



WINE AND SPIRITS WHOLESALERS OF CONNECTICUT, INC.

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TESTIMONY OF WINE AND SPIRITS WHOLESALERS OF CONNECTICUT

RE: In Opposition to Bill 6361 An Act Concerning Fair Alcohol Pricing

The WSWC appreciates the opportunity to provide this testimony to the General Law Committee in opposition to Bill 6361. The WSWC agrees that Connecticut consumers should receive the widest selection of wines and spirits at competitive prices. The WSWC, however, opposes the change proposed by Bill 6361 because the WSWC believes:

- i) the proposal is unlikely to realize any financial gain to the state;
- ii) Connecticut retail prices are competitive with surrounding states; and
- iii) additional time is required to evaluate the impact of Sunday Sales as authorized by PA 12-17.

Current Law. Presently CGS § 30-68m provides: "No retail permittee shall sell at a price below his cost." For wine and spirits only,¹ "cost" is further defined by the statute as the posted wholesaler bottle price – that is the price which a retailer pays when purchasing a single bottle of a given item. Section 30-68 was modified slightly by PA 12-17 to permit package stores to sell a single item at a price 10% less than the posted bottle price.²

No increase in tax revenue likely. In the past some have argued that redefining the definition of "cost", in proposals similar to Bill 6361, would result in increased revenue to the State of Connecticut. They have argued that the statutory definition of "cost" inflates the retail sales price and that by removing this control consumer prices will decrease and that the volume of Connecticut sales will increase so as to offset the loss in sales tax. The WSWC is skeptical of such claims on two grounds. First, Connecticut ranks 6th in the presumptive consumption³ of wine and 12th for spirits.⁴ On a per capita basis, Connecticut residents consume more spirits than their New York and Massachusetts neighbors, more wine than New York residents and about the same amount of wine as Massachusetts residents. Connecticut's current consumption practices suggests that Connecticut residents are satisfied with the current price structure and are unlikely to consume significantly more if prices decline.

¹ For beer a retailer's cost is the lowest posted price. CGS § 30-68m.

² For February 2013 only 63 of the 1200 package stores had registered a price discount.

³ Since actual consumption is impossible to measure, "consumption" here refers to presumptive consumption based upon actual gallons sold within the state divided by its population over the age of 14. See also footnote 7 below.

Secondly, because sales taxes on wine and spirits represent 1.5 times the excise taxes on the same products, any decrease in sales price must be offset with an even larger increase in sales volume to make up for the lost sales tax. In a 2012 study done for the WSWC, Cain Associates LLC estimated that sales taxes attributable to wine and spirits sold for off premises consumption to be \$43M in contrast to the \$28.33 in excise taxes attributable to off premise sales paid on wine and spirits for the same period. To place this in perspective if one were to assume a decrease in wine for a typical \$9.99 bottle of \$0.50 to \$9.49 (a 5% decrease) the retailer would have to sell an additional 2 ½ bottles to realize enough excise taxes to make up for the lost sales tax. Given the already high consumption rates in the state, it seems unlikely that such consumption could actually be realized.

Connecticut retail prices are competitive with surrounding states. While many may point to anecdotal evidence to argue that Connecticut beverage alcohol prices are higher when compared to surrounding states, one cannot conclude from that anecdotal information that Connecticut's prices are uncompetitive when compared to surrounding states. Beverage alcohol prices, both at the wholesale level and the retail level vary from month to month. Furthermore, because of disparity in supplier pricing and incentives, prices vary over time from state to state. Simply stated, what may be on discount in Connecticut one month may not be the same product on sale in either New York or Massachusetts and vice versa. For this reason, to have a complete picture of how Connecticut stacks up against its neighbors, one must look at pricing across a breadth of product price ranges and over a long period of time. In the Fall of 2012, the WSWC undertook a study which examined 120 different wine and spirits products over a year long period⁵⁵ with the data being gathered by Nielsen. The data consists of the top 5 selling items (wine & spirits) in established pricing categories (i.e. Premium, Super-premium, etc.). Some of the key conclusions of the study are:

- Over the period of the subject study, Connecticut prices were lower than New York pricing 36.5% of the time and when compared to Massachusetts Connecticut prices were lower 18.9% of the time.
- In those instances where Connecticut prices were higher, the average price differential was small.
- Two of the most significant factors that influence Connecticut prices are its high excise taxes and general high costs of doing business in the state.

