

***State Licensing of Wine Sales in Food Stores:  
Impact on Existing Liquor Stores***

Prepared by

**American Economics Group, Inc.**

for

**Food Marketing Institute**

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## I. **EXECUTIVE BRIEFING**

### ***INTRODUCTION***

- ◆ The Food Merchants Association asked American Economics Group, Inc. (AEG) to analyze the impact on existing liquor stores, if food stores were allowed to sell wine in states where it is now prohibited.
- ◆ Allowing food stores to sell wine would increase wine sales generally and boost the economy of states that expanded licensing. However, questions have been raised about the impact on existing package stores. This study addresses those issues.
- ◆ We can state unequivocally that increasing wine outlets in a restricting state up to the median number of outlets per capita for all states will not force a collapse in the number of liquor stores. The impact on liquor stores will be a reduction in the amount of the “monopoly profits” conferred on them by states that restrict the number of stores below a competitive level.
- ◆ States that now permit wine sales in food outlets also support a greater number of liquor stores per capita than states that limit wine sales to package stores. Contrary to the claims of some liquor store owners, more liquor is sold and more package stores thrive in states with more wine outlets.<sup>1</sup>
- ◆ Profitability analysis shows that the annual flux in liquor stores—some closing in difficult markets while new ones are created to serve other markets in a state—will be only mildly affected, even in states now experiencing a long-term decline in the number of liquor stores.
- ◆ The argument against expanding wine sales is really not about a reduction in the number of liquor stores, but rather about protectionism for existing firms that earn monopoly profits at the expense of consumers. The United States is a free market economy that depends upon competition to derive an efficient number of stores and to shield consumers from price gouging.

### ***STATES WILL GAIN SIGNIFICANT AND IMMEDIATE REVENUE FROM EXPANSION***

- ◆ By permitting new wine licenses, currently restrictive states will gain added licensing fees and excise and sales tax revenue. In the current fiscal crisis of many states, this can be an important one-time infusion of funds via licensing, and significant recurring new tax and fee revenue.
- ◆ Upon expansion to food stores, the greater availability of wine outlets, wider selections and attractive pricing will mean a statewide market expansion. Moreover,

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<sup>1</sup> This is true in both a per capita basis and an absolute basis.

states now suffering large revenue erosion from cross-border beverage sales can repatriate a significant portion of their residents' purchases.

- ◆ Cross-border losses include both wine and liquor sales. Many state residents who purchase in other states much of the liquor and wine they consume at home will make less frequent trips, if wine is more easily and abundantly available in their home state. This will return a portion of lost liquor sales to their home package stores.

#### ***STATES WILL GAIN JOBS, WAGES AND ENHANCE GENERAL BUSINESS ACTIVITY***

- ◆ Additional jobs and wages will be created by expanding wine sales. Wine wholesaling and retailing businesses will increase employment. Suppliers will create additional jobs. And new jobs will be induced throughout the economy as workers spend their new pay. Some of this added pay will be spent on liquor as well as a full host of consumer items.
- ◆ The increased sales of wine from the increase in retail outlets in expanding states will generate sales for other businesses that service and supply stores. The higher volume of wholesaling and retailing activity will include packaging materials, container production, advertising and media services, transportation, etc.
- ◆ An added induced impact means that not only will the business of suppliers grow, but also most other businesses will gain sales as employees of wine wholesalers and retailers spend their augmented paychecks on food, clothing, transportation, entertainment, services, etc.

#### ***RESTRICTED OUTLETS MEAN MONOPOLY GAINS FOR PACKAGE STORES AT THE EXPENSE OF CONSUMERS***

- ◆ Economic theory is quite clear that restricting the number of sellers of a good or service means that fewer units will be sold, prices will be higher and sellers will reap monopoly profits at the expense of buyers. In this regard, wine and liquor package stores are no different than most other stores.
- ◆ A lower, restricted number of outlets per capita means overall wine and liquor sales in a state will be lower than a competitive market will support. States with fewer liquor stores have greater sales per store, reflecting market concentration, in effect a subsidy of these private firms by a state. Restriction is a hidden tax on consumers, who pay more for their wine and liquor purchases.
- ◆ States such as New York with a declining number of liquor stores find that liquor sales per remaining stores are rising. The reduction in stores is caused by smaller, less profitable stores closing, particularly in declining areas of the state. However, other stores expand their business and new stores are built in expanding neighborhoods.
- ◆ As these births and deaths occur, the average volume per store and the total sales of wine and liquor grows. Also, the fewer remaining stores gain the dual benefit of

captive sales and more buying power to deal with suppliers. The state restrictions create increasing subsidies of these remaining (and expanding) stores, and consumers lose.

**STATES WITH MORE WINE OUTLETS SUPPORT MORE LIQUOR STORES**

- ◆ There is ample evidence from states that permit wine sales in food stores that a large number of wine and liquor outlets can mutually exist. In fact, there is a general statistical relationship that states with more wine outlets also support more liquor outlets.
- ◆ Examine Appendix Figure 1, a graph that plots the number of wine outlets against the number of liquor outlets. Each marker represents a state, and the solid line shows the relationship between liquor outlets (horizontal scale) and wine outlets (vertical scale). Notice that the markers spread outward and upward and the line slants upward. This shows that on average states with more liquor stores have more wine stores—and that goes for absolute counts as well as per capita counts.
- ◆ Figure A, below, summarizes this relationship. States selling wine in supermarkets average 1,445 liquor stores and 4,539.1 wine stores. Those states that restrict wine outlets average about one-half the number of liquor stores as the permitting states.

**Figure A**

<b>States with More Wine Outlets have More Liquor Stores</b>		
	<b>Number stores 200</b>	
	<b>Liquor stores</b>	<b>Wine stores</b>
<b>States selling wine in supermarkets</b>	1,455.0	4,539.1
<b>States without wine in supermarkets</b>	744.6	743.0
<b>Average difference in states allowing wine in supermarkets</b>	95.4%	510.9%

- ◆ On a per capita basis the same result is apparent. Figure B shows that states permitting wine sales in supermarkets have 40.7 liquor stores per 100,000 adult persons. This is 11.5% greater than states restricting stores, which average 36.5 stores.

- ◆ Comparison of per capita amounts presents only part of the picture. Other factors affect sales, and the analysis underpinning this report takes account of important demographic and economic differences among the states that create differences in per capita wine and liquor sales.

Figure B

<b>States with More Wine Outlets Per Capita have More Liquor Stores</b>		
	<b>Per capita stores 200*</b>	
	<b>Liquor stores</b>	<b>Wine stores</b>
<b>States selling wine in supermarkets</b>	40.7	108.3
<b>States without wine in supermarkets</b>	36.5	36.1
<hr/>		
<b>Average difference in states allowing wine in supermarkets</b>	11.5%	200.0%

\*Stores per 100,000 population aged 21 and over.

- ◆ How can anyone contend that increasing the number of wine stores will put liquor stores out of business, when the overwhelming evidence from permitting states is that their markets support more liquor stores than restricting states now license?

**PER CAPITA LIQUOR AND WINE SALES ARE HIGHER IN STATES THAT LICENSE SUPERMARKETS TO SELL WINE**

- ◆ The same result calculated for the number of stores is true for the amount of wine and liquor sold. States permitting wine sales in supermarkets sell both more wine and more liquor per capita than do restricting states.
- ◆ On average, as the number of wine outlets per capita increases, liquor sales per capita increases. Appendix figures 2 compare liquor sales per capita with wine outlets per capita for the adult population. As in appendix figure 1, each marker represents a state. Wine outlets are on the horizontal axis and liquor sales on the vertical one. (Appendix figure 3 does the same for wine sales per capita.)
- ◆ Note the upward slant of the solid line that describes the relationship between wine outlets and liquor sales means that as wine outlets increase, the per capital sales of liquor also increases. (The same is true of wine sales, as seen in appendix figure 3.)

