

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



## Wine and Beer in Grocery Stores: Harmful for Maryland Treasury

The introduction of wine and beer sales in grocery stores would redirect customers away from liquor stores, leading to a decrease in both spirits and wine sales at these specialized outlets. The decline will harm liquor stores and reduce Maryland's sales and excise tax collections as wine and beer gain market share at the expense of spirits.

- Spirits, wine and beer all compete for the same drinking occasions. Among those who enjoy spirits, only a small fraction exclusively drinks spirits. The vast majority, approximately 80%, of spirits buyers also purchase wine and/or beer.<sup>1</sup> Sales of spirits would decline as foot traffic to liquor stores dwindles due to the availability of wine and beer in grocery stores.
- Maryland imposes a higher tax rate on distilled spirits than on wine and beer, based on alcohol content. The tax on spirits is more than twice as high as that on beer and 13% higher than that on wine. As lower-taxed products replace higher-taxed ones, Maryland would see a decline in excise tax revenue.

**Maryland Excise Tax**

	Spirits	Wine	Beer
Per Gallon	\$1.50	\$0.40	\$0.09
Alcohol by Volume	40.0%	12.0%	5.0%
Per Alcohol Gallon	\$3.75	\$3.33	\$1.80
Spirits rate is % higher		13%	108%

## Harmful for Liquor Stores

- 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. Package store revenues fell 10% in the first year of sales and were still down by 10% two years after the policy change.
- Maryland package stores would likely experience much bigger losses if both beer and wine were allowed in grocery stores.

---

<sup>1</sup> IRI, State of the Beverage Alcohol Industry, March 2023

## 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.**

- It is usually 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 – 2.27 gallons in Maryland and 2.40 in Virginia. Beer and wine sales are much greater in Virginia and both products are sold in grocery stores. However, spirits consumption in Virginia is 24 percent lower compared with Maryland.

**Alcohol Gallons Per Adult by Beverage  
5-Year Average (2018-2022)**

State	Spirits	Wine	Beer	Total
Maryland	1.01	0.39	0.88	2.27
Virginia	0.76	0.52	1.12	2.40

Source: NIAAA, Time-varying alcohol gallons

- 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 around 50 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.