



# Reform on Tap Task Force

Meeting #6  
September 6, 2017  
Laurel, MD



# Independent Beverage Retailers

## Providing choice, service and accountability



- Independent business people; Often multi-generational & family-owned; Active in communities
- Beverage licensees check more IDs than most law enforcement officers
- Some of the last stores on American “Main Streets”
- Beverage retailers sell an astonishing ~68 billion 12-ounce servings of beer per year.
- **No better friend to craft beverages than independent retailers**



The Last Store on Main Street

*Independent beverage licensees help form the most diverse and innovative beverage alcohol marketplace in the world*

# Economic Impact of Beverage Retailers

~2/3 of U.S. adults enjoy beverage alcohol...



- ...which means that America's independent and local bars, taverns and package stores play a large role in that enjoyment.

## ECONOMIC IMPACT

In the United States, the direct retail sales of the beverage alcohol industry are responsible for **\$762 billion in total economic activity.**

## JOBS

Establishments that sell alcohol employ as many as **5.65 million people** in the United States, and generate an additional 2.61 million jobs in supplier and ancillary industries.

## WAGES

Businesses selling alcohol in the United States, along with their supplier and ancillary industries, pay **\$281 billion in wages** and benefits each year. This amounts to an average of \$34,000 in wages and benefits.

## TAXES

In the United States, the industry and its employees pay over **\$43 billion in state taxes,** and an additional **\$64 billion in federal taxes.**

**Source:** John Dunham & Associates. *2016 Economic Impact Study of America's Beer, Wine and Spirits Retailers.* New York, July 2016

# Economic Impact of Beverage Retailers

## ...in MARYLAND



### ECONOMIC IMPACT

The direct retail sales of the beverage alcohol industry are responsible for **\$4.56 billion in total economic activity.**

### JOBS

Establishments that sell alcohol employ as many as **31,511 people**, and generate an additional 14,815 jobs in supplier and ancillary industries.

### WAGES

Businesses selling alcohol, along with their supplier and ancillary industries, pay **\$1.75 billion in wages** and benefits each year.

### TAXES

The industry and its employees pay over **\$306 million in state and local taxes**, and an additional **\$402 million in federal taxes.**



**Source:** John Dunham & Associates. *2016 Economic Impact Study of America's Beer, Wine and Spirits Retailers*. New York, July 2016

# Framing the Debate

What should the beverage alcohol marketplace look like?



- **Cognitive Dissonance**

- Access is good; but licensing/control structures exist for a reason
- Innovation is good; but Three-Tier exists for a reason

- **Regulation**

- Sensible market regulation where alcohol is celebrated & respected – not demonized – is not antithetical to growth, social responsibility and consumer satisfaction....it is one of the reasons for it!

- **Realities**

- More SKUs, brands and mainstream styles than ever before
- Beer, wine and spirits remain affordable luxuries for American consumers; consumer interest

- **Challenges**

- Saturation; Limited cooler/shelf space; Availability; Customer expectations
- For some new market entrants:
  - Their business models rely on changing regulatory/licensing systems i.e. “Shoot first...”
  - Alcohol is a secondary enhancement to their primary interests
    - EX: “I sell pickles this way. Why can’t I sell vodka this way? Why isn’t everyone selling vodka this way?”

# Outlet Density

## What is the right number of places to buy liquor?



- Consumption of alcohol the in U.S. is essentially flat
  - The pie is not growing...it is just being cut up into more pieces.
  - Some shifts in WHAT people are drinking
    - EX: Beer YTD: -1.2%; Wine and spirits up
- U.S. average is 3.34 liquor stores per 10,000 adult residents
- Maryland, excluding Montgomery County, averages 3.02 stores
- **TAKEAWAY:** Liquor availability is Maryland is nearly at the national average.

Sources: NABCA, Beverage Information Group and state alcohol licensing websites

# Retail Liquor License Restrictions

It is normal for government to limit permits per entity?