- ◆ The results are summarized in figure C, below. States selling wine in supermarkets sell 8.5% more liquor per capita on average. Restricting states sell 1.89 gallons per capita, while permitting states average 2.05 gallons. As expected, wine sales are also higher, by 30.3% in states permitting supermarket sales.

Figure C

<b>Supermarket Sales of Wine Boost Overall Wine and Liquor Sales</b>		
	<u>Per capita gallons sold 2002</u>	
	Liquor sales	Wine sales
<b>States selling wine in supermarkets</b>	2.05	3.01
<b>States without wine in supermarkets</b>	1.89	2.31
<hr/>		
<b>Average difference in states allowing wine in supermarkets</b>	8.5%	30.3%

- ◆ It is remarkable proof that even with a 30.3% increase in wine sales, liquor sales still expand in permitting states. Numerous factors are involved in this, and a complete econometric analysis has been done and will be included in the appendix of the full report.

***DISTRIBUTION OF STORE COUNTS AMONG STATES SHOWS LIQUOR STORES AND WINE OUTLETS ARE MUTUALLY SUPPORTIVE***

- ◆ The previous tables compared states with and without supermarket sales of wine. Figure D, however, relies on store counts without regard to the type of stores selling wine.
- ◆ There is a strong and persistent relationship between the number of wine stores per capita and the number of liquor stores a state supports. Quite the contrary to worrying that increasing the number of wine stores will reduce the number of liquor stores, the number of liquor outlets increase. The competitive market supports more liquor stores than restrictive states permit.
- ◆ To calculate the results in figure D, states were sorted by the number of wine outlets, and both liquor and wine outlets were counted for each 25% range on the scale. At the bottom 25% of states there are 39.0 wine outlets per 100,000 adult persons. And 26.6 liquor stores. Moving up the scale, as the number of wine stores increase, the number of liquor stores also increase.

- ◆ Contrary to the contention that increasing the number of wine store will force a lower number of liquor stores, more wine stores mean more liquor stores. Granted the competition may increase, but that is the American way---competitive markets to keep prices competitive and consumers getting full selection and full value.

Figure D

<b>Distribution of Liquor and Wine Stores among the States</b>		
<b>Quartile points</b>	<b>Per capita stores 2002*</b>	
	<b>Liquor stores</b>	<b>Wine stores</b>
<b>Low 25% of states</b>	16.1	39.0
<b>Median of states</b>	26.6	76.3
<b>High 75% of states</b>	50.1	116.3

\*Stores per 100,000 population aged 21 and over.

- ◆ Appendix figure 4 is a state-by-state table showing the number of liquor and wine outlets, per capita counts and whether or not supermarket sales are permitted. Figure 4 is similar, but sorted high-to-low on the number of wine outlets per capita.

***METHODOLOGY USES ANALYSIS OF ALL STATES TO PREDICT OUTCOME FOR EXPANDING STATES***

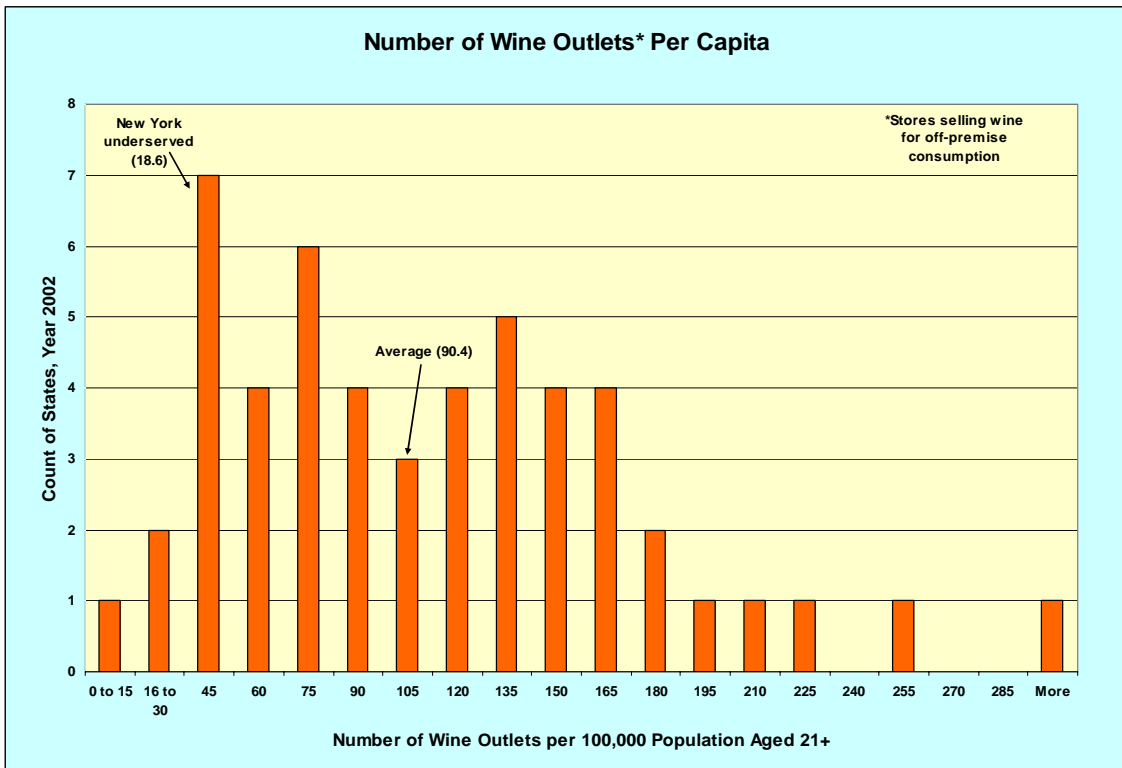
- ◆ Comparison of per capita amounts presents only part of the picture. Other factors affect sales, and the analysis underpinning this report takes account of important demographic and economic differences among the states that create differences in per capita wine and liquor sales.
- ◆ American Economics Group, Inc. calculated the results reported here by using a combination of tax data, industry data, demographic statistics, and survey data. We first analyzed the status quo in all 50 states and the District of Columbia. Next, using results from a econometric model, we calculated the changes in both wine and liquor markets as a result of an expansion to the median number of wine outlets per capita, then to expansion to the 75th percentile.

- ◆ To evaluate the impact on package stores, we constructed a profit simulation model based upon reported cost and profitability ratios. Then, using the market change results from the econometric analysis, we calculated the impact on existing liquor stores as wine outlets increased. While the results do show a reduction in the “monopoly profits” of stores in restricted states, there is only a small decline in their number, about 5% to 10%.
- ◆ There is no reason for a decline at all, if the restricting states also allow expansion of liquor outlets. Removal of restrictions will invite additional investment, now thwarted by those restrictions.

