

# Preserving Montana's Alcohol Regulatory System

Pamela S. Erickson, President  
Public Action Management, PLC  
April 28–29, 2010

# Why do we need special regulations for businesses that sell alcohol?

- ▶ Why can't alcohol be sold in a "free market" like other products?



*Because some normal business practices — quite legitimate for other commodities — may produce social harm when alcohol is sold.*

**As an illustration, imagine you decide to buy a floral business...**



# Your business plan would include:

1. Efforts to retain and increase customers who are “frequent buyers” of flowers
2. Discounts and promotions to gain new “flower-loving” customers
3. Advertising to young people to build a future customer base

# What happens when you substitute alcohol for flowers?

## ▶ Your business plan calls for:

1. Marketing to heavy drinkers and alcoholics.

2. Use of volume discounts/ incentives to encourage heavy use.

3. Marketing to youth to encourage present and future alcohol use.

▶ *Estimates indicate the alcohol market includes:*

▶ *17.5% underage drinkers*

▶ *20.1% adult abusive/dependent drinkers*

▶ *(Archives of Pediatrics and Adolescent Medicine, 2006)*

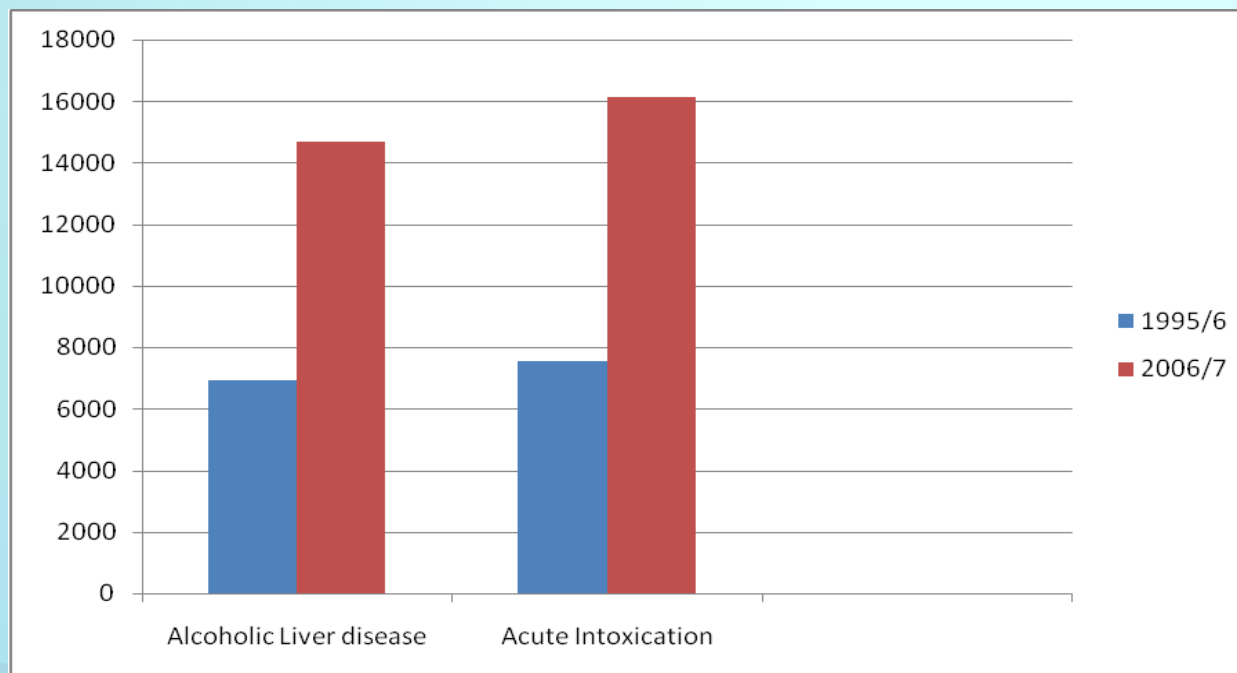
# Let's see what happens when alcohol deregulation really occurs. ..



- ▶ The United Kingdom is an example. Today alcohol is available in bars, clubs and grocery stores 24 hours a day, 7 days a week.
- ▶ They have high taxes, little regulation, poor enforcement and lots of cheap alcohol.
- ▶ They also have an alcohol epidemic on their hands.