- 1 – Arkansas, District of Columbia, Kansas, Maryland, Mississippi, New York, Pennsylvania\*, Rhode Island, Vermont, Wyoming \*Pennsylvania: For beer distributors
- 2 – Delaware, Georgia, New Jersey
- 3 – South Carolina
- 4 – Connecticut
- 5 – Colorado\*, Missouri, Texas
- 7 – Massachusetts (9 in 2020)

\*Colorado: Will expand to 8 licenses in 2022; 13 in 2027; 20 in 2032; unlimited in 2037.

- Control State Retail: AL, ID, ME, MT, NC, NH, OH, OR, PA, UT, VA
- **TAKEAWAY 1:** 18 jurisdictions (17 states +DC) have limits per entity; 11 Control states also limit or “control” retail operations
- **TAKEAWAY 2:** It is normal for states to limit the number of retail liquor licenses a person/company can hold.

# Multi-State Corporate Chains

Does this model benefit consumers? Alcohol producers?



- **Private Label**

- The heavy use of private labels by multi-state corporate chain alcohol retailers, when combined with consumer data, means that these retailers can influence alcohol purchases in unexpected ways that are not immediately recognizable – or necessarily transparent. This allows for increased “ownership” of the consumer and raises questions about pricing, retail competition, consumer “choice”, as well as competition with independent brands.

- **Limited SKUs**

- “Walgreens runs a highly efficient beverage alcohol unit. It stocks just 150 SKUs for wine, 50 for spirits and 35 for beer. The buying must be absolutely targeted, with not a single underperforming brand, Turner says. On new products, Walgreens generally lets a label perform in independent channels first before stocking it.”

**Source:** Shanken News Daily. “Walgreens: Beverage Alcohol Powerhouse”. August 22, 2017.

- **Responsibility**

- Independent retailers understand the market & industry products, and the responsibility that comes with their license. **If they lose their license, they lose their business.** Does that same sentiment pervade grocery, pharmacy, convenience, gas and other non-traditional alcohol retailers?

# Washington State

## An example of what not to do

- **DISCLAIMER:** ABL has no position on privatization
- 2011 ballot initiative I-1183 closed state liquor stores; created 10,000 sq. ft. minimum for new stores; 17% fee on retailers, other fees
- **~170 independent stores were grandfathered-in but many of those are now closed; small producer market access curtailed**
- **Hopefully we can all agree that creating a retail alcohol marketplace that essentially eliminates small businesses, raises prices and effectively decreases product choice for consumers is BAD POLICY.**



Liquor thefts have tripled in Puyallup post-privatization

**The Oregonian**

Liquor privatization in Washington bad for youths, new study says

**KOMOnews**

Stores seeing huge spike in liquor thefts

**THE WALL STREET JOURNAL.**

Liquor Buyers Cross State Line

Prices Went Up—Not Down—After Washington State Ended Control of Booze Sales

Everett, Washington  
**HeraldNet**

Privatizing liquor hasn't brought price down

# New Jersey

## Economic impact of allowing chain licensing



- **Current Law:** A 2-license limit state per entity; grocers and other chains are allowed to sell alcohol at two locations
- **Legislation:** Would increase the number of alcohol retail licenses permitted to be owned by a single entity from 2 to as many as 10 over a multi-year incremental timeframe
- **Economic impact study:** “Removing plenary retail distribution license limits for certain stores has the strong probability of negatively impacting State tax revenues and incurring direct and indirect job losses.”
- **Key Findings:**
  - “17% to 32% market shift from Independent Liquor Stores to Big Box stores”
  - “A 1.4 employee net loss for every new employee hired”
  - “A strong probability of small store closures and long-term negative direct and indirect upstream/downstream effect on tax, income, employee and wealth multipliers”
  - “For every \$1 million dollars in gross liquor sales that transfers from small liquor stores to Big Box grocery stores the State will realize \$75,000 dollars less in income subject to taxation.”