**RESULTS FOR NEW YORK STATE**

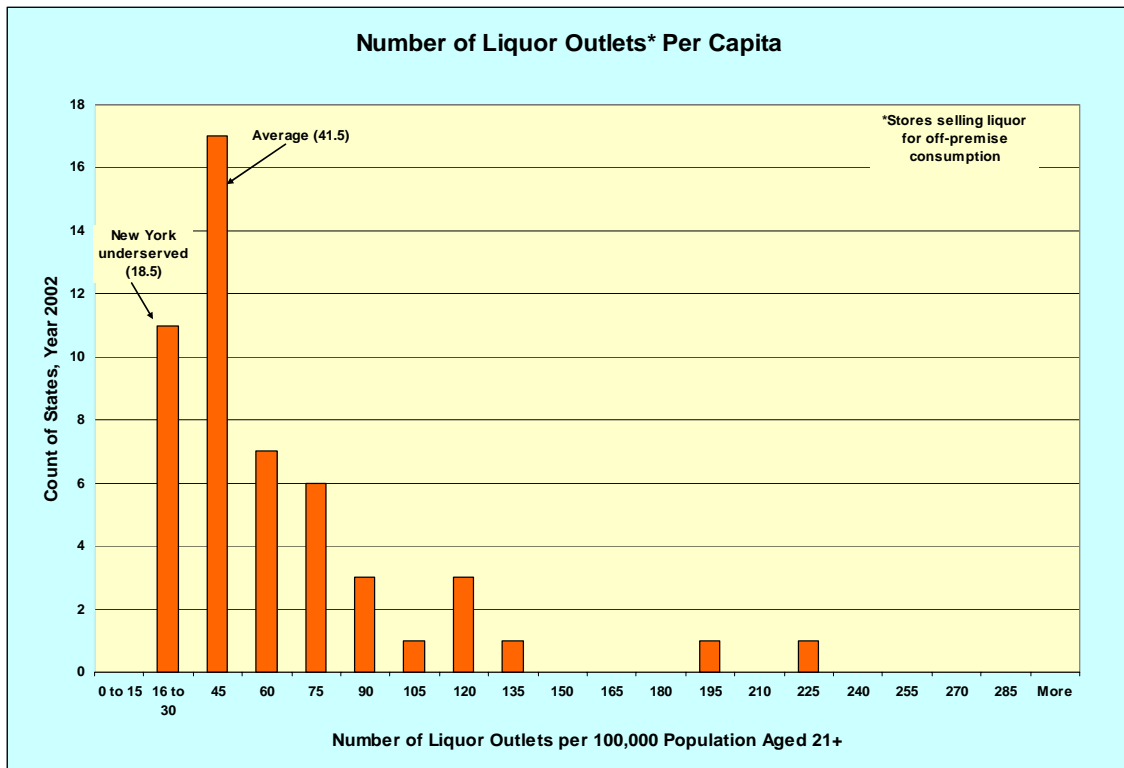
- ◆ New York State has severe restrictions on both the number of package stores selling both liquor and wine. Figure E-NY highlights New York’s position among other states. Against a 50 state average of 90.4 wine outlets per 100,000 adult person (median is 76.3), New York licenses only 18.6 outlets, about one-fifth of the average and well below the highest states.
- ◆ The greater number of outlets in other states demonstrates the viability of New York expanding its market as other states have done.

**Figure E-NY**



- ◆ As with the number of wine outlets, New York's restrictive policy towards liquor stores under serves the states adult population compared to other states.
- ◆ Figure F-NY compares New York's 18.5 liquor stores per 100,000 adult persons to the average of 41.5 for all states. The median of 26.6 outlets reflects the skewed distribution of store counts among states.
- ◆ Clearly New York State has room for more liquor stores even while increasing the number of wine stores. There is only one reason that the count of liquor stores would drop following an expansion of wine outlets---that the state's restrictive policy discourages investment in package stores. The results in other states make New York's opportunity clear and compelling.

Figure F-NY



- ◆ Another view that leads to the same conclusion that there is room for both liquor and wine stores is figure G-NY, which gives the distribution of the number of wine outlets relative to liquor outlets.
- ◆ While New York has one wine store for each liquor store, other states average five along with a significantly greater number of liquor stores per capita than New York permits. In figure G-NY, the state is once again near the lowest of the practice across the country.

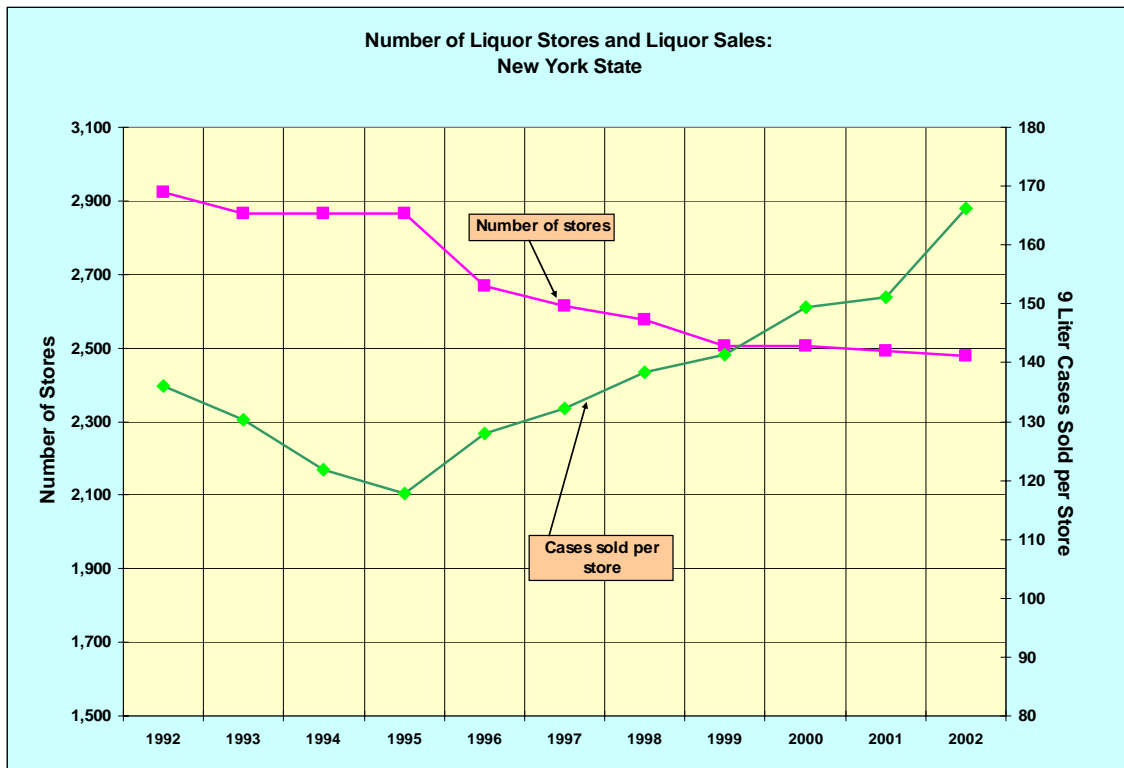
Figure G-NY



- ◆ The number of liquor stores in New York State has been in decline for over ten years. The trend is shown in figure H-NY, which declines from 2,925 stores in 1992 to 2,480 stores in 2002 (downward sloping line).
- ◆ Even while the number of liquor stores has declined, sales of liquor have increased, and the volume per store has increased (upward sloping line). This is the picture of a market becoming more concentrated, not a weakening market.

- ◆ New York State's restrictive policy is increasing the monopoly power of a fewer number of liquor stores and harming its own citizens in the process. Rather than worry about any negative impact from expanding wine outlets, the concern should focus on the state's non-competitive policy towards package stores in general. Any reduction in the number of liquor stores will be caused by state policy towards them, not by permitting more wine outlets.