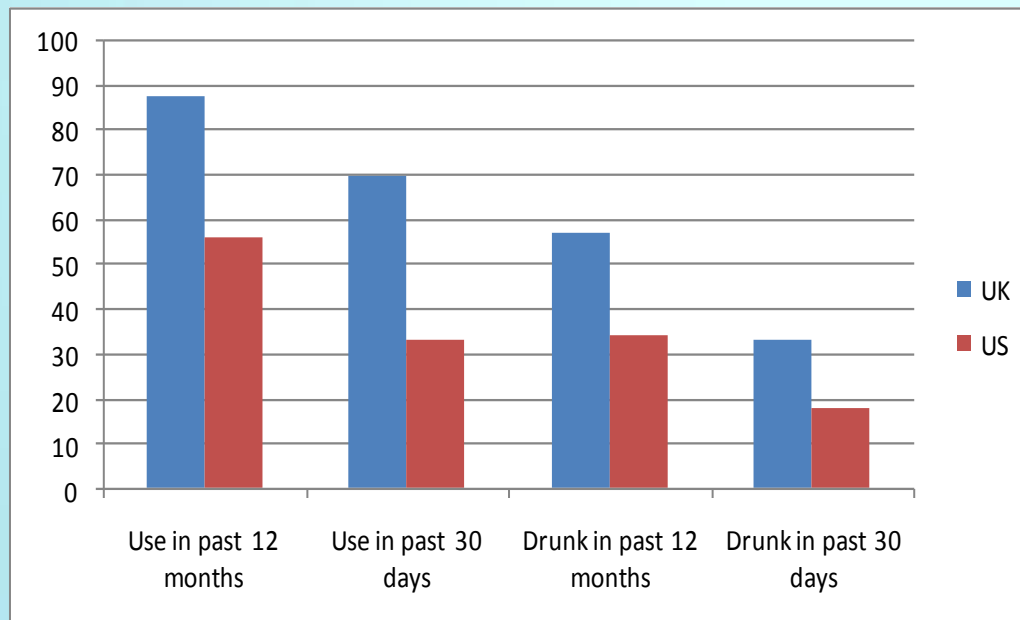
***“Quite simply, England is drinking far too much. England has an alcohol problem.” Sir Liam Donaldson, Chief Medical Advisor, UK***

- ▶ Hospital Admissions have doubled for liver disease and acute intoxication.



# Youth are drinking at twice US rates!

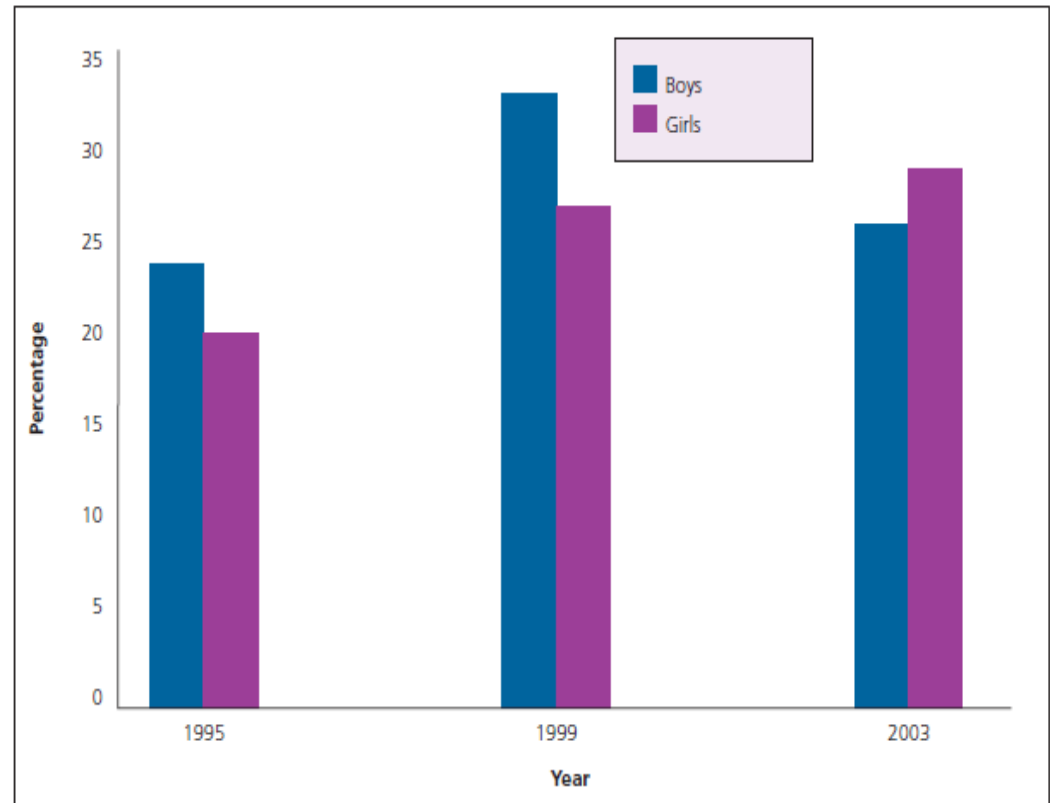
- ▶ Drinking and intoxication of youth 15–16 are at very high rates, according to the European School Survey.





