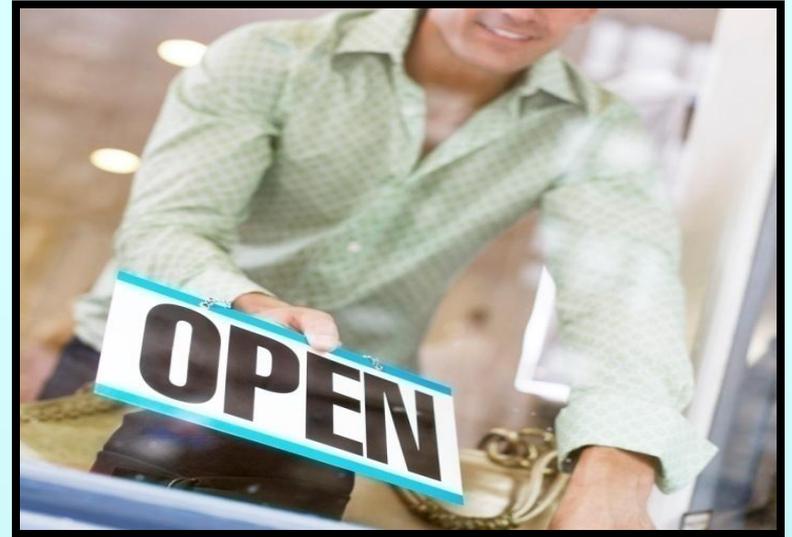


Preserving Montana's Alcohol Regulatory System

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)*

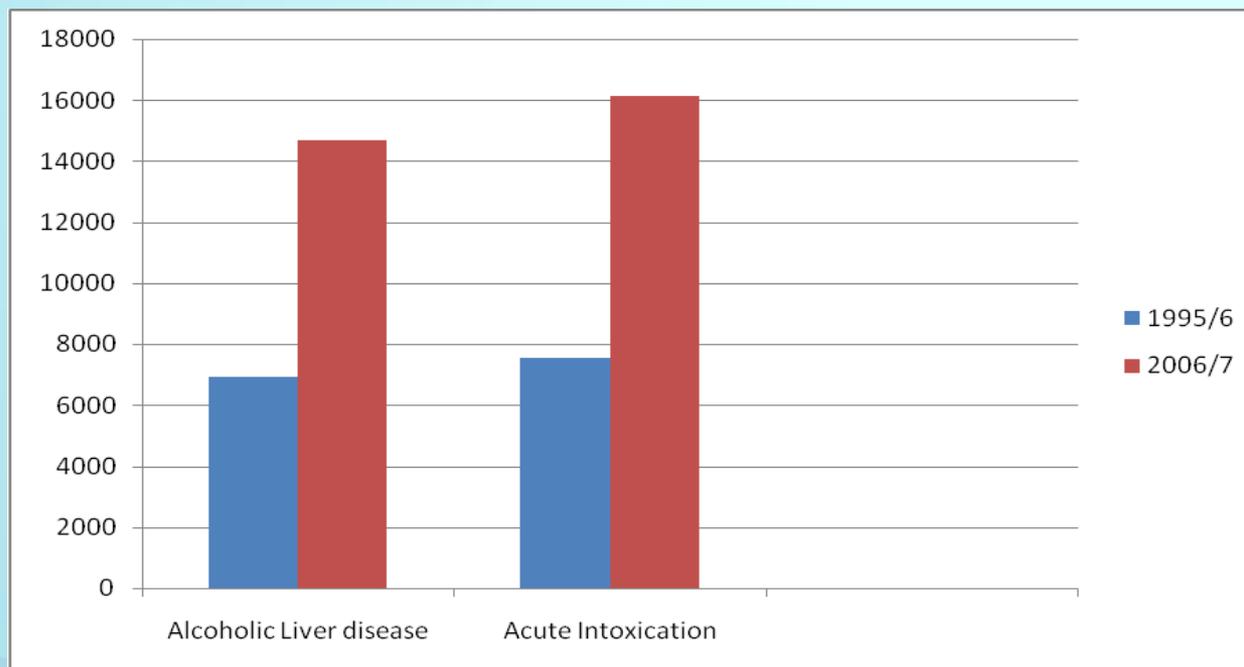
Let's see what happens when alcohol deregulation really occurs. ..