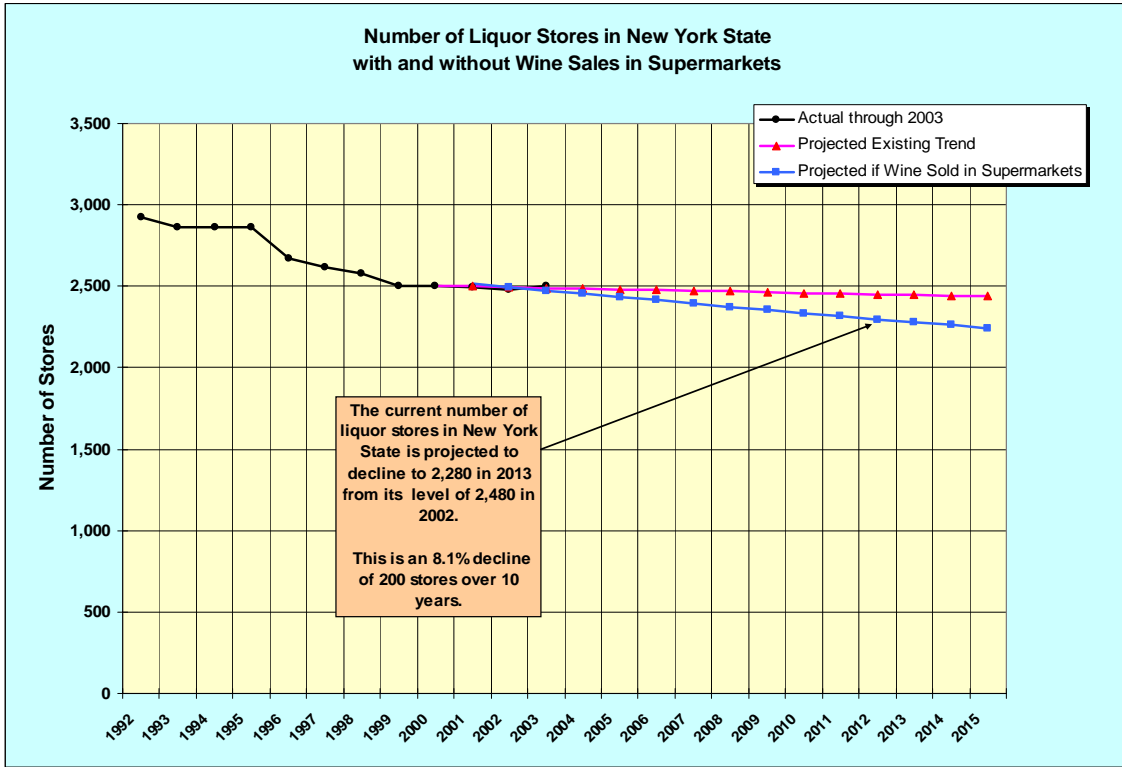
Figure H-NY



- ◆ In states expanding wine outlets, liquor stores are estimated to maintain their profitability within a few percent, as the number of wine outlets per capita increases to the median level for all states. Of course, there are volume changes that come with expanding markets and a competitive number of outlets, but that is a natural part of the competitive system we have and is to be welcomed.
- ◆ A full simulation of liquor stores in the New York market is the basis for figure I-NY, which shows under current state policy the impact on the number of liquor stores.
- ◆ Upon expansion of wine outlets to the all-state median number per capita, the number of liquor stores in New York State is projected to decline to 2,280 in 2013 from its level of 2,480 in 2002. This is a 8.1% decline of 200 stores over 11 years.

Even this modest decline does not have to occur, if the state decides to move liquor sales to a more competitive market model.

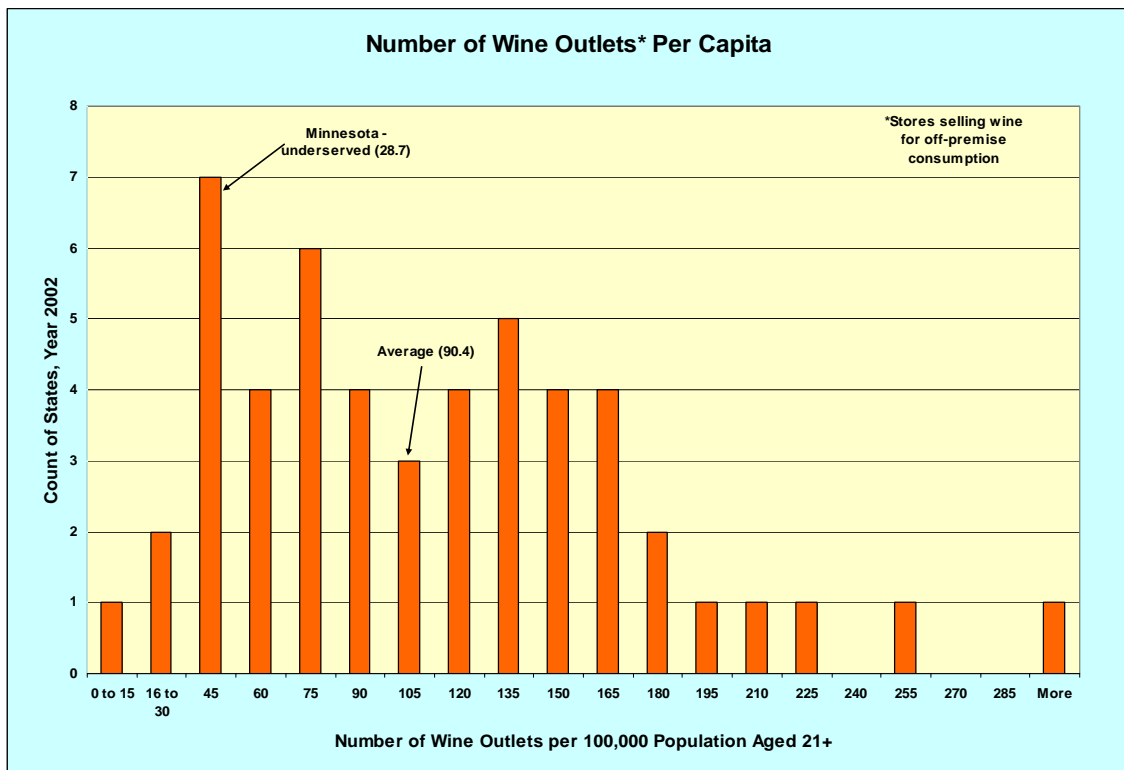
Figure I-NY



**RESULTS FOR MINNESOTA**

- ◆ Minnesota has restrictions on the number of package stores selling liquor and wine. Figure E-MN highlights Minnesota’s position among other states. Against a 50 state average of 90.4 wine outlets per 100,000 adult person (median is 76.3), Minnesota licenses only 28.7 outlets, well below most states.
- ◆ The greater number of outlets in other states demonstrates the viability of Minnesota expanding its market as other states have done.