# Girls drinking exceeds the boys

Percent of 15–16 years olds consuming 5 or more drinks on 3 or more occasions in the past 30 days



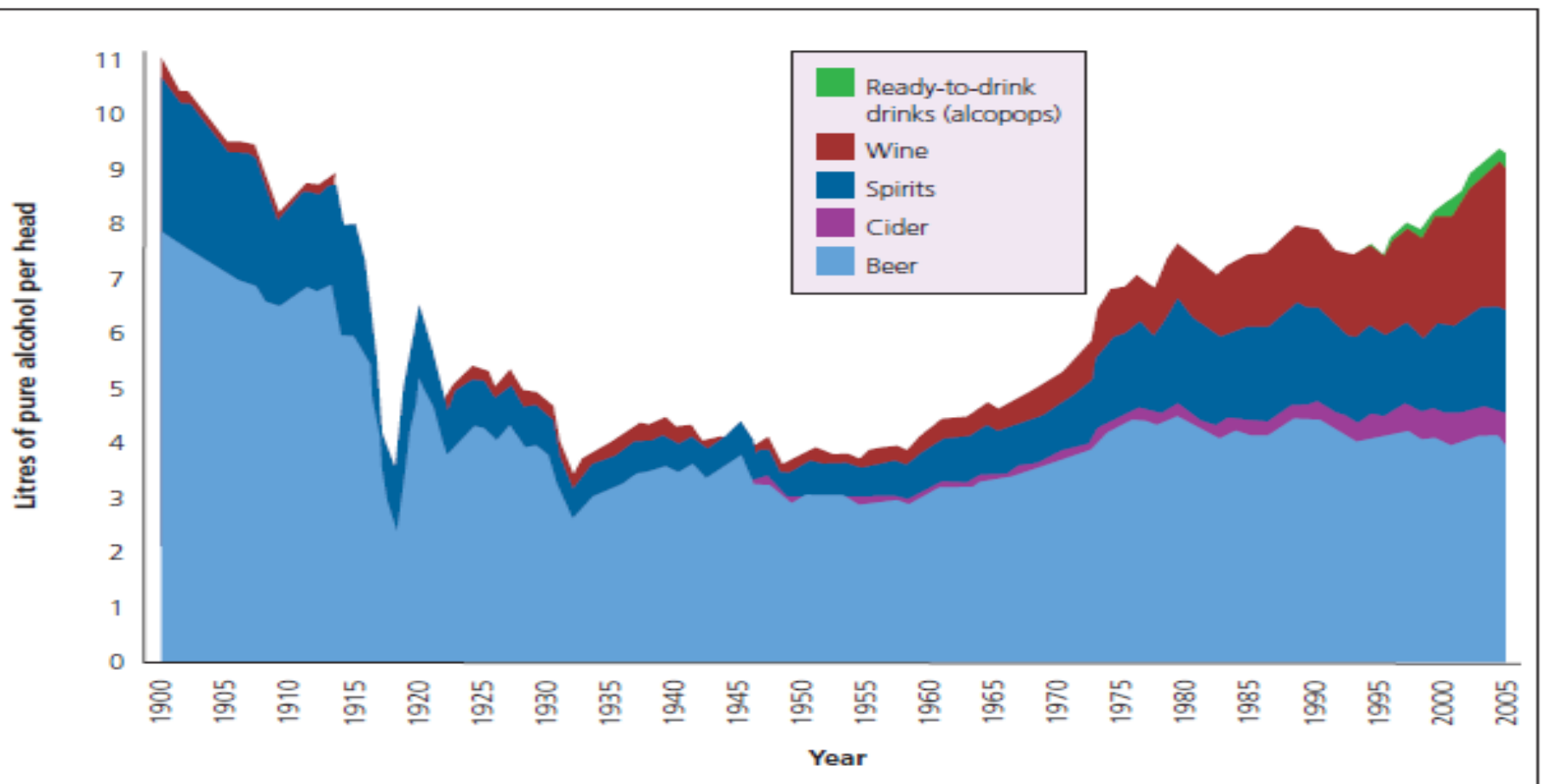
Source: Plant MA & Plant ML (2006) *Binge Britain: Alcohol and the national response*. Oxford: Oxford University Press.

