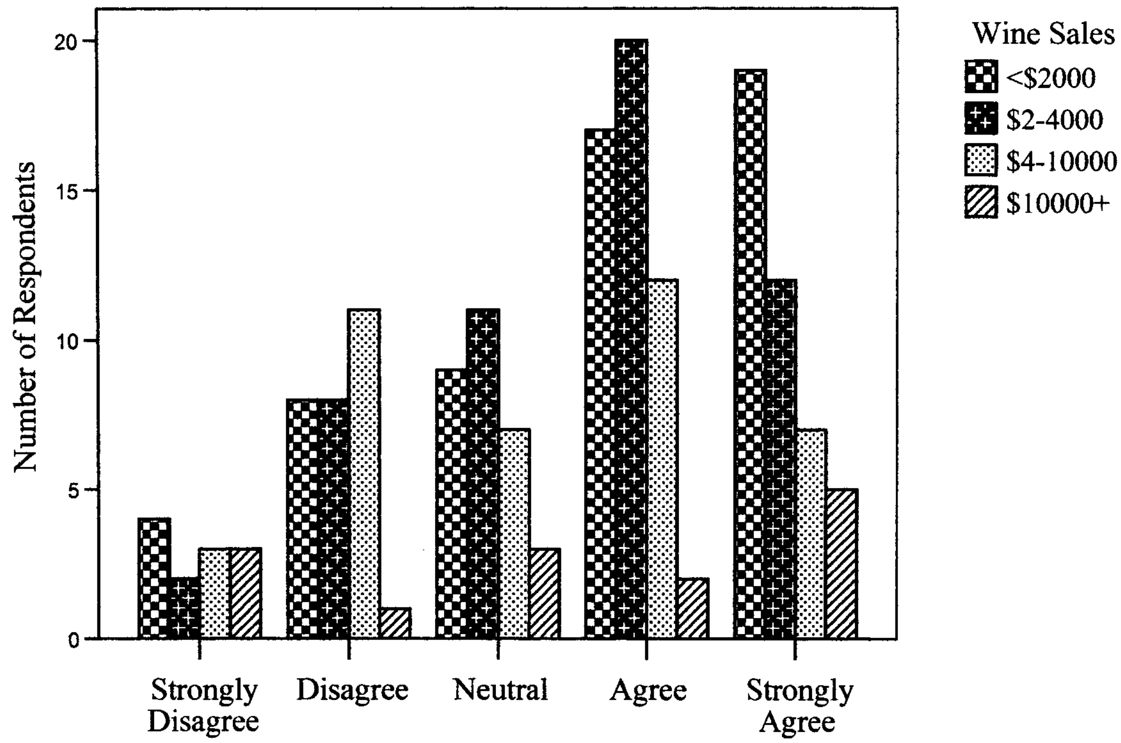

Figure 1. Wine buyers' responses to shared brands

Satisfaction with Distributors

Answers were varied when respondents were asked to comment on statements pertaining to how they feel about the business practices of their distributors. For example, 58.8% disagree that the amount of highly allocated wine their business receives from distributors is not appropriate, where 22.9% feel the amount was indeed appropriate. Similarly, 66.9% of the respondents feel they are not satisfied with the amount of highly allocated wine they receive from the distributors. Surprisingly, a correlation could not be

found between sales volume and how the respondents felt about the amount of highly allocated wine their business receives.

Getting at the core of the study, respondents were asked how strongly they agree with the statement: I feel my primary distributor uses an effective system for allocating wine to my business. Of all respondents, 53.5% do not feel their primary distributor uses an effective system when allocating wine. Among all respondents, two demographic categories were closely analyzed. The first was position of respondent. It was found that there was not a statistically significant difference in feelings among owners, wine directors, sommeliers and managers. However, when looking at the sales volume categories for this issue, it was found that 61% of businesses with less than $2,000 in wine sales per day disagree that their primary distributor uses an effective system (see Figure 2). This is important because these restaurants and retail shops who are in the low category of wine sales per day may not receive as much allocated wine as those in higher categories of sales. Sales volume may be a logical factor in the "systems" distributors use for allocating wine, but if it is indeed a factor in the "system," most of the wine buyers feel this "system" is not effective, according to this study. Regardless of whether the distributors use an effective way of allocating wine, many wine buyers may not be aware of how the wine is being allocated. For example, over one fifth (21.7 %) of all respondents feel neutrally about the systems of their primary distributors. The neutral answers may be because respondents do not know of any "system" being used by their distributors when allocating wines, effective or not effective.