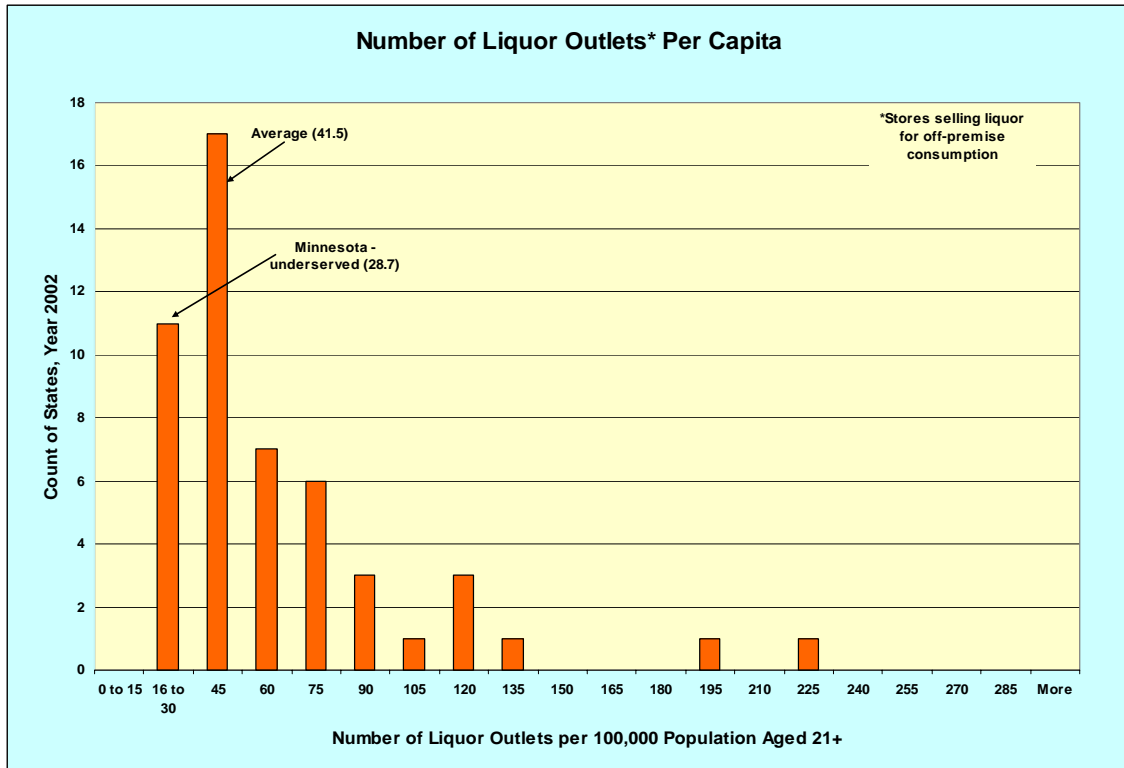
**Figure E-MN**



- ◆ As with the number of wine outlets, Minnesota’s restrictive policy towards liquor stores under serves the states adult population compared to other states.
- ◆ Figure F-MN compares Minnesota’s 28.7 liquor stores per 100,000 adult persons to the average of 41.5 for all states. (The median of 26.6, discussed earlier) outlets reflects the skewed distribution of store counts among states.
- ◆ Clearly Minnesota has room for more liquor stores even while increasing the number of wine stores. There is only one reason that the count of liquor stores would drop following an expansion of wine outlets---that the state’s restrictive policy

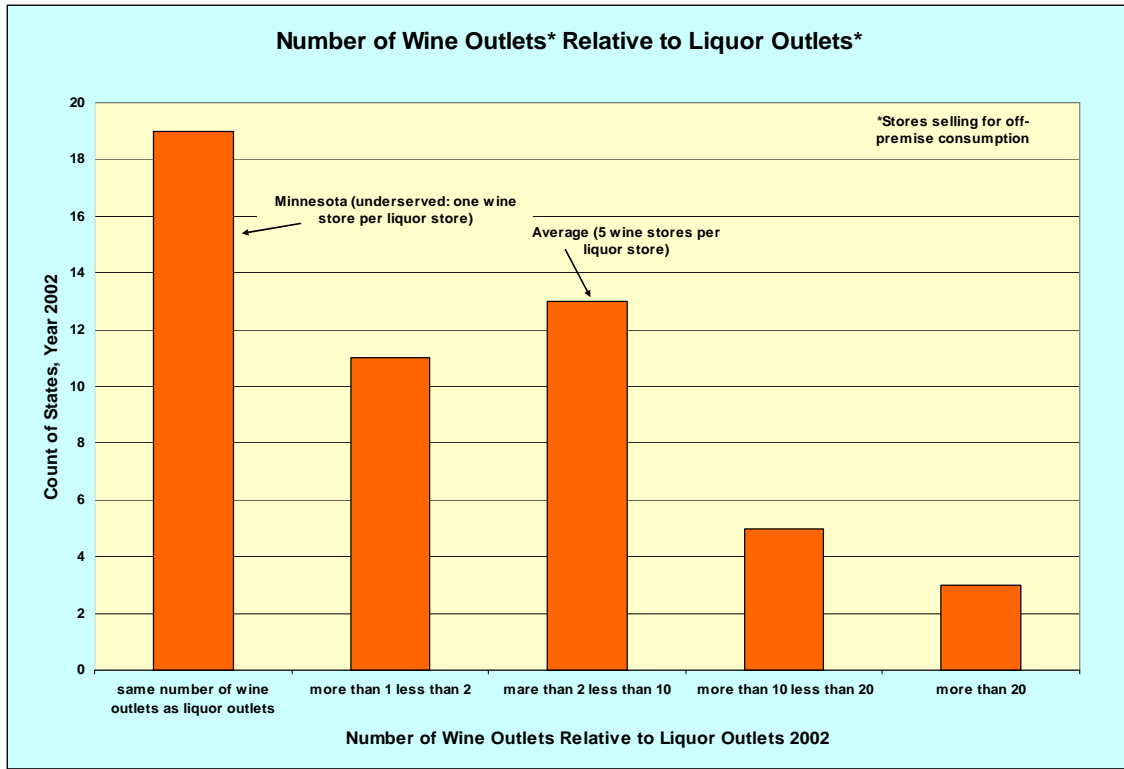
discourages investment in package stores. The results in other states make Minnesota's opportunity clear and compelling.

**Figure F-MN**



- ◆ Another view that leads to the same conclusion that there is room for both liquor and wine stores is Figure G-MN, which gives the distribution of the number of wine outlets relative to liquor outlets.
- ◆ While Minnesota has one wine store for each liquor store, other states average five along with a significantly greater number of liquor stores per capita than Minnesota permits. In Figure G-MN, the state is once again near the lowest of the practice across the country.

