

WINE MARKET STRUCTURE AND CONSUMER DEMAND

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One of the most globalized and profitable sector in worldwide agribusiness is wine industry. Given the attractive features of investing in wine markets and productions, many multinationals started diversifying their product portfolio by including wine. The current market structure, in fact, highlights the presence of highly competitive and large size firms, especially in popular wine segments. Smaller size wineries, on the other hand, are characterized by having a stronger local component and a less competitive but more conservative structure. Besides economies of scale, does the firm size contributes to the shaping of the demand and to the strength of consumers' loyalty to brands?

The economic context in which the analysis will be carried out has specific traits, being characterized by changes in consumer tastes and consumption habits. In fact, during the last decade, Italian but also European wine economy is facing a decrease in total consumption and a modification in consumers' preferences, which are moving towards higher quality wines. Therefore, the specificity of this context of analysis regards the fact that the main wine brands are mostly concentrated in low-price segments, which are losing market shares, but are also getting substituted by higher price wines. If this is true at aggregate level, it is not well known what is happening at single consumer level. It would be possible that the aggregate trend reflects the change in tastes of the single consumer. The change in lifestyle, towards a metropolitan stereotype, corresponds to a consequent change in dietary habits. Consumers, therefore, perceive wine as an experience good rather than the consuetudinary beverage of the Mediterranean diet. This explanation assumes that higher price wines are substituting for lower price wines. It might

also be that consumers of high quality wine are consuming wine at even higher price, while low-price wine consumers are reducing their consumption level. In this other situation there would be no relevant substitution effect.

The issue of the symposium is addressed in this paper by understanding the differences between large and small firms at consumer demand level, and by figuring out whether local dimension of wineries suffer of demand changes.

In the proposed work a demand system will be estimated for two categories of wine. One will concern the main wine brands in the Italian market, the second will regard the remaining wine brands, which closes-up the entire wine market. Demand estimates give useful information about consumers' response to price changes, in terms of own-price elasticity, and measures of substitution among brands, in terms of cross-price elasticities. These quantitative evaluations give back fundamental information concerning the influence of market structure on demand shape and market relations, and information about demand stability in case of price changes.

Policy makers and marketers would be interested in this kind of study for understanding market roles and for developing ad hoc strategies for future adjustments. Antitrust authority would also be interested for evaluating the strategic position of big brands in the wine market. Understanding the source of the change in the market at aggregate level is one additional outcome of the proposed research, which gives interesting hints to producers, marketers and policy makers.