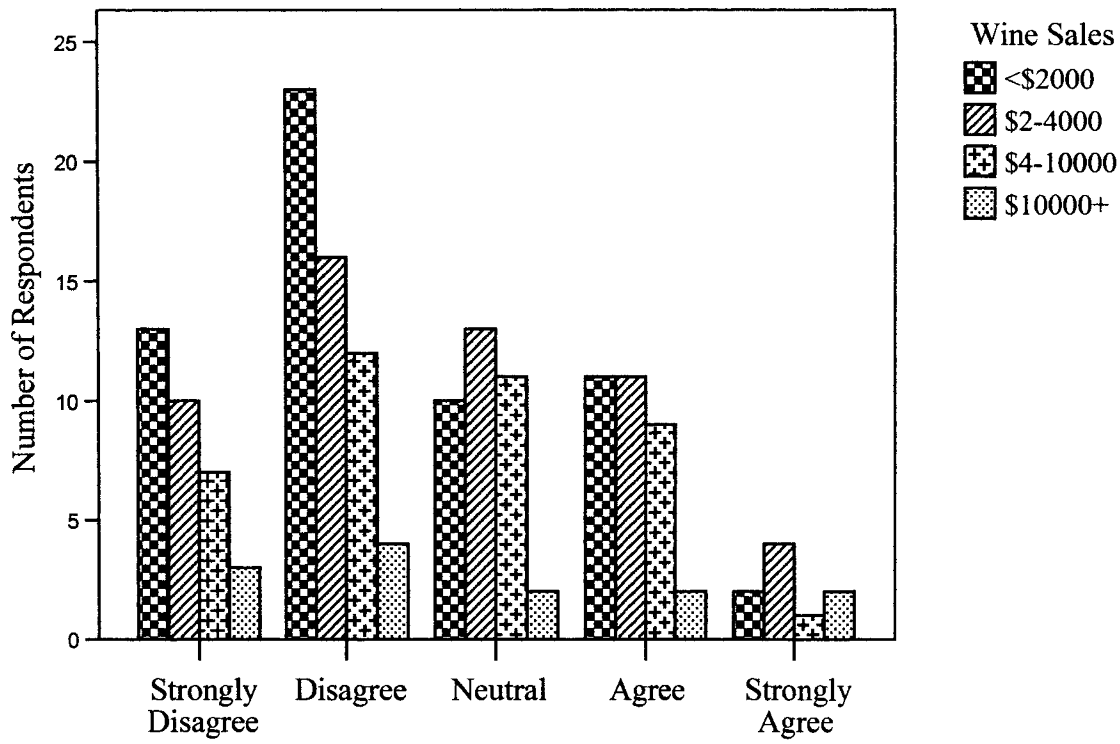

Figure 2. Wine buyers' responses to distributor systems

Continuing with distributor satisfaction, 35% of general managers are satisfied with the amount of wine they receive from their primary distributors, whereas only 16.7% of managers who are not general managers are satisfied. This could mean that general managers of retail shops and restaurants have better relationships with their distributors than do lower managers or sommeliers, for example.

The years of experience of wine buyers may also have an effect on how satisfied they are with the amount of highly allocated wine they receive. For example, 69.2% of wine buyers with less than one year's experience in buying wine disagree or strongly

disagree that they are satisfied with the amount of highly allocated wine they receive from their primary distributor (see Table 8). Less than a quarter (23%) of buyers with less than one year of experience were neutral about this topic, leading one to believe maybe those with less experience simply do not know if the amount their business receives is appropriate or not.