**Source:** Grand Institute. *Economic Analysis of the Impact on Market Structure and State Tax Revenues of New Jersey A1325 and S2009*. Mt. Laurel, NJ. October 2012

# Florida

## Citizens, Governor rejects “Whiskey & Wheaties” bill



- Would have “allowed grocery stores, big box retailers and other stores to sell liquor in the same space as other products. Currently, liquor must be sold in a side store separated by a wall.”
- Would have put at risk numerous independent package stores in shopping center and strip malls with grocery stores
  - **Over one-third of independent liquor stores in Florida are in plazas that have a big box retailer or supermarkets** (Source: USNews)
- 1,174 phone calls, emails and letters urging the Governor to sign the bill
- 7,516 phone calls, emails and letters urging the Governor to veto the bill



# Tennessee

## Wine in grocery law destroying independent stores



- The Tennessee legislature passed a law allowing grocers to sell wine, in addition to the beer they already stocked, as of July 1, 2016.
- As a concession to liquor stores, the state allowed them to sell beer, food products, party supplies and tobacco.
- At the time, liquor store owners estimated a 30% loss of their business; legislators thought that was an exaggeration.
- **1 Year Later: Reports from liquor stores say wine sales are in fact down 30 percent, if not more**
- "We lost \$2 million in revenue just from grocery stores and wine sales. So that really destroyed our cash flow."
  - David Purvis, Owner, Farragut Wine and Spirits



# Regulatory Considerations

## Expanding the alcohol marketplace



- **More licensees, No additional resources**
  - States face decreasing budgets and decreasing workforces but greater demands to enforce trade practice issues and more complex entities and licensure
- **Heightened awareness of trade practice laws**
  - Alcohol is a unique product, unlike milk, bananas or other consumer packaged goods, and has its own set of trade practice laws
  - New (and existing) industry practitioners and regulators should know the laws, what is allowed
- **Tied House & Category Management**
  - As leverage shifts from large suppliers to large retailers, are federal and state trade practice laws applicable/adaptable/amendable to address today's regulatory realities?



# A Cautionary International Tale

## Countries concerned about their marketplaces



- **Canada: Grocery stores, craft breweries behind declining Beer Store sales**
  - “Ontario's decision to allow grocery stores to sell beer and the growth of craft breweries are two of the main forces driving declining sales.” (Source: CBC News, 8/13/17)
- **U.K.: Pubs call for action on cheap supermarket alcohol**
  - “British publicans see cheap supermarket alcohol as the single greatest threat to their industry, and support government action to raise prices, according to a new Institute of Alcohol Studies (IAS) report.” (Source: [www.politics.co.uk](http://www.politics.co.uk), 9/1/17)
  - **BONUS:** “British drinkers have almost 50,000 pubs to pick from yet remarkably little real choice. Six chains control nearly a third of the market. Regulatory approval of Heineken's Punch Taverns pubs acquisition will shorten the list further.” (Source: Financial Times, 8/19/17)
- **New Zealand: Ban alcohol in supermarkets – doctors**
  - “The Medical Association wants to see alcohol banned from the aisles of supermarkets. Alcohol Health Watch has joined in, describing supermarkets as New Zealand's worst drug pushers.” (Source: NewsHub, 5/8/17)

