More than Wine: How AVAs Support Growth in the Craft Beer Industry

I want to submit an abstract for:
Conference Presentation

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Keywords
craft beer, wine, American Viticultural Area, state-level panel, substitute goods

Research Question
Do AVA designations improve the success and growth of the craft beer industry at the state-level?

Methods
We consider annual, state-level panel data spanning the 49 continental United States and utilize a difference-in-difference approach to identify causal relationships.

Results
We find support for the intuition that AVA designation has a positive impact on the craft beer industry (at the state level).

Abstract
There is ample empirical evidence that American Viticultural Area (AVA) designation – and even sub-appellation (or “sub-AVA”) designation within an overarching AVA – has a positive reputation effect for grapes grown and wines produced within the designated area (Rendelman, Hoemmen, Altman, Taylor, Moon, & Smith, 2016; Gokcekus & Finnegan, 2017; Matthews & Medellín-Azuara, 2017). These designations, ultimately established by the US Alcohol and Tobacco Tax and Trade Bureau, delimit “grape-growing region[s] with specific geographic or climatic features that distinguish [it] from the surrounding regions and affect how grapes are grown” (TTB.gov, 2024). The positive reputation effect manifests itself via a boost in demand for wines grown within the newly designated AVA, leading
to increases in both prices and sales of wines identified as being from that area. Researchers have found that this effect is from the designation itself and not from the characteristics of the area (i.e., not because the land is able to produce significantly better grapes) (Cross, 2011). Separately, there is empirical evidence that wine and beer – especially craft beer – are substitutes in consumption, and even more strongly so for on-premises consumption (e.g., Čiderová & Ščasný, 2022; Meng, Brennan, Purhouse, Hill-McManus, Angus, Holmes, & Meier, 2014; Sousa, 2014). Moreover, this relationship is stronger when higher-frequency data is used (Fogarty, 2010). We merge these two literatures to empirically examine how demand for craft beer in areas is impacted based on changes in local AVA designations. Additionally, we also examine the impacts of AVA designation on other market segments.

In our analysis, we use annual, state-level panel data spanning the 49 continental US states. This dataset contains details on prices and quantities sold of various categories of alcohol, such as wine and craft beer, and on various demand shocks, such as local AVA designation status or changes in the number of AVAs in a state. The significant temporal variation of when the 269 existing AVAs were designated and large spatial variation regarding their locations jointly allow us to employ a difference-in-differences (“DND”) approach to better ensure a causal interpretation of our results.

Although studies have investigated impacts of AVA designation on prices of grapes grown in specific regions (along with the wine from those grapes), the present study is the first to assess broader implications across the country and the first to consider how these designations impact the closely related craft beer industry. Additionally, our findings contribute to the literatures on own-price and cross-price elasticities for various segments within the overall market for alcohol, the local and non-local impacts both of the AVA designation specifically and of governmental product-designation programs more generally, and the degree to which relatively costless government programs can redirect monies toward a specific region, which can serve purposes as varied as localized countercyclical stimulus packages or Congressional home-district pork-barrel spending. Last, it also provides to future researchers a framework that can be adapted to study substitution effects for designations – whether governmental or private – of other types of goods and services, including (for example) consumer goods and intermediate/factor goods.

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