Table 8

Wine Buyers' Satisfaction per Years of Experience

	<1 year	1-3 years	3-5 years	5-7 years	7+ years
Strongly Disagree	15.4	27.8	34.5	16.7	30.9
Disagree	53.8	38.9	37.9	33.3	37.2
Neutral	23.1	5.6	6.9	11.1	7.4
Agree	7.7	27.8	13.8	38.9	19.1
Strongly Agree	0.0	0.0	6.9	0.0	5.3
% Total	100.0	100.0	100.0	100.0	100.0

Note. Wine buyers' responses to the statement: I am satisfied with the amount of highly allocated wine I receive.

Challenges to Business Operations

In addition to asking respondents how they feel about their primary distributors and the systems they use to allocate wine, it was important to determine the challenges posed to restaurant and retail shops' business operations. Fifty percent of all respondents

feel there are challenges posed to their business operations because of the wine allocation practices of their primary distributor. Only 28.8% disagree that the distribution practices pose challenges, and 21.2% are neutral. Oftentimes, it is difficult to pinpoint what poses challenges to the operations of a restaurant or retail shop because, as with any business, there are so many variables contributing to its success. Wine allocation may be one of many challenges a restaurant or retail shop faces, contributing to the success or failure of a business' operations. Table 9 reports the responses by position held to the statement: I feel the amount of highly allocated wine that my primary distributor allocates to my business is appropriate.

Table 9

Wine Buyers' Responses to Challenges Posed to Business Operations

	Wine Director	Sommelier	Owner	General Manager	Manager	Other
Strongly Disagree	2.5	16.7	2.7	20.0	5.6	0.0
Disagree	22.5	16.7	24.3	20.0	27.8	25.0
Neutral	37.5	8.3	13.5	30.0	16.7	0.0
Agree	25.0	41.7	32.4	20.0	33.3	25.0
Strongly Agree	12.5	16.7	27.0	10.0	16.7	50.0
% Total	100.0	100.0	100.0	100.0	100.0	100.0

Note. Wine buyers' responses to the statement: The allocation practices of my primary distributor pose challenges to my business operations.

As seen in Table 9, very few (2.7%) owners strongly disagree about challenges posed to their business as opposed to 27% who strongly agree. On the other hand, 20% of general managers strongly disagree about challenges posed to their business as opposed to 10% who strongly disagree. This may be due to the extreme affection felt by owners of their own restaurant or retail shop, therefore being more sensitive to practices that affect the sales of their business.

The responses to the statement about wine allocation causing challenges to the business operations of restaurant and retail shops was observed from yet a different angle. This next approach categorized respondents into groups according to the percentage of wine purchases from their primary distributor, as seen in Table 10. As previously mentioned, 36.5% (n=61) of all respondents buy 21-30% of their wine from their primary distributor. Of those 61, 34.4% disagree or strongly disagree that challenges are posed to their business operations as a result of the wine allocation practices of their primary distributor. Almost half of this category (41 %) agree or strongly agree, and 24.6% are neutral on the matter. Another category of wine purchase percentages was looked at (those who buy 31-41% of their wines from their primary distributor, making up 17.4% of all respondents) in Table 10. Among those in this category, 71.5% agree or strongly agree that the wine allocation practices of their primary distributor pose challenges to their business operations. It is obvious from these statistics that the operations of most restaurants and retail shops are felt to be challenged by the wine allocation practices of the primary distributors.

Table 10

Wine Buyers' Responses According to the Percentage of Total Wine Purchases from Their Primary Distributors

	0-1%	11-20%	21-30%	31-40%	41-50%	51-60%	61+%
Strongly Disagree	0.0	7.1	9.8	0.0	5.6	0.0	7.1
Disagree	0.0	21.4	24.6	14.3	27.8	30.0	35.7
Neutral	28.6	28.6	24.6	14.3	16.7	30.0	0.0
Agree	28.6	32.1	21.3	42.9	33.3	30.0	21.4
Strongly Agree	42.9	10.7	19.7	28.6	16.7	10.0	35.7
% Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note. Wine buyers' responses to the statement: The allocation practices of my primary distributor pose challenges to my business operations.