- ▶ 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.

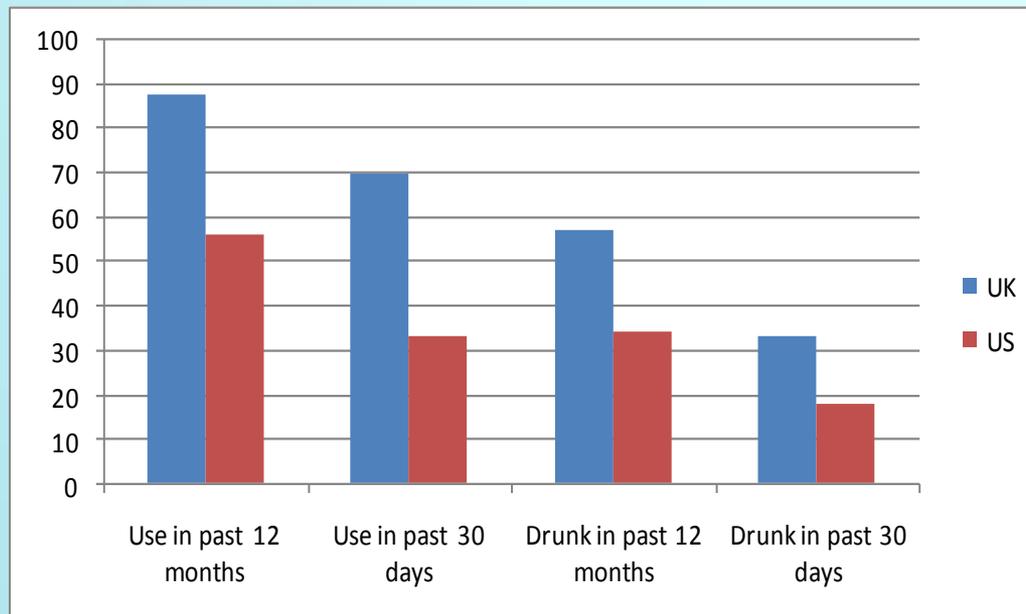
“Quite simply, England is drinking far too much. England has an alcohol problem.” Sir Liam Donaldson, Chief Medical Advisor, UK

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



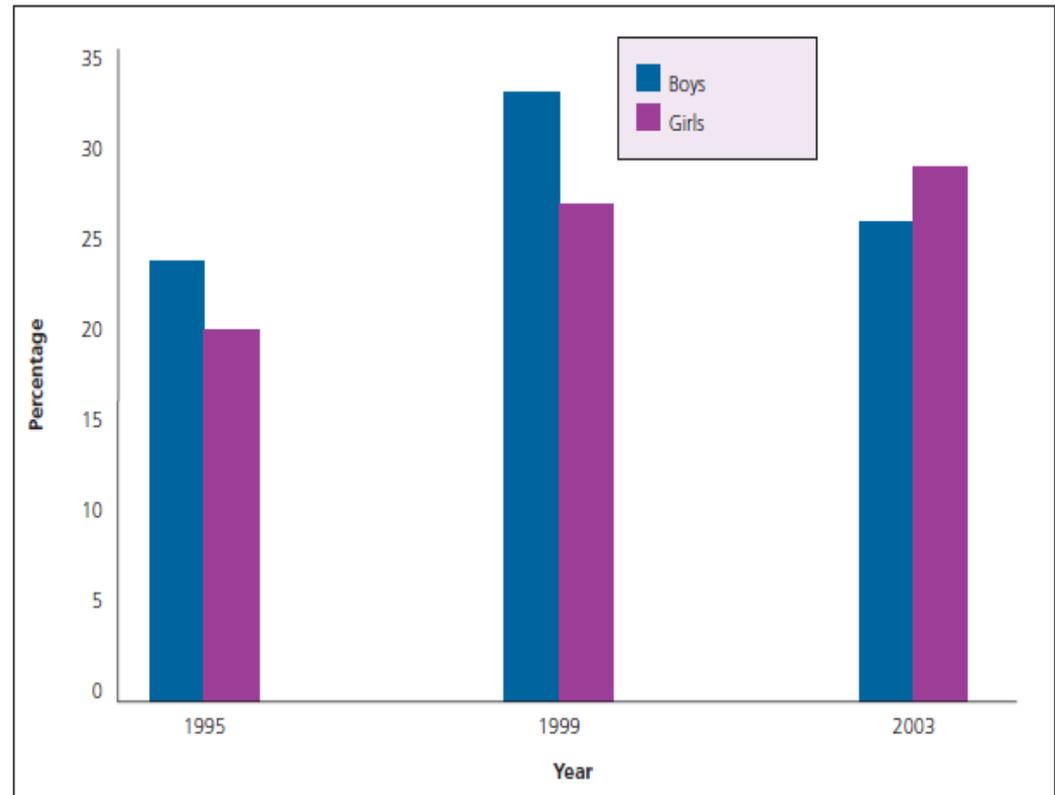
Youth are drinking at twice US rates!