Thus, while Connecticut may not have the lowest price all of the time it does have the lowest price a good portion of the time despite higher taxes and a challenging business environment.

Additional time is required to evaluate the impact of PA 12-17. In May 2012, less than one year ago, Connecticut enacted perhaps the most significant change to

⁵⁵ August 20, 2011 through August 18, 2012.

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Connecticut's beverage alcohol laws in more than three decades-- the repeal of the prohibition of retail sales on Sundays. (PA 12-17, Sec. 10) This change in the method of distribution was on the heels of a 20% excise tax increase (2011) and a sales tax increase. These tax increases resulted in an increase in prices to the consumer. The WSWC believes that should Bill 6361 be enacted, the addition financial strains placed on package stores will result in the closure of a significant number of package stores, lost jobs, a decrease in income tax revenues, a significant decrease in overall economic benefits to the state as large national retailers come to dominate the market place over local Connecticut businesses.

Prior to the enactment of P.A. 12-13 package stores were prohibited from making sales to the public on Sundays. Public Act 12-17 repealed that prohibition, allowing package stores to open from 10 am to 5 pm on Sunday. The additional Sunday hours represent an increase of nearly 9% of the total hours that a package store is able to open. With the increased hours however, comes an increase in the cost of operations that must be borne by the package store. Salaries, electricity for lights and heating/cooling bills are all higher the more hours a store is open. Proponents of this proposal predicted that the enactment of Sunday Sales would result increased sales in the state – as much as 10% to 8% which would offset these costs. The available data, however, at this point in time, shows that Connecticut's Package stores have not realized these additional sales. While, beer and distilled gallonage increased in absolute numbers during the six months following the enactment of PA 12-17 when compared to the same six months one year prior, wine gallonage decreased. Furthermore, the increase for spirits was less than the growth trend exhibited in the prior five years. Thus, in an environment where overall consumption remained relatively flat, beer sales increased slightly (1.24%), but such increase was at the expense of wine and, to a lesser extent, spirits sales.⁶ Significantly, this shift in consumer purchases was not financially beneficial to the state because excise taxes and sales taxes paid on wine and spirits are significantly higher than those on beer. Additionally, this shift in consumer purchases likely represents an increase in grocery store sales at the expense of package store sales. Thus, not only have package store been saddled with increase costs, but some beer sales also appear to have shifted away from package stores to grocery stores. Given that the available data is limited at this time⁷ and that the full effect of this change on the industry has yet to be measured the WSWC suggests that

⁶ June 2012 through November 2012 compared to June 2011 through November 2011. All figures derived from excise tax reports as published by DRS.

	Absolute Gal. Δ	Absolute % Δ in gallons.	Δ Compared to 5 year trend
Beer	381,404	1.24%	1.88%
Wine	-48,377	-0.67%	-3.51%
Spirits	90,261	2.53%	-0.03%

⁷ At the time of this writing only excise tax data through November 2012 was available. Because of the timing of sales promotions, the cyclical nature of consumer consumption patterns and other factors which can influence consumption consumption.

more time is required to evaluate the impact of PA 12-17 on the industry and on Connecticut's economy before making any further changes to the Liquor Control Act.

The WSWC and its Members. The Wine & Spirits Wholesalers of Connecticut, Inc. was established in 1964 and since that date has been the trade association representing wine and spirits wholesalers in Connecticut. The WSWC membership totals 53 and its members distribute the vast majority of wines and spirits sold in the state of Connecticut. The members of the WSWC span a diversity of size from very large to very small, but all are family owned businesses. Individually, they employ as many as 230 employees and as few as a one person working part-time. Collectively, they are a significant and integral part of Connecticut's economy. The members of the WSWC:

- contribute in excess of \$434 million dollars in direct benefits to the state's economy;
- provide in excess of 1,700 direct jobs to Connecticut residents;
- Pay in excess of \$167 million dollars in wages;
- pay in excess of \$48.8 million dollars in state excise taxes;⁸
- promote, market, sell, warehouse and deliver nearly 36,000 different brands; and
- assist the Department of Revenue Services in the collection of Sales and Use Taxes, in excess of \$141 Million Dollars annually⁹.