Wine buyers in these buying percentage categories may feel if their primary distributor allocated wine in a more favorable way, their business operations would run smoother. It is possible distributors' wine allocation practices may challenge business operations of a restaurant or retail shop such as the day to day routines of product receivers or those responsible for menu or register price changes. In addition, the sommelier's productivity level may be challenged if too much time is spent on finding alternative wines to the highly allocated ones and educating the staff about the changes.

Guests' perception of the restaurant or retail shop may be affected by the changing availability of their favorite wine. Finally, accurate inventory operations of a business may be challenged according to the allocation practices of its primary distributor.

Effects of Sales Volume and Relationships

The survey also contained a set of two statements pertaining to the importance of the wine sales volume received by respondents. The first statement, "The wine sales volume of my business is important to my distributors" was agreed upon by 88.8% of all respondents. When the second statement was posed, "Wine sales volume affects how my distributors allocate wine to my business," over three-quarters (80.8%) agreed or strongly agreed.

Two more statements were made about the importance of relationships of a restaurant or retail shop to the way in which distributors issue highly allocated wine to the businesses. The survey posed the statement: "The relationship between my wine distributors and me is important." Almost all of the respondents (94.8%) agree or strongly agree with this statement. The second statement, similar to the second statement about sales volume, stated: "My relationship with my distributors affects how they allocate wine to my business." Not surprisingly, 79.9% agree or strongly agree that the relationship they have with their distributors has something to do with the amount of highly allocated wine they receive.

The aforementioned four statements provide quite significant information. It is apparent that wine buyers at restaurants and retail shops feel both sales volume and relationships are not only important to their distributors, but actually affect distributors'

decisions about how much highly allocated wine to allot to their businesses. The combination of sales volume and relationship could pose some confusion among wine buyers when forecasting the amount of highly allocated wine they plan to receive. It is possible wine buyers could misjudge their relationships with distributors, and expect more highly allocated wine than they actually receive.

The final two questions asked in the survey coincide with the previously discussed four statements on sales volume and relationships. Respondents were asked, relative to other factors, how important are (a) the restaurant or retail shop's sales volume to distributors and (b) the restaurant or retail shop's relationship with distributors, to the amount of highly allocated wine received by distributors? An overwhelming 95.3% of respondents deem sales volume to be somewhat to extremely important, and 93.3% deem relationships to be somewhat to extremely important. These statistics tell us that wine buyers for restaurants and retail shops feel both relationships and sales volume greatly affect the amount of wine allocated by primary distributors. If this is true, the question arises: how is a wine buyer at a restaurant or retail shop able to forecast how much highly allocated wine he or she will be able to receive from his or her primary distributor at any given time? And a question to distributors arises: what system is used when allocating high-end, high-demand wines? Are allocations based on sales, relationships, a mixture of both, or something entirely different? The results of this survey suggest there may not be an answer to these questions at this present time.

CHAPTER 5

SUMMARY AND CONCLUSIONS, LIMITATIONS, AND RECOMMENDATIONS FOR FURTHER RESEARCH

Summary and Conclusions

Wine buyers for restaurants and retail shops consistently order various wines to satisfy the demand of their customers and to compete in the hospitality industry. Often, these wines are difficult to find due to low production and high demand. Although the Supreme Court passed a law in May 2005 opening up the lines of distribution for individual consumers, wine purchased for resale is still required to be bought through a distributor. This particular research study targeted the struggles involved with obtaining highly allocated wines and other bottles that are difficult to find.

One thousand wine buyers from restaurants and retail shops were asked to give their opinion on some of these matters. The group consisted of wine buyers who buy for resale across the United States randomly selected according to their upscale wine offerings. Surveys made up of twenty opinion-related statements and questions, and seven demographic questions were sent to wine buyers. The surveys were completed by recipients and returned to the researchers at the University of Nevada Las Vegas' Food and Beverage Department over a period of four weeks. Although only 174 surveys were properly filled out and returned, some interesting conclusions can still be made about the population of wine buyers for restaurants and retail shops in the United States.