# ***Public disorder and violence in town centers***

- ▶ Large increase in public disorder crimes around bars (vomiting, urination, fights, vandalism).
- ▶ Thirteen “Booze Buses” used for 2009 New Year’s Celebration to take revelers to the hospital.
- ▶ Serving practices promote rapid intoxication.
- ▶ “Predrinking” at home increases bar intoxication.



## ***UK deregulation begins in the 1960s and is followed by increased consumption and problems***



# Large grocery chains are widely blamed for the epidemic as prices fall

- ***Four large chains control 75% of the market.***
- ***Most use alcohol as a “loss leader”.***
- ***Drinking at home has increased.***
- ***The large chains are locked in price wars.***



# Could the US experience a similar epidemic? Two Major Threats.

US Supermarkets have cheap alcohol

Deregulation by Lawsuit



*The court found no “persuasive evidence that the purpose of any of the challenged restraints was to promote temperance by raising average beer and wine prices.”*

▶ *US District Court, Costco v. Hoen*

# Supermarkets rely on high volume, not mark-up, to generate profits



- ▶ Net profit for food retailers is less than two pennies on each dollar of food sales.

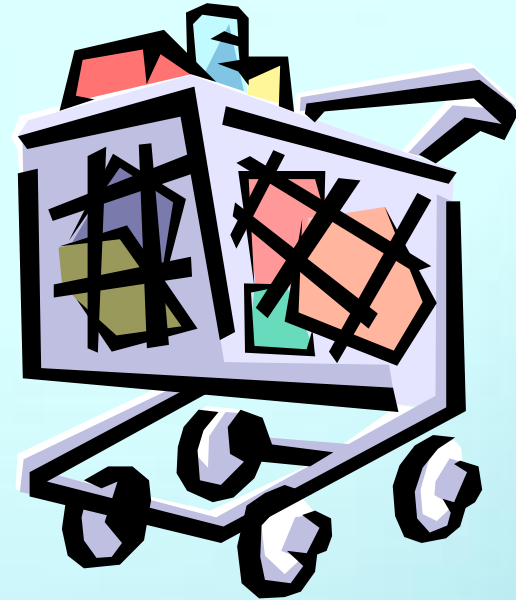
- ▶ How can supermarkets survive?
- ▶ **“To earn a dollar, supermarkets would rather sell a \$1 item 100 times, making a penny on each sale, than 10 times with a dime markup.”**

*Source: Food Marketing Institute*

# The US grocery market is consolidating with greater use of mass marketing methods

## *“Top North American Food Retailers (Percent of top 50 by 2009 estimated or actual Sales)”*

▶ Wal-Mart/Sam's	\$262 b	30.6%
▶ Kroger	\$ 76 b	8.7%
▶ Costco	\$ 71.4 b	8.3%
▶ Supervalu	\$ 41.3 b	5.0%
▶ Others	\$406.5 b	47.4%
▶ <i>Source: Supermarketnews.com</i>		



# Mass Merchandising Model for alcohol: Cheap alcohol sold in high volume. Coming to a store near you!

1. Large store chain
2. Wholesale volume purchase at discount
3. Warehouse
4. Distribution system
5. Retail sales at low prices, volume discount, heavy promotion, loss leader



**SALE**





# Current retail trends of concern:



- ▶ Shift to drinking at home: 37% going to bars and clubs less often (Nielsen survey)
- ▶ Increase in off-premise locations: 2,392 in August 2009 (Beverage Information Group)
- ▶ Cheap alcohol in stores (sometimes 50 cents a can for beer); private labels
- ▶ Proposals for all forms of alcohol in grocery stores...sold as “Customer Convenience” (privatization, “wine in grocery stores”, Sunday sales, etc.)