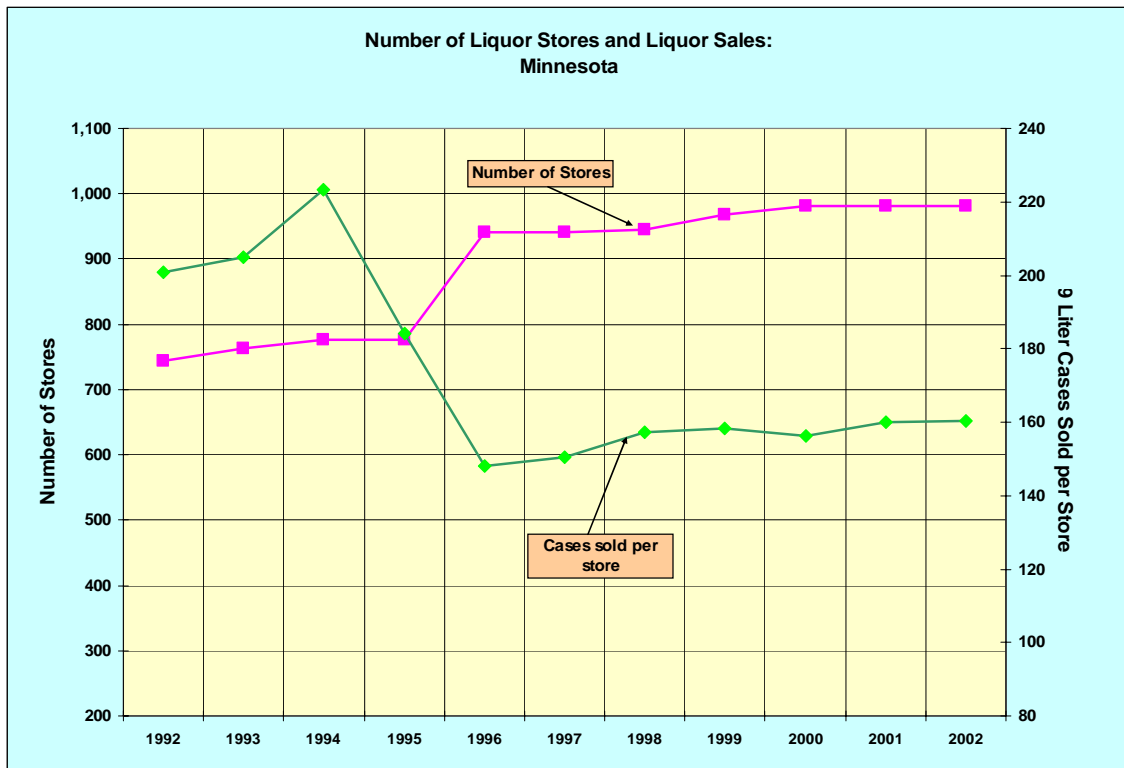
**Figure G-MN**



- ◆ Minnesota initiated a policy change that in 1996 increased the number of package stores to 942, up from a count of between 744 and 777 over the period 1992-1995. The trend is shown in Figure H-MN, which after the 1996 change remains relatively flat, reaching only 981 in 2002.
- ◆ While the number of liquor stores has increased slightly in recent years, sales of liquor have increased, and the volume per store has increased.

- ◆ Minnesota's restrictive policy has conferred monopoly power in neighborhood markets on a restricted number of package stores, harming its own citizens in the process. Rather than worry about any negative impact from expanding wine outlets, the concern should focus on the state's non-competitive policy towards package stores in general. Any reduction in the number of liquor stores will be caused by state policy towards them, not by permitting more wine outlets.

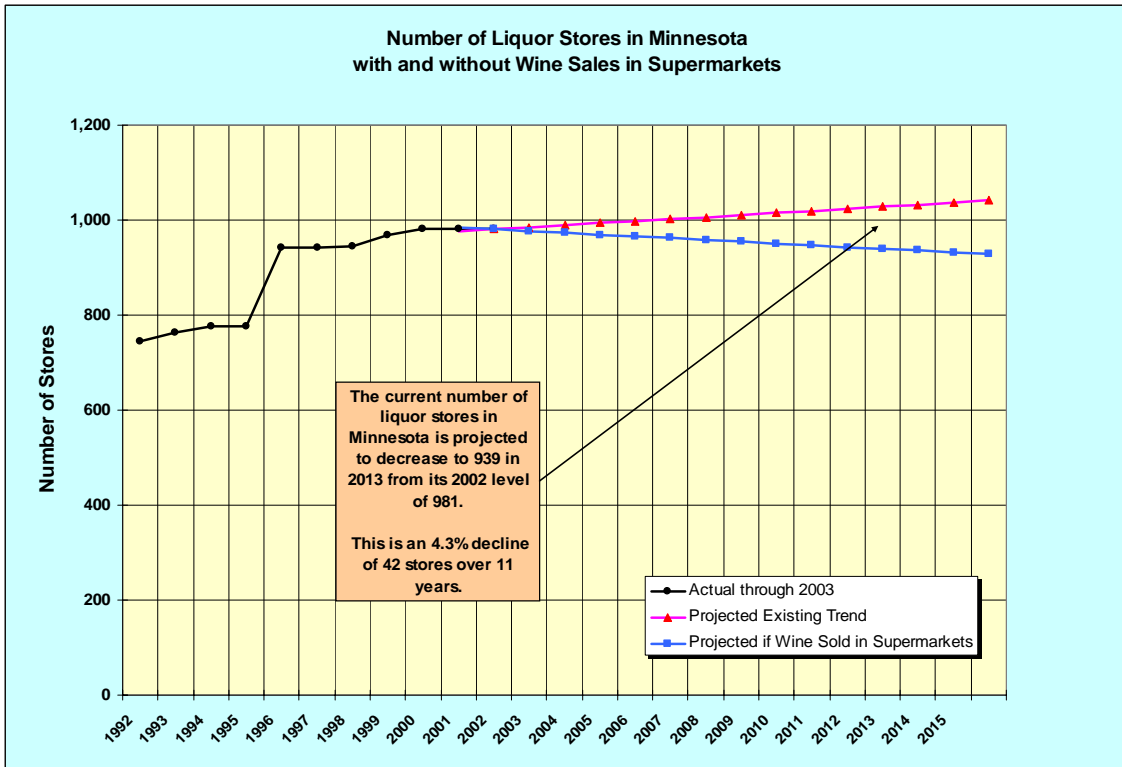
Figure H-MN



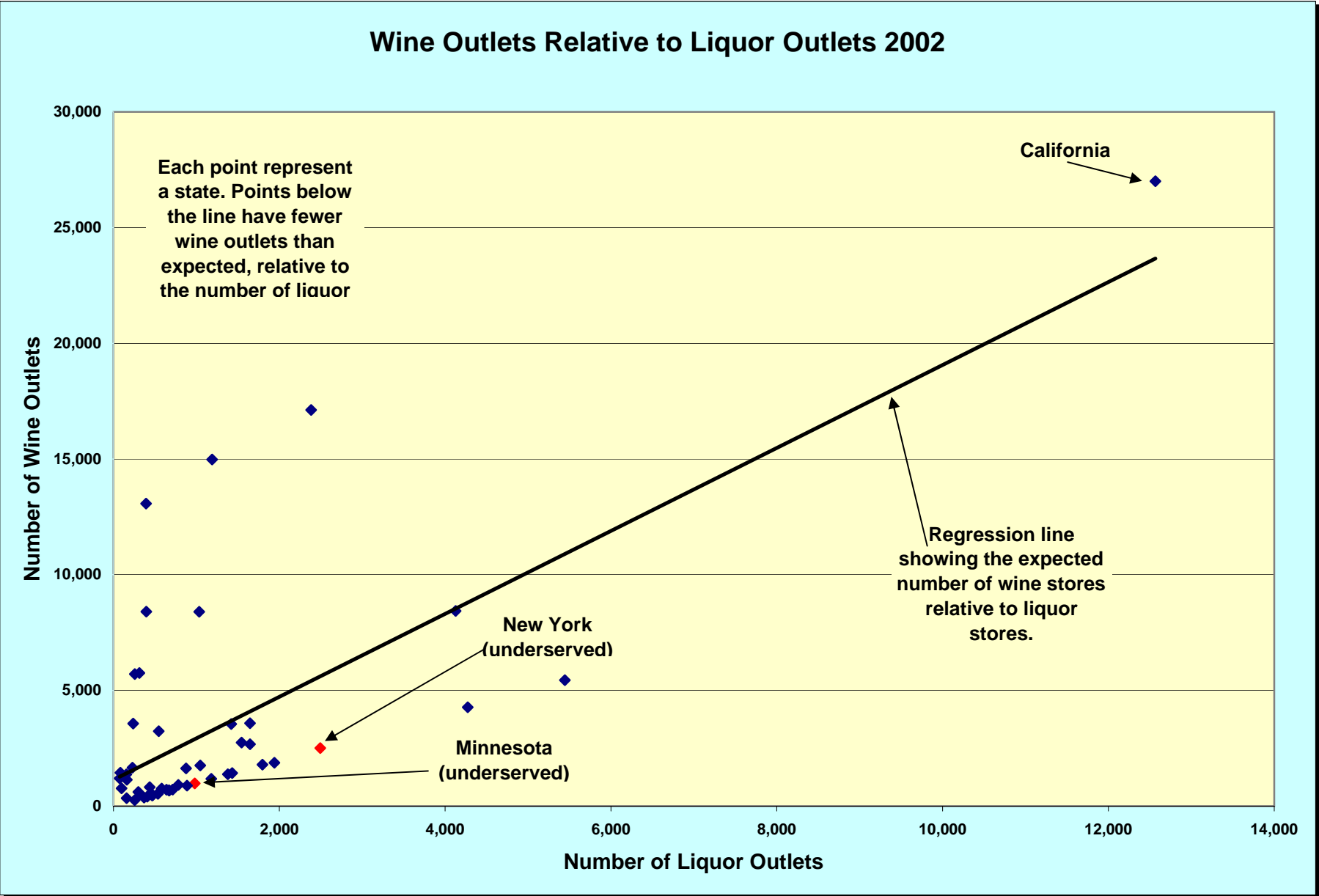
- ◆ In states expanding wine outlets, liquor stores are estimated to maintain their profitability within a few percent, as the number of wine outlets per capita increases to the median level for all states. Of course, there are volume changes that come with expanding markets and a competitive number of outlets, but that is a natural part of the competitive system we have and is to be welcomed.
- ◆ A full simulation of liquor stores in the Minnesota market is the basis for Figure I-MN, which shows under current state policy the impact on the number of liquor stores.
- ◆ Upon expansion of wine outlets to the all-state median number per capita, the number of liquor stores in Minnesota is projected to decline to 935 in 2013 from its