The first, most obvious observation was that the overwhelming majority of survey respondents were independently owned retail shop wine buyers. Restaurants were represented by only 50 respondents in the survey results. Though unfortunate, there may be a specific reason for this. Possibly retail shop wine buyers generally had more time in their schedule to participate in the survey. Another possibility may be that the problems associated with obtaining highly allocated wines are more of a struggle for retail shop wine buyers than for restaurants. Most likely, wine buyers would not participate in such a study unless it was of interest and importance to them. Not only were most of the respondents from independently owned retail shops, but the majority of the wine buyers at these locations were the businesses' owners.

Be it owner, wine director, sommelier, or manager, the responsibility of buying wine for resale is a great one. The responsibility includes finding affordable wine prices, buying from approved vendors, finding specific wines from distributors and specific distributors for certain wines. But most of all, whoever holds the responsibility of buying wine for a restaurant or retail shop has to satisfy the end user – the customer.

This study shows that respondents agreed with the provided definition of wine allocation and that there is only one distributor available to them from which they can buy a certain type of wine. Moreover, respondents agreed that the deregulation of distributors might allow them to buy a certain brand of wine from more than one distributor. It can be concluded from this study that almost all of the responding wine buyers feel if highly allocated wine was easier to obtain, they could better satisfy their customers' requests. But satisfying the customer comes with many challenges brought on by wine allocation. How can highly allocated wines be more easily obtained? It was

mentioned that increasing production is not an option, but increasing distributor competition may be an option. However, the majority of respondents disagreed with the fourth research question which stated that increasing competition among distributors means highly allocated wines will be more readily available for purchase. If increasing competition among distributors by allowing them to sell the same brands of wine is not going to overwhelmingly benefit the availability of highly allocated wines for wine buyers, then an alternate research question must be created. A different suggestion must be made.

Though wine allocation is a necessary part of distribution, a set system of how to fairly allocate the limited bottles of wine is not known to restaurant and retail wine buyers. Just over half of the respondents feel there is not an effective system put into place by their distributor for allocating wine. From there, it can be observed that wine buyers in restaurants and retail shops have to rely on their relationships with distributors as well as their sales volume to obtain certain highly allocated wines. Yet it is unknown which has more weight to distributors: the relationship sales representative have with their clients, or the sales volume of their clients' business. This is the core of the problem.

The grapes of a highly allocated wine are too precious to mass produce. The terrior in which each vine grows is not replicable. The old vines of Zinfandel, for example, have worked hard for many years to root themselves in rocky, non-desirable soil. It is these strong, weathered vines' hard work that pays off with the luscious fruit they produce. It is then the winemakers' hard work that pays off when the fruit is cultivated into rare, unique bottles of wine. With so many variables to take into consideration when producing a fine wine, increasing production is not a viable option to

satisfy more people. Knowing this, there must be other creative ways to fairly allocate the bottles of wine that so much hard work has gone into creating.

This study proposes the idea of a well thought-out, fair system based on restaurant and retail shop sales for allocating wine. This system may take into consideration restaurant square footage or retail shop location along with sales. The system would ideally base the amount of highly allocated wine a business receives on these features and any other quantifiable factors, such as how much wine is available, how much is being requested in that geographic location, and so forth. The idea is to create a formula that is communicated among the three tiers of wine distribution so that wine buyers may know how to put their business in a better position to receive the desired wine. Though many influences must be considered, a focus on the quantifiable issues may give wine buyers a goal to look towards when attempting to obtain highly allocated wines, as opposed to wondering if their relationship with their distributor is a strong enough one to qualify for a few bottles of that old vine Zinfandel.

Limitations

The exploratory nature of this survey lends itself to having many limitations. This study was targeted at revealing and discussing the struggles wine buyers in restaurants and retail locations across the United States encounter as a result of regulated distribution systems. The concentration on wine buyers allows the study to be substantially focused, but also causes limitations. Sending surveys to the other two tiers of the wine supply chain, wineries and distributors, would increase the breadth of the study and offer a more

dynamic approach to wine allocation. Exploring all three tiers' encounters and dealings with wine allocation would be extremely helpful.