# Impact on licensed or state liquor stores: loss of controls; undercut on price



- ▶ Original purpose: tighter controls for products of higher alcohol content (wine and spirits)
- ▶ Business's primary or only function is selling alcohol—can focus on regulatory compliance
- ▶ Training and license requirements for staff
- ▶ Age restrictions for employees and customers
- ▶ Hours and location restrictions
- ▶ Off-premise locations without these controls can undercut on price and use alcohol as loss leaders making up loss on other products.

# How can we avoid an alcohol epidemic?



# Our greatest protection is an effective alcohol control system which addresses:

- **Price:** Increase in price reduces consumption even among heavy drinkers and especially among youth. Increases can occur through taxation, minimum price levels and three-tiered system controls.
  - **Promotion:** restrictions on price-related promotions (“two for one”)
  - **Availability:** hours of sale, limits on number of outlets
  - **Age restriction:** purchase, possession and drinking age
  - **Drunk driving measures:** sobriety checks, random breath testing, BAC limits, driver’s license suspensions
  - **Enforcement:** tools for law enforcement and attention to serving practices
- **Source: World Health Organization**

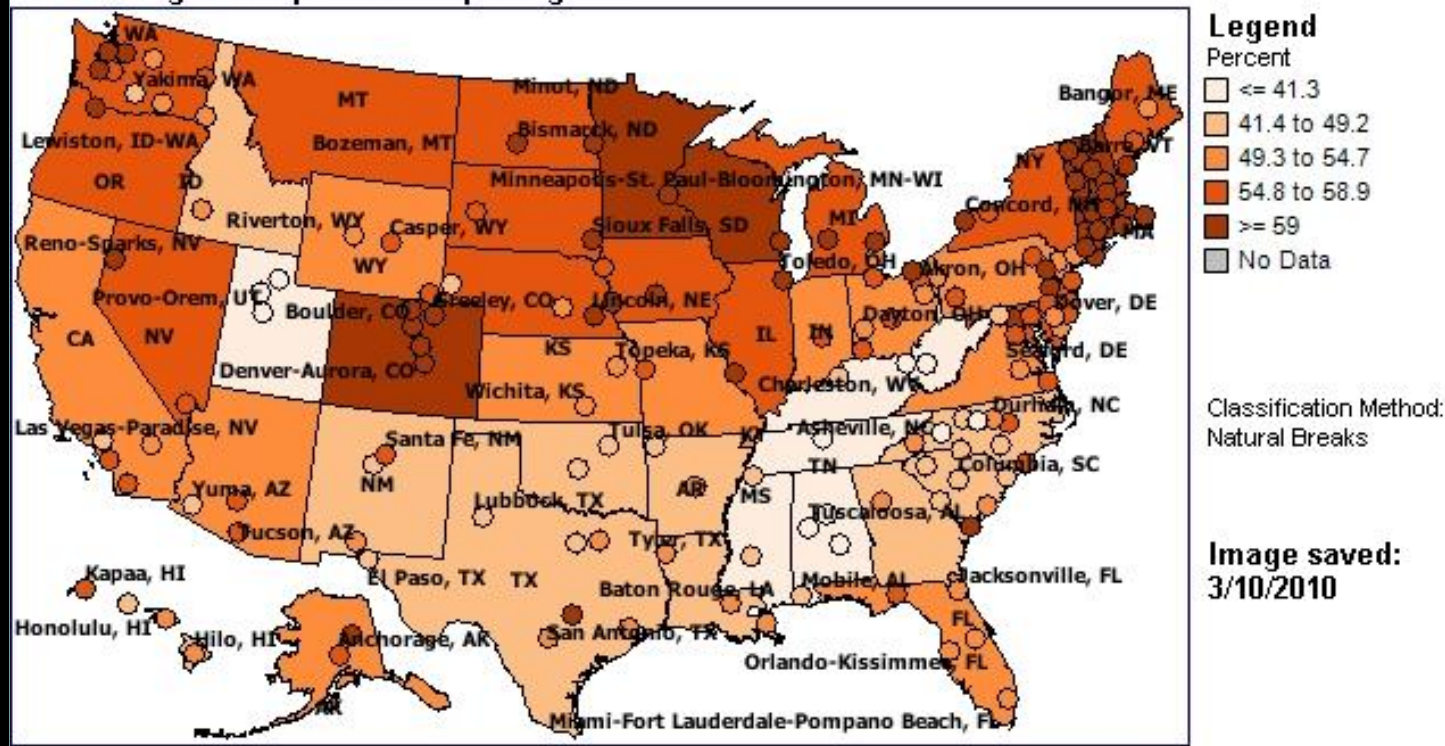
# How Does Montana Stack Up?