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



Girls drinking exceeds the boys

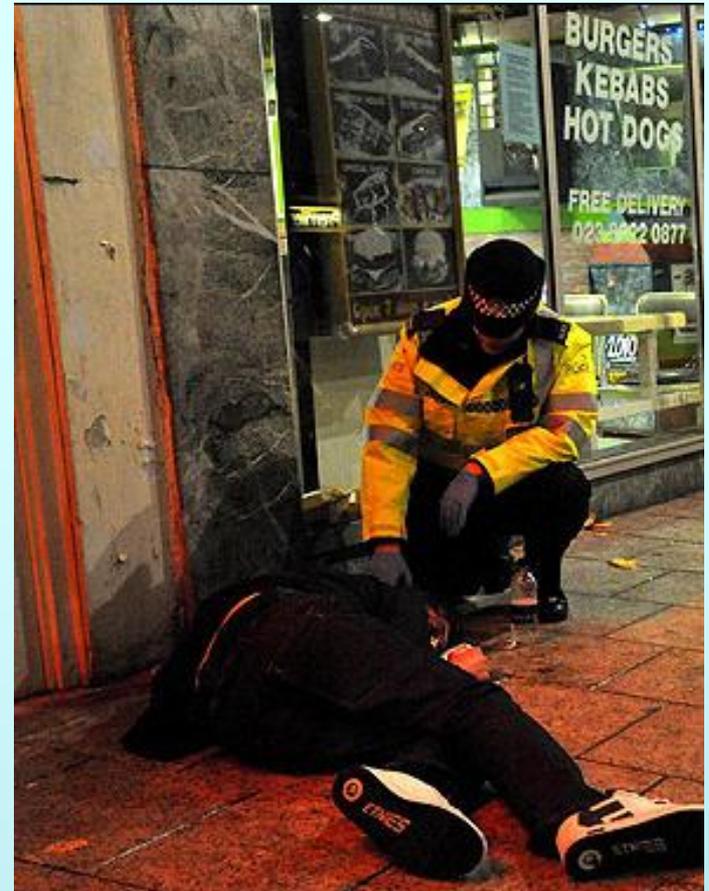
Percent of 15–16 years olds consuming 5 or more drinks on 3 or more occasions in the past 30 days