As previously mentioned, the sample used for this study was obtained from the *Wine Spectator* website. The provided locations may have been included on the website because of the support they give to the *Wine Spectator.* Although this is not known for sure, this would be something that would contribute to making the sample a biased one. Current, less biased email lists from reliable marketing firms range from $1,000 to $3,000. If a more generous budget was available for the study, more reliable lists could have been obtained. Another possibility would have been to send the survey via email. It is not known whether this would have increased or decreased the response rate.

The response rate in this study is an especially significant limitation. In addition to the vehicle used for survey delivery, if more time had been available to collect surveys, there may have been a higher response rate. For example, additional surveys were returned after data analysis was conducted but were unfortunately not included in the data set due to time restrictions. If more time was available for the study, reminder postcards could have been sent to non-respondents. Additional phone calls could have been made to those wine buyers who did not respond as well. Although some follow-up phone calls were made, more time would have allowed for each non-respondent to be called and encouraged to fill out and return the survey.

Limitations of the study also include the actual survey questions. Since there is no previous empirical research, the survey questions were exploratory in nature, therefore leaving room for error. Moreover, a high response rate cannot be guaranteed. The researcher had no control over the return of the surveys, and it proved to be slow, taking

four weeks to receive 174 surveys. Respondent cooperation with mail surveys is usually moderate to low, so this low response rate was expected. Also, if the questions were not interesting to the respondent, there may have been no incentive for him to fill out and return it. Furthermore, the budget for this study did not allow for a monetary incentive to be included in the mail questionnaire, causing yet another limitation contributing to the small sample size.

The surveys that were returned proved to be completed mostly by male owners from independently owned retail locations, who have been buying wine for seven or more years, and who buy 21-30% of their wine from their primary distributor. These statistics made up the overwhelming demographic majority of respondents. As a result of these vast majorities, it became difficult to make statistically significant comparisons between the responses of restaurants and retail shops, or between independently owned locations and chains, based on position held, or even between the number of distributors respondents buy from (the majority was seven or more). This was due to the low number of respondents in any one category. The limited response rate from other demographic areas caused limitations when trying to compare different respondents' data.

Finally, there were some respondents who offered comments or suggestions to the researchers about the survey questions. A number of respondents (n=7) stated that they do not have a primary distributor. For example, one respondent wrote, "Happy to help you. However, I think you will find generalizations and neutrality due to the consistent reference to "primary." Some distributors we buy very little from but still cannot call one a "primary" distributor." The survey instrument intentionally and specifically used the word "primary" when referring to distributors in three of its statements and in one of its

demographic questions. It was anticipated from the results of previous research and experience that wine buyers purchase wine from a multitude of distributors because of the aforementioned brand monopolies. Though seven or more distributors was a surprising extreme, using the word "primary" when referring to statements made about distributors was in an effort to have the respondent tailor his or her responses to one distributor. The survey was carefully constructed using "primary distributor" so that respondents would not have to ponder over which distributor they were going to base their answers. An alternative to the use of the word "primary" for further research on this subject may include a sentence in the directions or introduction of the survey asking recipients to base their answers on dealings with the distributor with whom they are most familiar.

One statement on the survey was another point of discussion for respondents. The statement prompted recipients to agree or disagree with the following: "If the law allowed, I would buy highly allocated wines directly from the wineries for resale." Much to the researchers' dismay, three respondents stated they are allowed by the law to buy directly from wineries, specifically in California. One respondent wrote, "The premise of your study is skewed by the fact that in California we <u>can</u> and do purchase direct from wineries." As a result of this survey statement being invalid as mentioned by respondents, it was not considered in the data analysis. The depth and accuracy of this study may have been enhanced if the surveys sent to California businesses were tailored to the fact that they can buy wine directly from some California wineries.

Recommendations for Further Research

This exploratory study opens the door for future research. The impact of wine allocation on the wine supply chain suggests opportunities for further research among wineries and distributors. This study represented one-third of the supply chain so as to remain focused on the opinions of wine buyers for restaurants and retail shops. Future research conducting surveys or interviews with wineries and distributors may provide the information needed to gain a sense of the systems used to allocate wine. Any valid information on allocation systems gleaned from future research that could be shared with wine buyers for resale would be more information than they have today. The simple sharing of information could be the vehicle used to uncover the current mysteries of exactly how a low-produced, high-quality, highly-sought after bottle of wine is allocated.