**Year - 2008**

**Adults who have had at least one drink of alcohol within the past 30 days**

**Percentage of respondents reporting Yes**



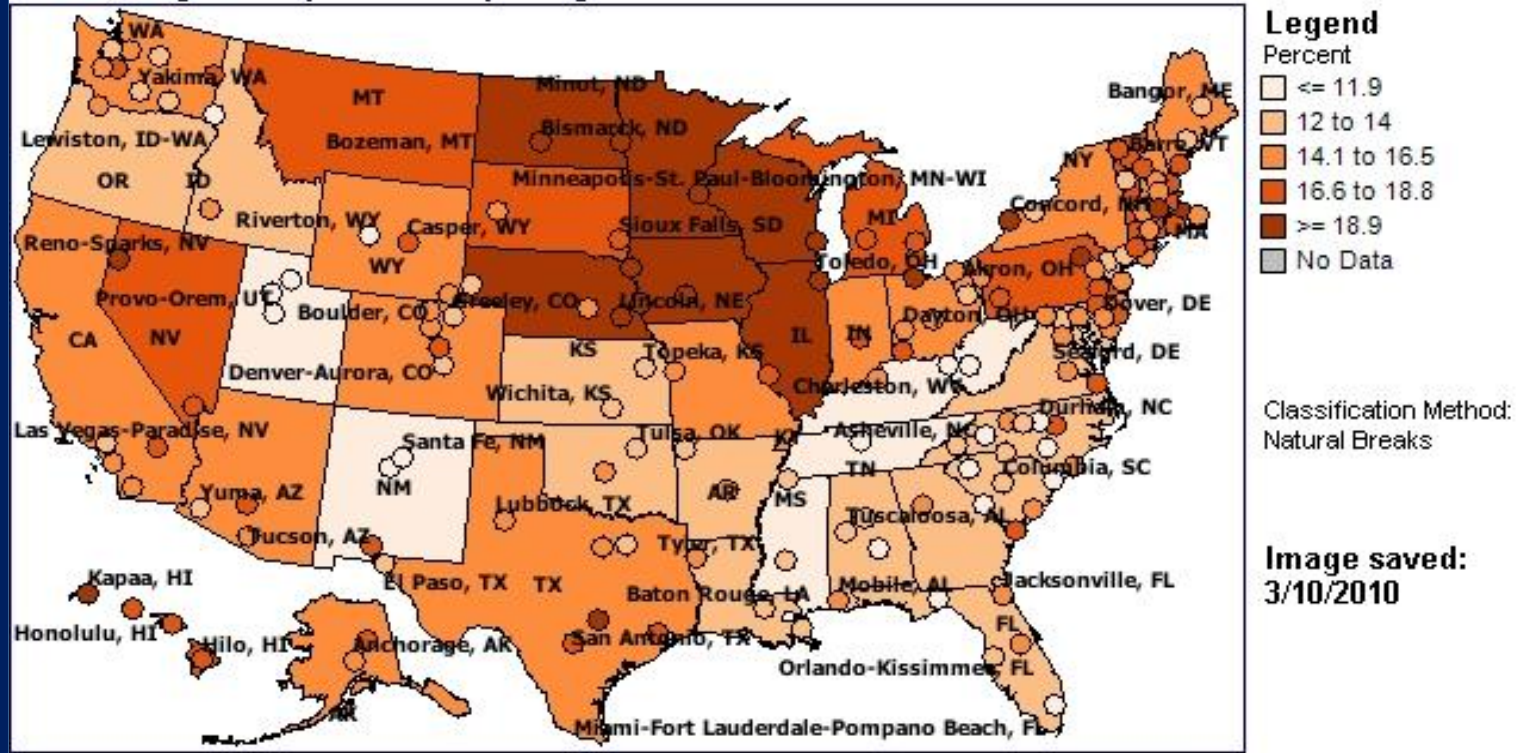
# Alcohol Consumption in Montana is High