level of 981 in 2002. This is a 4.3% decline of 200 stores over 11 years. Even this modest decline does not have to occur, if the state decides to move liquor sales to a more competitive market model.

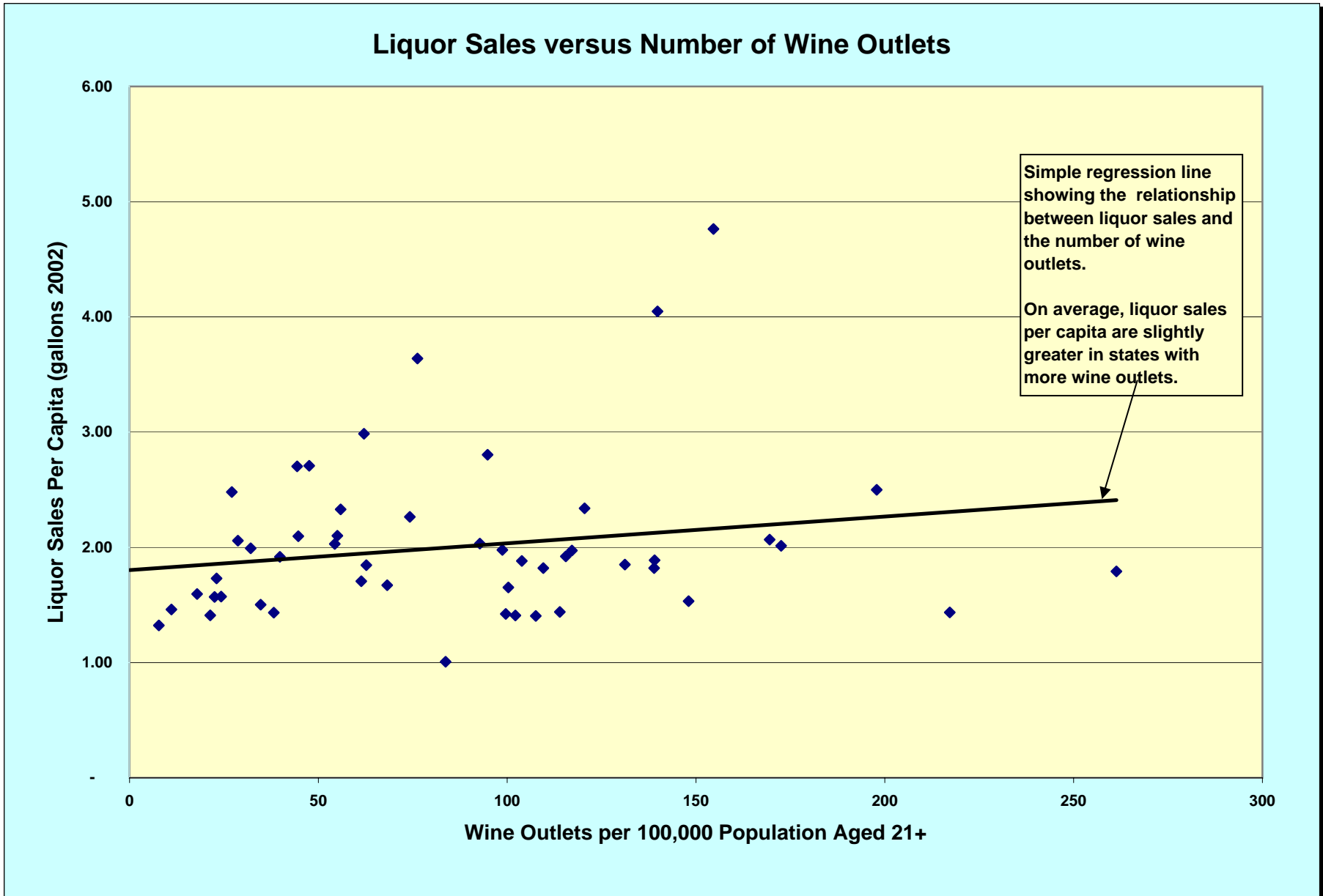
Figure I-MN



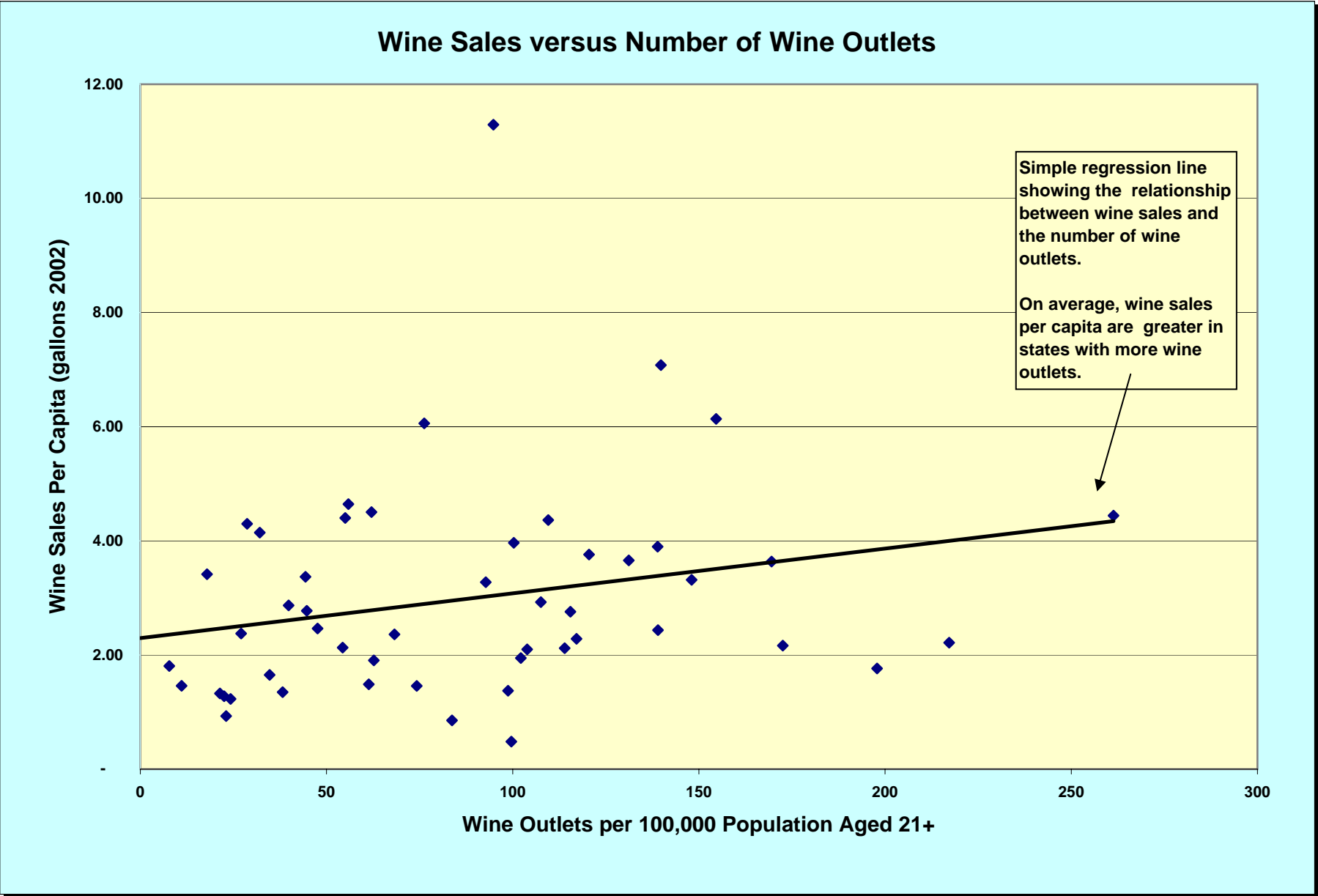
Appendix Figure 1



Appendix Figure 2



Appendix Figure 3



Appendix Figure 4

## Number of Liquor and Wine Outlets by State 2002

State	Number of liquor outlets	Number of wine outlets	Outlets per 100,000 population aged 21+		Supermarket sales permitted
			Liquor	Wine	
Alabama	546	3,238	17.5	103.6	Partial
Alaska	408	412	99.4	100.4	No
Arizona	1,421	3,549	40.2	100.4	Yes
Arkansas	474	474	25.3	25.3	No
California	12,567	27,004	54.3	116.7	Yes
Colorado	1,432	1,432	47.5	47.5	No
Connecticut	1,379	1,379	56.5	56.5	No
Delaware	369	369	66.6	66.6	No
Dist. Columbia	300	615	70.6	144.6	Yes
Florida	1,190	14,979	10.1	127.6	Yes
Georgia	1,034	8,402	18.3	148.8	Yes
Hawaii	782	917	90.2	105.7	Yes
Idaho	156	1,374	18.1	159.7	Yes
Illinois	N/A	N/A	N/A	N/A	Partial
Indiana	1,545	2,749	36.6	65.1	Yes
Iowa	437	821	21.3	40.0	Yes
Kansas	672	672	36.4	36.4	No
Kentucky	669	685	23.3	23.9	No
Louisiana	5,444	5,444	179.7	179.7	Yes
Maine	229	1,664	24.8	180.1	Yes
Maryland	1,047	1,760	28.0	47.1	Yes
Massachusetts	1,647	2,679	35.9	58.4	Yes
Michigan	4,127	8,437	59.7	122.0	Yes
Minnesota	981	981	28.7	28.7	No
Mississippi	465	465	24.2	24.2	No
Missouri	4,273	4,273	109.0	109.0	Yes
Montana	97	770	15.4	121.9	Yes
Nebraska	581	759	49.2	64.3	Yes
Nevada	1,180	1,180	83.6	83.6	Yes
New Hampshire	84	1,444	9.6	164.9	Yes
New Jersey	1,797	1,797	29.8	29.8	Yes
New Mexico	887	887	72.3	72.3	Yes
New York	2,495	2,511	18.5	18.6	No
North Carolina	393	13,072	6.9	228.0	Yes
North Dakota	N/A	N/A	N/A	N/A	Yes
Ohio	396	8,407	5.0	105.4	Yes
Oklahoma	537	537	22.4	22.4	No
Oregon	237	3,570	9.8	147.0	Yes
Pennsylvania	640	711	7.2	8.0	No
Rhode Island	256	256	34.2	34.2	No