In addition to surveying wineries and distributors to find out their system for allocating wine, a study could also be done on the relationships between the three tiers of the distribution chain. Measuring relationships and their effect on the amount of highly allocated wine received by distributors (from wineries) and restaurants and retail shops (from distributors) could be groundbreaking. Relationships were merely touched on by this study. But the overwhelming agreement, from respondents of this study that relationships with distributors are important to the amount of wine they receive suggests relationships could be a major issue for further research.

The opportunities for future research on this exciting and current topic are endless. One might also study the effects of the May 2005 Supreme Court ruling on interstate shipping laws. Alternative research methods could also be used, such as email surveys, phone interviews, or focus groups. Alternative research questions might also be

tested, where employee training is substituted for deregulation in this study, for example. The research questions pertaining to distributor deregulation touched on in this study for wine allocation may be tested in other industries such as organ transplant allocation, gun allocation, and further deregulation of the transportation industry. Finally, if a quantifiable system for allocating wine cannot be implemented, then possibly there leaves room for wine buyers to be further educated on how to improve their relationships with distributors.

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APPENDIX I

LETTER TO PARTICIPANTS

February 11, 2006
Heather Bigley and Dr. Deborah Barrash
University of Nevada Las Vegas
4505 Maryland Parkway
Box 456022
Las Vegas, NV 89154-6022

The Wine Rack
102 W. Brown St.
Southport, NC 28461

Dear Wine Buyer,

Wine buyers like you, for restaurants and retail shops, consistently order various wines to satisfy the demand of their customers and to compete in the hospitality industry. Often, these wines are difficult to find due to low production and high demand. Although the Supreme Court passed a law in May, 2005 opening up the lines of distribution for individual consumers, wine purchased for resale is still required to be bought through a distributor. This particular research study targets the struggles involved with obtaining highly allocated wines and other bottles that are difficult to find.

You are one in a group of wine buyers from restaurants and retail shops being asked to give their opinion on some of these matters. The group consists of wine buyers who buy for resale across the United States randomly selected according to their upscale wine offerings. In order that the results will truly represent the thinking of all wine buyers, it is important that each questionnaire be completed and returned. It is also important that the study be filled out by an industry professional in charge of buying wine for your establishment. If you are not that person, it would be appreciated if you pass this survey on to the appropriate member of your staff.

We realize that your time is valuable and greatly appreciate your participation in this study and expect it to take no more than 10 minutes. You may be assured of complete confidentiality. The questionnaire has an identification number for mailing purposes only. This is so that we may check your name off of the mailing list when your questionnaire is returned. There is no way for anyone to associate you or your company directly with the results of this research, which will be made available to the University, industry professionals, and all interested citizens. You may receive a summary of results by writing, "copy of results requested" on the back of the return envelope, and printing your name and address below it. Please do not put this information on the questionnaire itself. I would be most happy to answer any questions you might have. Please write or call. The telephone numbers are: Heather Bigley (702) 449-5525 and Dr. Deborah Barrash: (702) 895-4972.

Thank you for your assistance.

Sincerely,

Heather M. Bigley Research Director	Dr. Deborah Barrash Principal Investigator

APPENDIX II

SURVEY INSTRUMENT

The following statements describe how restaurant and retail shop wine buyers might feel about the distribution process of highly allocated, highly sought after wines.

These questions are referring to upscale wines whose demand is greater than its supply. Please indicate your agreement or disagreement by circling the appropriate number for each statement. Your answers will be kept confidential.