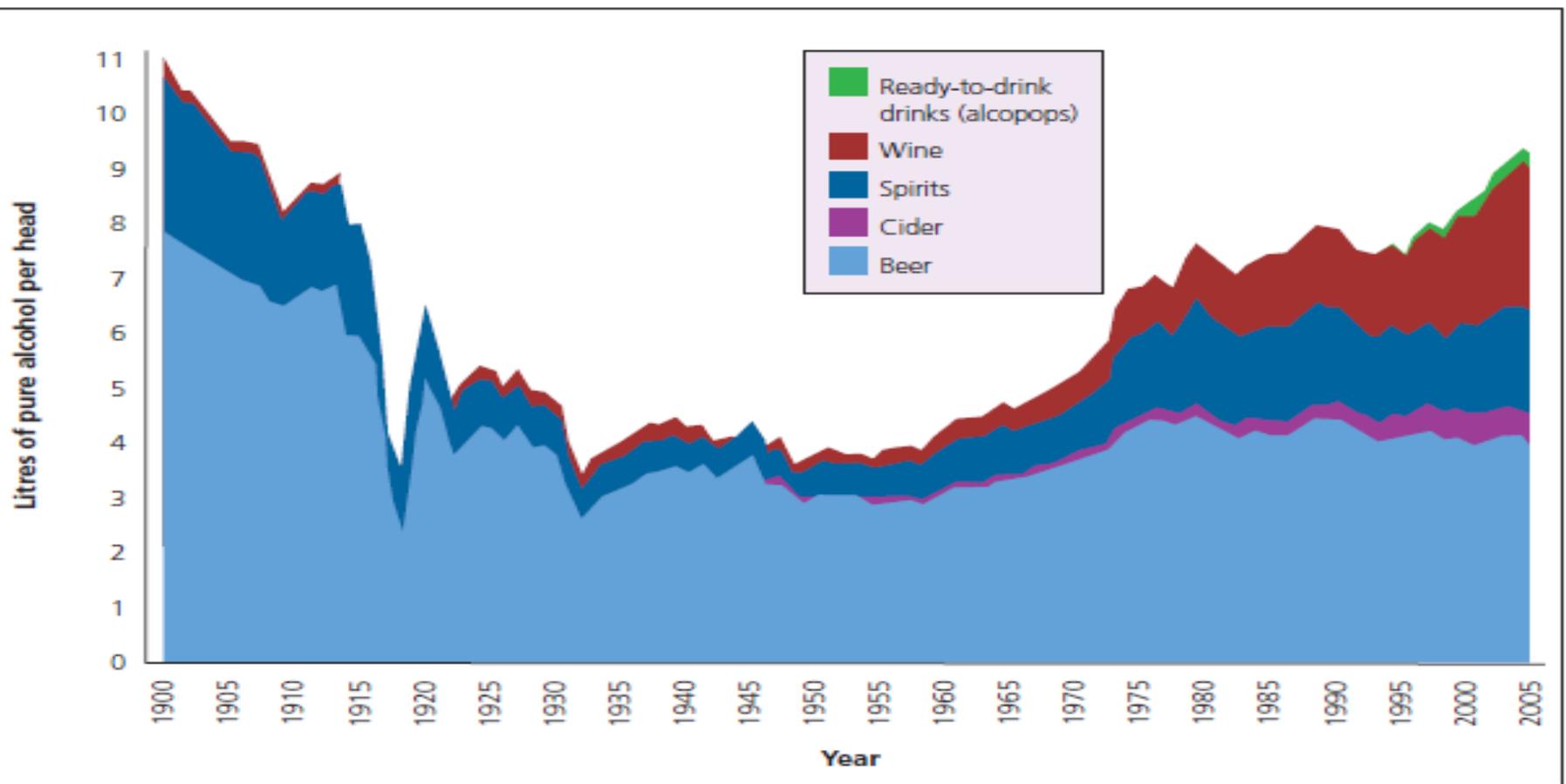
Source: Plant MA & Plant ML (2006) *Binge Britain: Alcohol and the national response*. Oxford: Oxford University Press.

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.

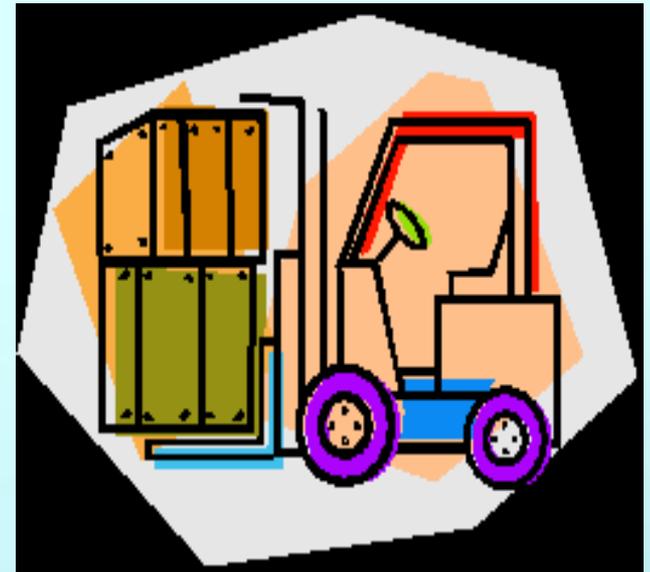


UK deregulation begins in the 1960s and is followed by increased consumption and problems



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?



