

Market Structure From a Price Perspective in the Australian Retail Wine Market

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This paper explores buying patterns in the Australian retail wine market, a complex and potentially highly fragmented product category. It addresses the question of what more can be learnt about the structure of a market using the attribute of price. This research is part of a larger study, which addresses the question of whether product attributes such as variety, region of origin, country origin, Australian state and \$2 price tiers, rather than brand alone, better describe the structure of this market. The current literature on attributes, in general, and more specifically those of the Australian wine market does not address whether the empirical regularities that exist for brands can be extended to attributes utilising the Dirichlet model and its products.

In this study, the stock-keeping units (SKUs), which number in the thousands, form the basis of the analysis. Revealed preference data was obtained using a sample (n=4,768) from a loyalty program of a high-end retail chain in Australia over a 3-year period (October 2000-September 2003). The 'observed' performance measures for the attribute of \$2 price tiers were calculated. The phenomenon of 'double jeopardy', the initial impetus for the development of the Dirichlet model, as well as the method of polarisation, were implemented to identify the existence of 'excess loyalty', 'niche' and 'change of pace' behaviour. The duplication of purchase law was utilised to describe how consumers share their purchases across the levels of this attribute.

It was shown that 2/3 of all wine sold was priced between \$8-\$18 with the highest penetration for wines between \$12-\$16. The 'double jeopardy' phenomenon held and identified the existence of 'excess loyalty', 'niche' and 'change of pace' behaviour. The graphical representation of polarisation using DMD φ_c and BBD φ more accurately stratified \$2 price tiers into the above managerially useful segments by removing the effect of market share. Duplication of purchase demonstrated that there were two sub-markets of wine based upon price, <\$8 and >\$20. Buyers of wine between \$10-\$20 tended to purchase adjacent price tiers less frequently than expected in a departure from the findings of Romaniuk and Dawes (2005) and Murphy (2006) for price.

The findings were replicated across the 3 years supporting their generalisability. The attribute of \$2 price tiers provided a meaningful description of the structure of the Australian retail wine market. The implications of this knowledge are valuable to wineries for pricing, promotions and positioning. There is also great benefit for retailers, both brick and mortar and on-line.