Beverage alcohol wholesalers are highly regulated and must obtain licenses from both the state and federal government. Their business dealings with both suppliers and retailers are regulated and controlled by both state and federal governments. In addition to paying the excise taxes on the products that they sell wholesalers are legally responsible to insure that the wines and spirits brought in to the state by manufacturers and importers, with whom they deal, are properly registered and are sold and distributed only to licensed retailers (package stores and restaurant). Each product sold in the state must be registered with the Department of Consumer Protection and bears a brand registration fee of \$200.00 per label,¹⁰

Many people perceive wine and spirits wholesalers as mere "distributors" of the products they sell. While wine & spirits wholesalers do provide critical logistics through the warehousing and delivery of beverage alcohol, one third of their expenses go to educating retailers and the marketing of the products they sell, which is equal to the

⁸ FYE June 30, 2012.

⁹ \$141 million is the total sales and use taxes estimated to be collected on the retail sale of wine, spirits and beer in 2010. Spencer Kane, Cain Associates, LLC, Economic Impact, March 2012. Each year the Department of Revenue Services requests that wholesalers furnish sales made to retailers to determine if individual retailers are fully accounting for all sales.

¹⁰ Registration is valid for a three year period. CGS 30-63

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expenses spent for warehousing and delivery. Beverage alcohol is a true experience product; thus, the wholesaler's knowledge of the local market and their ability to focus appropriate sales efforts is critical to spurring consumer demand. By way of example wholesalers interact with retailers weekly and have a detailed knowledge of the products that are selling well on a retail basis. Armed with such knowledge wholesalers can convey to suppliers consumer purchasing habits as well as target promotional activity to desired audiences and advise retailers as how to best market any one of the 36,000 available products to consumers.

Wholesaler investment in the marketing, promotion and development of brands is often critical in helping to bring new brands to market. Consider that 25% of the spirits products today were not available 10 years ago. These new products generate little return on investment early in their life and are costly to distribute. The constant innovation of new and different beverage alcohol products requires continual investment and reinvestment in the marketing and promotion of new brands as well as the reinvestment into mature and established brands to help grow and maintain their market share. The required investments in the marketing and promotion of brands demands that wholesalers expend significant funds. A typical wholesaler devotes slightly more than one third of its net revenues towards sales, marketing and promotion of the products it sells, an amount equal to its warehouse and delivery costs.

In addition to their investments in sales, marketing and the promotion of products, to remain competitive in an ever more challenging business environment, wholesalers must also make continuous investments in their warehousing, administration and delivery systems. Wholesalers must operate efficiently in order to be profitable. Wholesalers deliver approximately 8 million cases of wine and spirits a year, the equivalent of nearly 1,000 tons of goods each delivery day. Examples of these investments range from high speed efficient conveyor systems to help organize orders within the warehouse for delivery to specialized computer software which maps the most efficient delivery routes to minimize delivery times and fuel costs.

Connecticut consumer's endorsement of the current system through their purchases is in line with the opinions of the overwhelming majority of Americans who believe that alcohol is a unique product and that the current level of beverage alcohol regulation is appropriate. A study conducted by the Center for Alcohol Policy during July 2012¹¹¹ concludes:

¹¹¹ <http://www.centerforalcoholpolicy.org/research-and-studies/>

- 72% believe states should regulate alcohol because it is different from other consumer goods.
- 79% believe that alcohol is NOT just like toilet paper and tin foil.
- 78% support the current drinking age of 21 or older.
- 81% support the rights of states to determine their own laws and regulations regarding the sale of alcohol.
- 76% support the rights of individual states to regulate the manufacture, sale and distribution of alcohol.
- 74% believe that local businesses should be in charge of alcohol distribution in the local community because they understand local preferences.

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- Americans do not think alcohol is just like other consumer products, and they support state restrictions on alcohol that are not found on other consumer goods.
- Americans believe that local businesses that understand the local community should manage local alcohol distribution and sales.
- Americans do not want to replicate the United Kingdom's disastrous experience with alcohol deregulation.

The members of the WSWC are committed to ensuring that the best possible safeguards to prevent the sale of beverage alcohol to minors are in place and adults of legal drinking age consume beverage alcohol responsibly, while at the same time providing an efficient method of distribution which provides access to a wide variety of quality wine and spirits from all over the world.

Respectfully submitted,



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- 72% agree that the U.S. should not follow the UK and remove alcohol regulation.