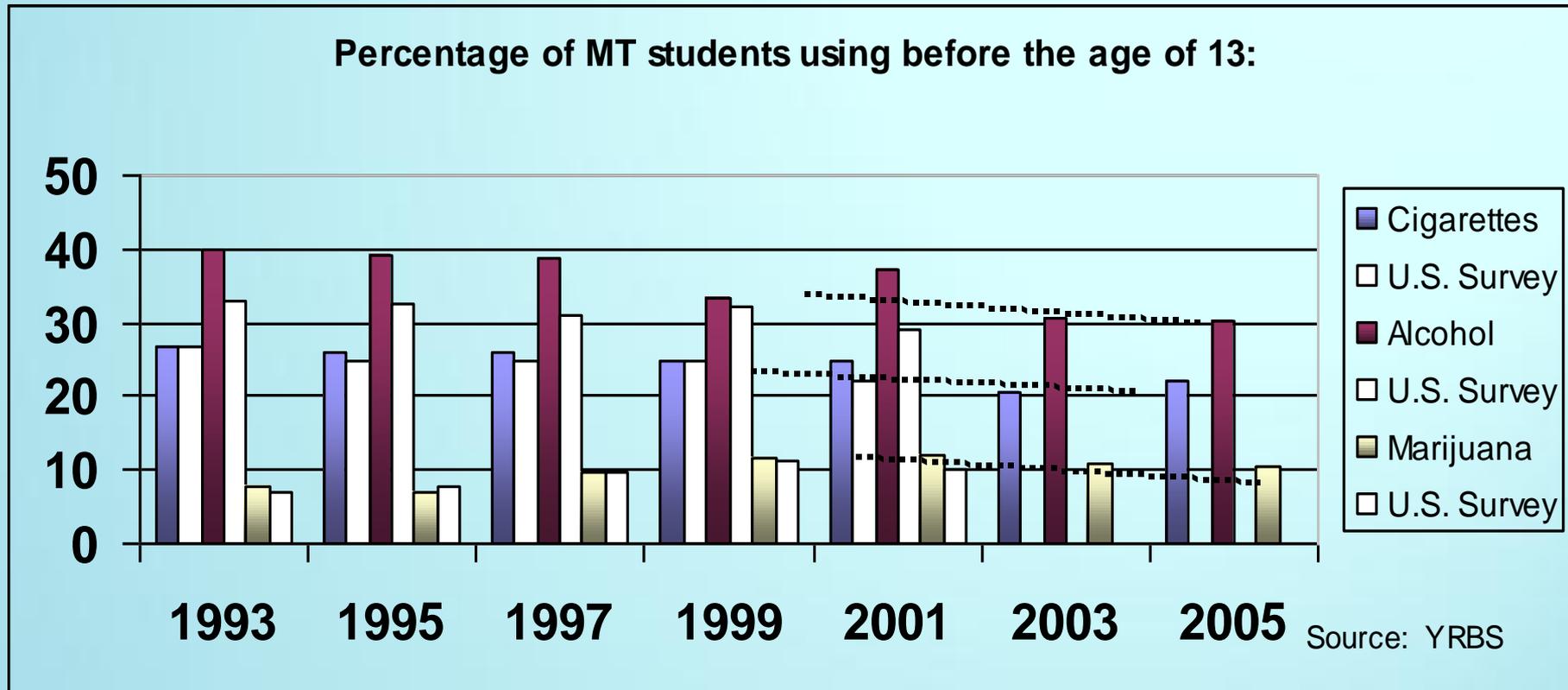
Our greatest protection is an effective alcohol control system which addresses:

- **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?



