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**THE WINE INDUSTRY AND THE CONSUMER**  
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A study of the production, distribution  
and consumption of wine in New Zealand

A thesis presented in partial fulfilment of the requirements  
for the degree of Ph.D. in Economics at Massey University

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## ABSTRACT

This thesis is an investigation into production, distribution, and consumption of wine in New Zealand, with particular consideration of the effects of the wine industry's structure and behaviour on consumer interest.

Government protection policies have greatly influenced expansion and structural development of the industry. Protection of the existing local industry was mainly effected by reducing opportunities for competition in two ways: implementation of import control regulations which have restricted competition from overseas wines, and introduction of licensing laws which have favoured control of the wine trade by a limited number of licence holders.

Investigation into industry ownership patterns showed the presence of vertical and horizontal integration at various stages of the marketing system. Mergers and takeovers have resulted in the formation of a powerful group of companies which control wine marketing. These companies are usually associated with breweries, large distribution companies, and companies with overseas connections. In addition, concentration ratios calculated at the production level provided evidence that the wine industry is highly concentrated. In 1981 six firms controlled about 87% of the market.

The degree of concentration and the ownership patterns of the New Zealand wine industry are indicators of its oligopolistic structure and market power. This market power is not altered by the presence of overseas wines in New Zealand as the volume of imports is very small (5% of total sales in 1978-1979). Limited competition and oligopolistic industry structure have contributed to the industry's behaviour in determining quality of products, prices and output. Lenient regulations governing wine-making have also affected wine quality. Adulteration of some New Zealand wines, evident from statistical data, was subsequently substantiated by the Consumer Institute analysis of local wines. Statistical data on industry production indicated that when the industry faced over-supply, output was reduced and prices were maintained.

Legislation for the protection of consumer interest in New Zealand has been mainly directed at prevention of malpractice that may result from monopolies, mergers and takeovers, and at control of certain trade practices judged to be against the public interest (Commerce Act 1975). Legislation has also aimed to improve the availability of information to consumers and to regulate quality standards (Food and Drug Regulations 1973, Amendment No. 5, 1980/73).

A consumer study was carried out in Palmerston North to relate the effects of industry structure and government intervention to actual consumer requirements and consumer perceptions of the products available in the New Zealand market. A survey, which involved a randomly selected sample of 237 respondents, helped to identify three main groups: 32% of the adult population surveyed were regular consumers of wine, 38% used wine occasionally, and the remaining 30% did not drink. Survey results indicated a reduction in the growth of wine consumption. Consumer preferences and consumer satisfaction with quality and prices of New Zealand wines, were also evaluated from survey results.

Findings from the consumer survey showed that a group of wine users with similar socio-economic status (mainly professional people) was responsible for more than half of the total wine consumption. To provide an in-depth analysis of the perceptions and preferences of this particular group of regular consumers, a pilot study based on the application of multidimensional scaling was carried out. Results of this study indicated that consumers considered some New Zealand wines to be close substitutes for some overseas wines (e.g., a New Zealand Riesling for the German wine "Blue Nun"). New Zealand sparkling wines, however, were not considered to be good substitutes for overseas sparkling wines. No wines in the sample were closely identified with any of the consumer preferences (expressed as ideal points in a multidimensional scaling representation). This indicated that the wines included in the sample did not totally fulfil the requirements of the selected group of regular consumers, either in terms of quality or price.

Research findings from both industry and consumer studies suggested that consumers had been deprived of the benefits of competition. Furthermore, if consumer interest is to be protected, a more competitive system has to

be developed through liberalisation of import policies and licensing laws.

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