Source: Behavioral Risk Factor Surveillance Survey -CDC 2008

## Year - 2008

Binge drinkers (males having five or more drinks on one occasion, females having four or more drinks on one occasion)

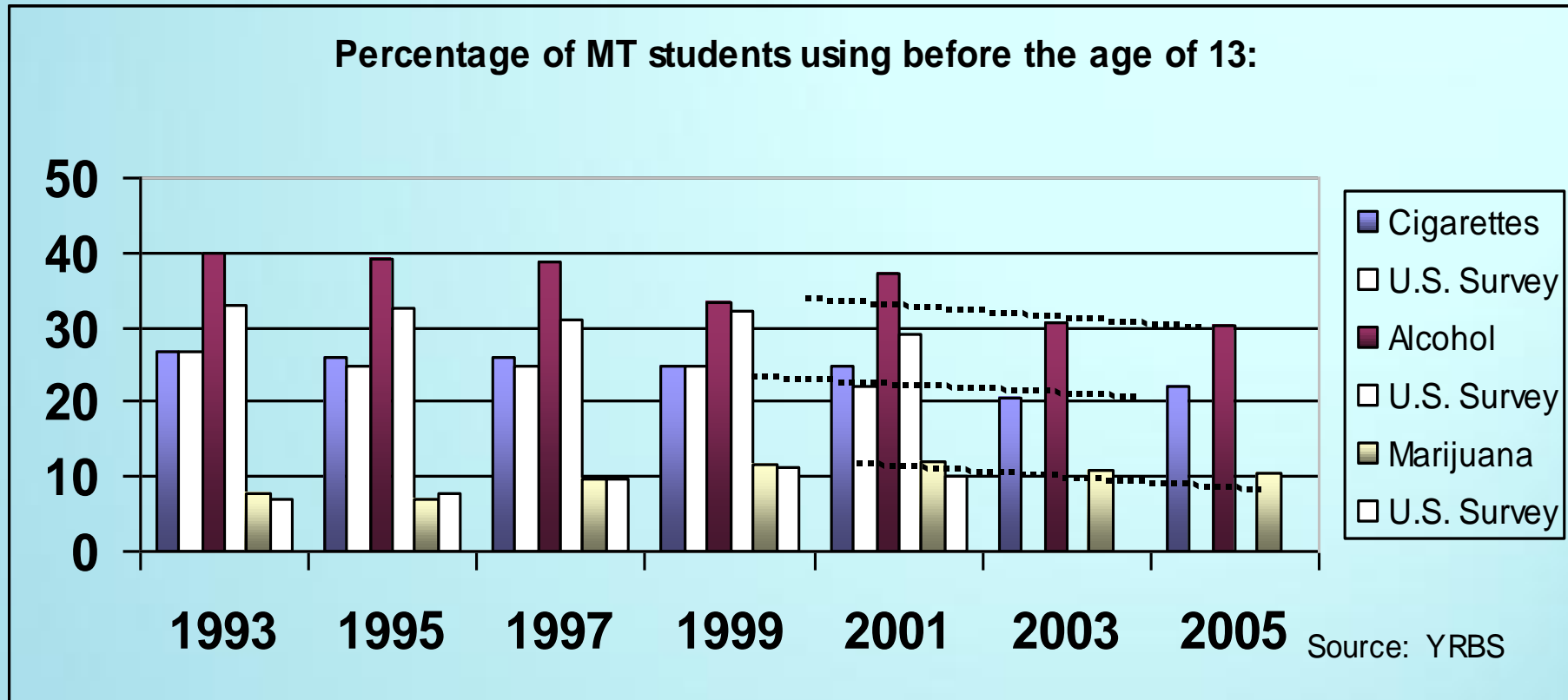
Percentage of respondents reporting Yes



***Montana also has high binge drinking rates***

Source: Behavioral Risk Factor Surveillance Survey—CDC, 2008

# Underage use of alcohol by youth under 13 has declined



Data Source: YRBS, CDC

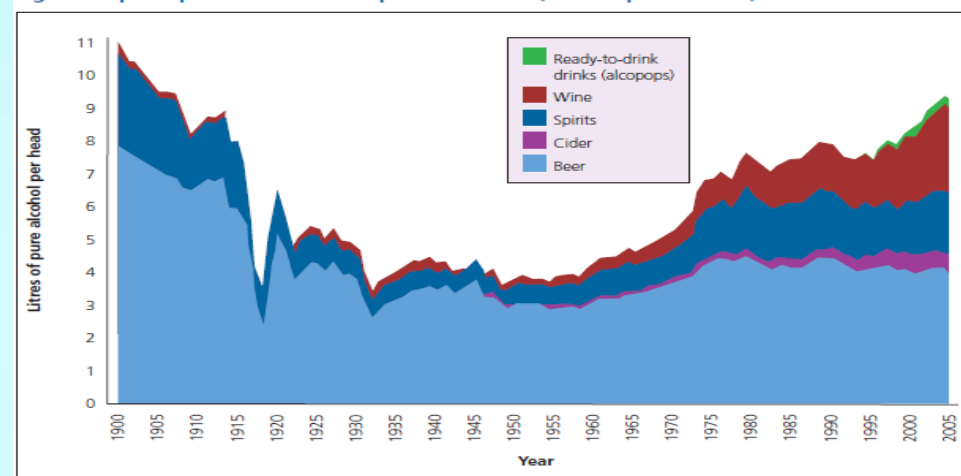
<http://www.cdc.gov/>



# Key facts about alcohol in Montana

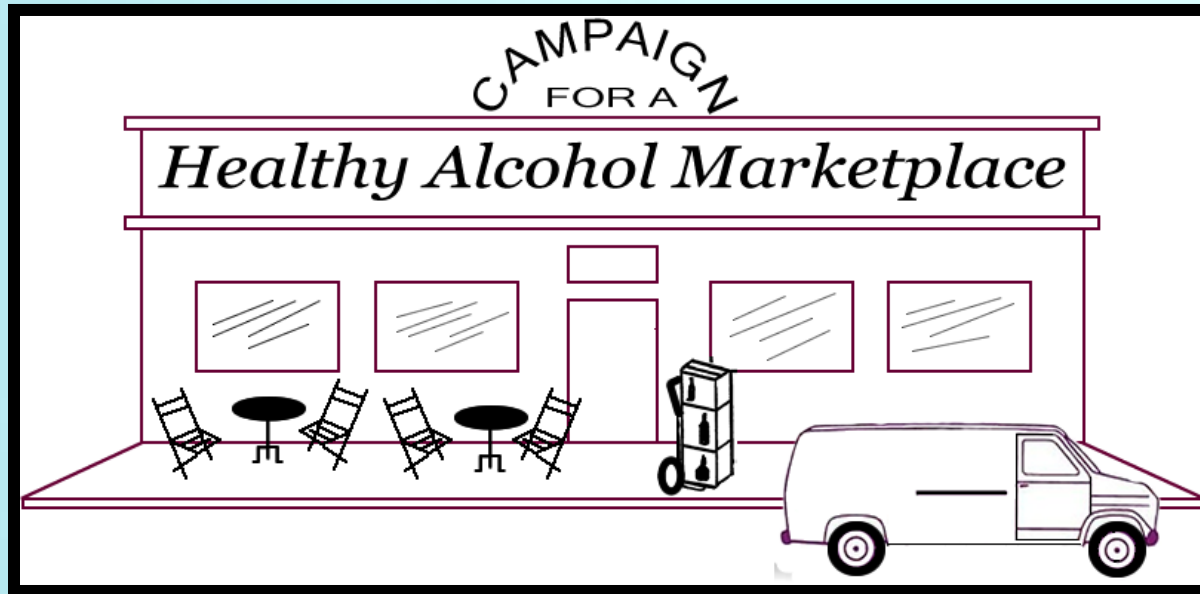
- ▶ Overall adult consumption and binge drinking rates are high as they frequently are in northern states.
- ▶ Youth underage rates are high, but declining.
- ▶ Percent of highway deaths due to alcohol is very high, but declined in 2009.
- ▶ Overall trends are down which indicates progress is underway.

# Conclusion:



- ▶ Montana is on a good path and is experiencing declines in problems with alcohol. Deregulation could change that.
- ▶ Deregulation is incremental and occurs slowly over time. Reversal is difficult.
- ▶ Any regulatory change should be carefully evaluated based on likely change in price and resultant increase in consumption.

**For more information contact: Pamela Erickson,  
[pam@pamaction.com](mailto:pam@pamaction.com)**



- **[www.healthyalcoholmarket.com](http://www.healthyalcoholmarket.com) for  
Healthy Alcohol Marketplace newsletter  
and resource material**