Underage use of alcohol by youth under 13 has declined



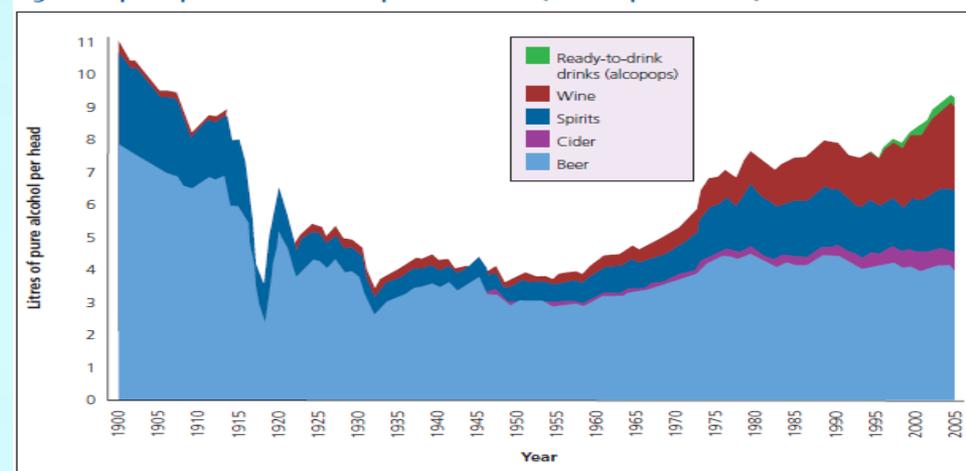
Data Source: YRBS, CDC

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

Key facts about alcohol in Montana

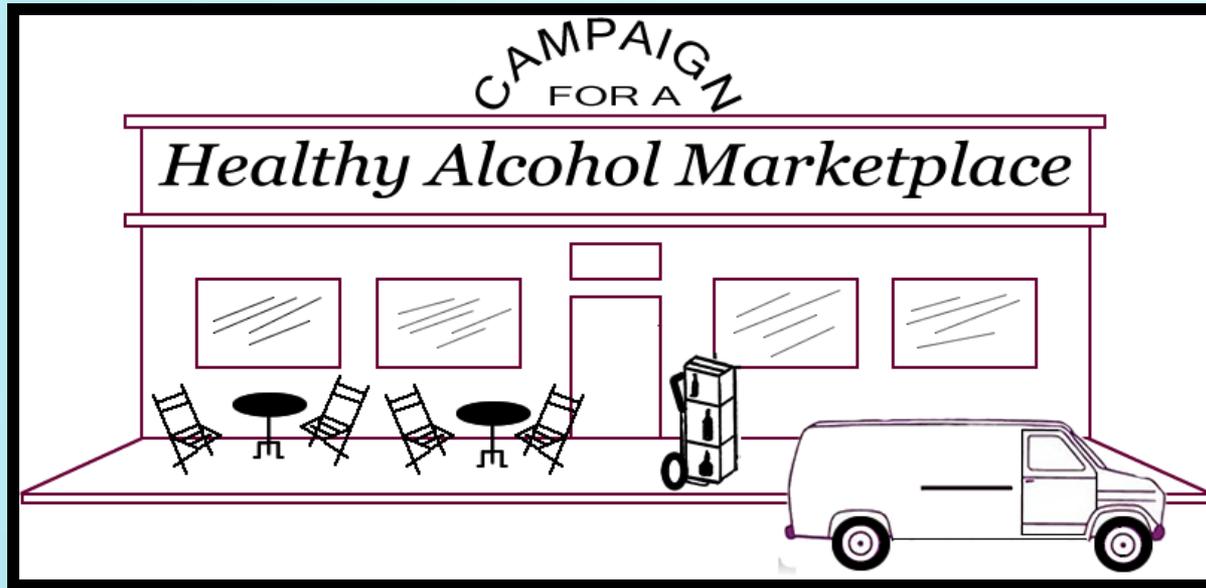
- ▶ Overall adult consumption and binge drinking rates are high as they frequently are in northern states.
- ▶ Youth underage rates are high, but declining.
- ▶ Percent of highway deaths due to alcohol is very high, but declined in 2009.
- ▶ Overall trends are down which indicates progress is underway.

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**



- **www.healthyalcoholmarket.com for Healthy Alcohol Marketplace newsletter and resource material**