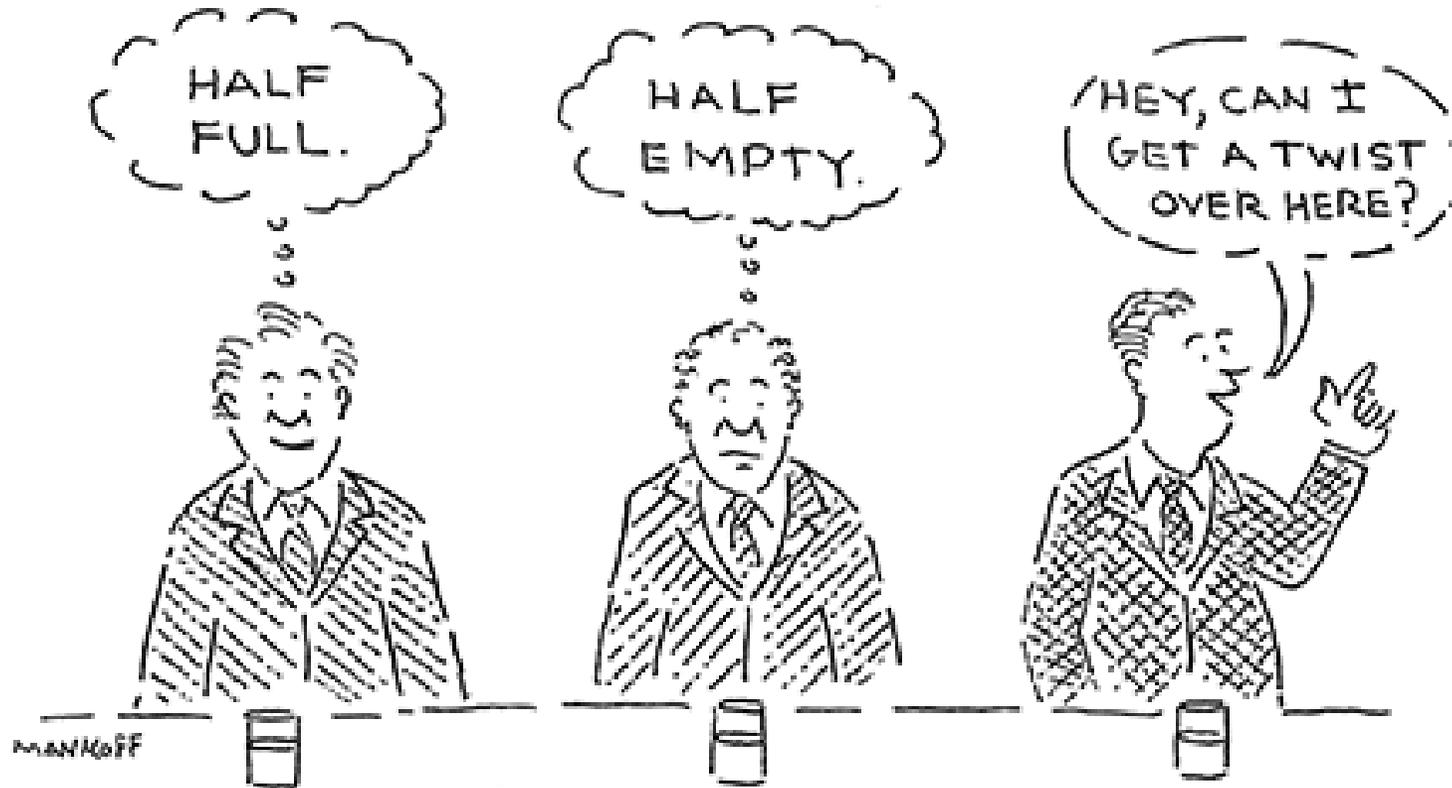
# For your consideration...

## Some modest observations



- Solve problems in the marketplace before making them a policy issue.
- Embrace evolution, but understand that with a flat (on volume) beverage alcohol market, it is a zero sum (or even negative sum) game when it comes to jobs. Incremental, consensus-driven change is a worthy goal.
- Consumer convenience is important – as is fair competition– but should not trump responsibility, accountability and public safety.
- Don't forget what got us to this Golden Age of beverage alcohol. (HINT: It wasn't a European, grocery-dominated, vertically integrated model.)
- **WE'RE IN THIS TOGETHER:** At the end of the day, we all do better when we all do better. (Sorry to be tautological.)

# Questions & Discussion



-  OPTIMIST
-  PESSIMIST
-  PRAGMATIST