	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**	**I don't know**
Wine allocation is the process by which wineries and distributors allocate highly sought after, high end wines.	5	4	3	2	1	0
If I want to buy a certain brand of wine, there is only one distributor from whom I can buy that brand.	5	4	3	2	1	0
The deregulation of distributors may allow more than one distributor to sell the same brand of wine.	5	4	3	2	1	0
The deregulation of distributors may increase distributor competition.	5	4	3	2	1	0
An increase in distributor competition may result in distributors offering lower wine prices.	5	4	3	2	1	0

Increased competition among distributors means highly allocated wines may be more readily available for purchase.	5	4	3	2	1	0
If I was afforded the opportunity to buy a certain brand of highly allocated wine from more than one distributor, I am more likely to obtain it.	5	4	3	2	1	0
If I am more likely to obtain highly allocated wines, I may be better able to satisfy my customers' needs.	5	4	3	2	1	0
	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**	**I don't know**
There is at least one distributor in my area that carries every wine I want to purchase.	5	4	3	2	1	0
I feel the amount of highly allocated wine that my primary distributor allocates to my business is appropriate.	5	4	3	2	1	0
I feel my primary distributor uses an effective system for allocating wine to my business.	5	4	3	2	1	0
I am satisfied with the amount of highly allocated wine that my business receives.	5	4	3	2	1	0
The allocation practices of my primary distributor pose challenges to my business operations.	5	4	3	2	1	0
If the law allowed, I would buy highly allocated wines directly from the wineries for resale.	5	4	3	2	1	0
The wine sales volume of my business is important to my distributors.	5	4	3	2	1	0
Wine sales volume affects how distributors allocate	5	4	3	2	1	0

wine to my business.						
The relationship between my wine distributors and me is important.	5	4	3	2	1	0
My relationship with my distributors affects how they allocate wine to my business.	5	4	3	2	1	0

The following statements describe how restaurant and retail shop wine buyers might feel about factors that effect the distribution of highly allocated, highly sought after wines.

These questions are referring to upscale wines whose demand is greater than its supply. Please indicate the level of importance these factors have on your business by circling the appropriate number for each statement. Your answers will be kept confidential.

	Importance					**I don't know**
	Extremely	**Very**	**Somewhat**	**A little**	**Not at all**	
Relative to other factors, how important is sales volume to the amount of highly allocated wine I receive?	5	4	3	2	1	0
Relative to other factors, how important is my relationship with my distributors to the amount of highly allocated wine I receive?	5	4	3	2	1	0

Please answer the following questions to the best of your ability. Your answers will be kept confidential.

For what type of restaurant do you buy wine?

☐ Independently owned ☐ Chain ☐ Franchise

What is your position at the restaurant?

☐ Wine Director ☐ Sommelier ☐ Owner
☐ General Manager ☐ Manager ☐ Other

How long have you been purchasing wine for resale? (At this location or elsewhere)

☐ < 1 year ☐ 1-3 years ☐ 3-5 years ☐ 5-7 years ☐ 7+ years

From how many distributors do you buy wine?

☐ 0 ☐ 1-2 ☐ 3-4 ☐ 5-6 ☐ 7+

What percentage of your total wine purchases is from your PRIMARY distributor?

☐ 0-10% ☐ 11-20% ☐ 21-30% ☐ 31-40% ☐ 41-50% ☐ 51-60% ☐61+%

What is your average WINE sales volume per day?

☐ <$2,000	☐ $2,001-$4,000	☐ $4,001-$6,000
☐ $6,001-$8,000	☐ $8,001-10,000	☐ $10,001-$12,000
☐ $12,001-$14,000	☐ $14,001-$16,000	☐ >$16,000

What is your gender? ☐ Male ☐ Female

VITA

Graduate College
University of Nevada, Las Vegas

Heather M. Bigley, Graduate Student

Local Address:
7931 W. Rochelle Ave.
Las Vegas, NV 89147

Home Address:
3 Douglas Lane
Voorheesville, NY 12208

Degree:
Bachelor of Arts, Psychologly, 1999
University of Rochester

Thesis Title: Wine Allocation: Perspectives of Restaurant and Retail Wine Buyers

Thesis Examination Committee:
Chairperson, Dr. Deborah Barrash, Ph.D.
Committee Member, Dr. Billy Bai, Ph.D.
Committee Member, Dr. Clark Kincaid, Ph.D.
Graduate Faculty Representative, Dr. Michael LaTour, Ph.D.