

Do Wine Distribution Franchise Laws Foster Greater Winery Sales?

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ABSTRACT

Wineries are dependent on distributors for facilitating the supply chain that ultimately delivers the wine to the end user. The laws pertaining to this relationship, usually called ‘wine distribution franchise laws,’ often require exclusive territories. These laws are intended to create restraints that lead to anticompetitive effects. Moreover, exclusive territories should allow wineries to achieve certain efficiencies in the distribution of its products by inducing competent and aggressive retailers to make the kind of investment of capital and labor that is often required in the distribution of products unknown to the consumer. The potential negative effects of such laws, however, lead to situations where the winery is limited in the ability to terminate or transition business away from even a poorly performing distributor who is in default under the applicable contract.

The purpose of our study, then, is to empirically assess the economic impact of wine distribution franchise laws. Specifically, we will consider the correlation between wine production and distributor-assisted sales comparing data from each wine-producing U.S. state in concert with the associated laws for the respective state. The implications may help researchers better understand the constraining effects of these laws and may provide wineries the information they need to work with trade commissions in amending wine franchise laws as necessary.