Policy Analysis: Maryland Proposal for Wine & Beer Sales in Grocery Stores

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Wine and Beer in Grocery Stores: Promises Not Likely to be Met

A study advocating for wine and beer to be sold in Maryland grocery stores has projected a revenue windfall for the state while doing little harm to existing package stores that now sell beer, wine and spirits. Unfortunately, the study is wildly optimistic. This analysis of the flaws in the study makes the following points:

- When Tennessee began allowing wine to be sold in grocery stores, package store revenues fell for 18 consecutive months. Maryland package stores will likely have a similar experience.

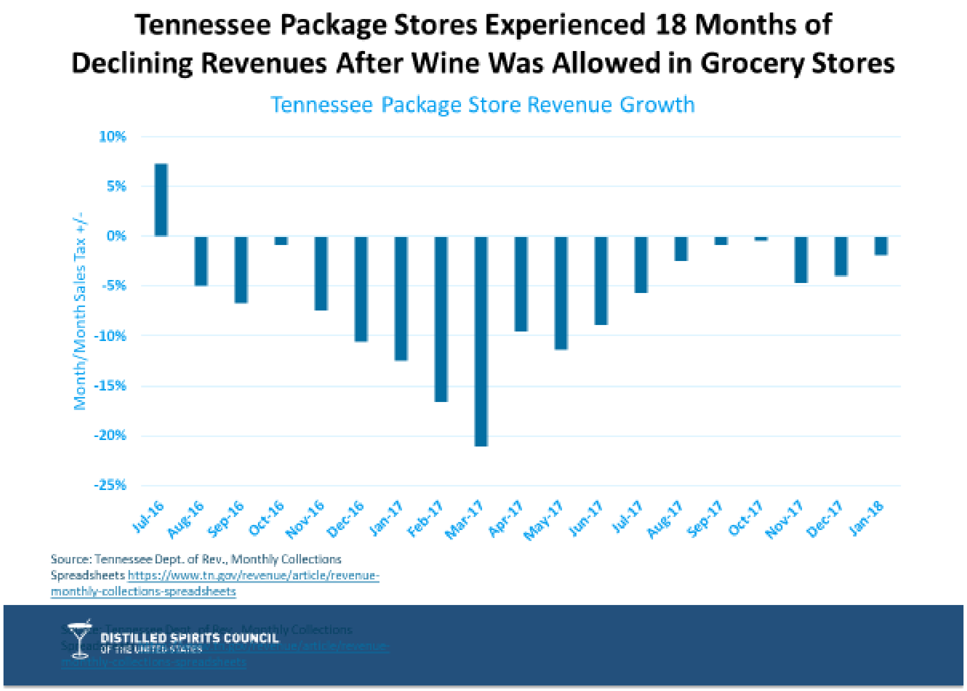
- The Sage study assumed there would be no loss in the sale of distilled spirits. But, spirits, wine and beer all compete for the same drinking occasions. As wine and beer sales are taken out of package stores, spirits sales will be lost, impacting tax revenues.

- The upfront licensing fee revenues are not likely to be fully realized. Projected beer and wine grocery sales are too low to attract the estimated number of licensees. At the current level of sales, licensees would take more than 12 years to recoup the initial upfront licensing fee. Few stores will be willing to make an investment that takes that long to begin showing dividends.

Tennessee Experience: 18 Consecutive Months of Lost Sales

- When Tennessee began allowing wine to be sold in grocery stores beginning in July 2016, Tennessee package stores experienced an immediate loss in store revenues. Tennessee package stores began losing revenue in August 2016 and the unfortunate streak continued through January 2018.

- By the time Tennessee package stores returned to growth, 7 percent of total sales had been lost. If we adjusted for the growth that package stores would have *expected* to see, total losses would have been closer to 12 percent.



Package store losses in Maryland would be much greater than proponents of wine and beer in grocery stores predict.

- Tennessee package stores lost between 7 and 12 percent of their total sales just from wine being allowed to be sold in grocery stores.

- Clearly, Maryland package stores would experience much bigger losses if both beer and wine were allowed in grocery stores.

Proponents of wine and beer in grocery stores claim that there would be no lost spirits sales. This is not the case.

- The study does not account for any lost spirits sales. It is assumed that new grocery store sales of beer and wine would either come from cannibalized package stores sales or repatriated sales from bordering states, e.g. Virginia.

- However, when we look at current levels of per capita consumption (see table below), we see that total alcohol consumption in the two states is relatively close – 2.33 gallons in Maryland and 2.39 in Virginia. Beer and wine sales are much greater in Virginia and both products are sold in grocery stores. However, spirits consumption is almost 24 percent lower than in Maryland.

Alcohol Gallons Per Adult by Beverage - 2018				
State	Spirits	Wine	Beer	Total
Maryland	1.02	0.43	0.87	2.33
Virginia	0.78	0.55	1.06	2.39
Source: NIAAA				

- Beer, wine and spirits all compete with one another for drinking occasions. In fact, 70-75 percent of consumers enjoy all three beverages, and each is a good substitute for the other. As Marylanders begin buying beer and wine in grocery stores, it will take foot traffic out of package stores, and spirits sales will decline.

- Thus, a substantial portion of the projected “new demand” for beer and wine will come at the expense of spirits sales, negatively impacting projected tax revenues. Each time a spirits drinking occasions is substituted for a wine or beer occasion, tax revenue is lost.

- Additionally, there are now more than 25 craft distillers in Maryland that rely heavily on Maryland package store sales. As foot traffic in packages stores declines and spirits, wine and beer sales are lost, small distillers could lose in two ways. First, like all spirits suppliers, craft distillers will lose sales. But, as the package store segment contracts, package store owners may be less likely to carry craft brands, preferring to highlight national brands that will enjoy faster inventory turns.

Estimates of new tax revenues from licensing fees are unreasonably optimistic.

- A great deal of the projected new state revenue is supposed to be generated through both a one-time ($71.9 million) and annual ($14.7 million) licensing fee. However, the study authors also predict that new licensee sales will increase by $107.5 million.

- Chain store mark-ups tend to be fairly low. It is doubtful that aggregate gross margins for the chain stores on the $107.5 million in revenue would be more than $20.1 million annually. After subtracting annual licensing fees it would take more than 12 years for Maryland stores to recoup their investment in upfront licensing fees.

- Few stores are likely to make an investment that will take more than 12 years to start to show a return. Thus, far fewer stores will opt to carry beer and wine and the projected new revenues are not likely to be realized.