South Carolina	876	1,633	31.1	58.0	Yes
South Dakota	535	535	103.8	103.8	No
Tennessee	469	469	11.6	11.6	No
Texas	2,384	17,120	17.1	122.4	Yes
Utah	133	N/A	9.6	N/A	No
Vermont	75	1,200	17.3	276.9	Yes
Virginia	258	5,710	5.1	113.3	Yes
Washington	312	5,754	7.6	139.4	Yes
West Virginia	162	1,141	12.2	86.0	Yes
Wisconsin	1,941	1,877	51.7	50.0	Yes
Wyoming	714	714	209.5	209.5	Yes

\*N/A means not available.

## Number of Liquor and Wine Outlets by State 2002 Sorted\*

State	Number of liquor outlets	Number of wine outlets	Outlets per 100,000 population aged 21+		Supermarket sales permitted
			Liquor	Wine	
Vermont	75	1,200	17.3	276.9	Yes
North Carolina	393	13,072	6.9	228.0	Yes
Wyoming	714	714	209.5	209.5	Yes
Maine	229	1,664	24.8	180.1	Yes
Louisiana	5,444	5,444	179.7	179.7	Yes
New Hampshire	84	1,444	9.6	164.9	Yes
Idaho	156	1,374	18.1	159.7	Yes
Georgia	1,034	8,402	18.3	148.8	Yes
Oregon	237	3,570	9.8	147.0	Yes
Dist. Columbia	300	615	70.6	144.6	Yes
Washington	312	5,754	7.6	139.4	Yes
Florida	1,190	14,979	10.1	127.6	Yes
Texas	2,384	17,120	17.1	122.4	Yes
Michigan	4,127	8,437	59.7	122.0	Yes
Montana	97	770	15.4	121.9	Yes
California	12,567	27,004	54.3	116.7	Yes
Virginia	258	5,710	5.1	113.3	Yes
Missouri	4,273	4,273	109.0	109.0	Yes
Hawaii	782	917	90.2	105.7	Yes
Ohio	396	8,407	5.0	105.4	Yes
South Dakota	535	535	103.8	103.8	No
Alabama	546	3,238	17.5	103.6	Partial
Alaska	408	412	99.4	100.4	No
Arizona	1,421	3,549	40.2	100.4	Yes
West Virginia	162	1,141	12.2	86.0	Yes
Nevada	1,180	1,180	83.6	83.6	Yes
New Mexico	887	887	72.3	72.3	Yes
Delaware	369	369	66.6	66.6	No
Indiana	1,545	2,749	36.6	65.1	Yes
Nebraska	581	759	49.2	64.3	Yes
Massachusetts	1,647	2,679	35.9	58.4	Yes
South Carolina	876	1,633	31.1	58.0	Yes
Connecticut	1,379	1,379	56.5	56.5	No
Wisconsin	1,941	1,877	51.7	50.0	Yes
Colorado	1,432	1,432	47.5	47.5	No
Maryland	1,047	1,760	28.0	47.1	Yes
Iowa	437	821	21.3	40.0	Yes
Kansas	672	672	36.4	36.4	No
Rhode Island	256	256	34.2	34.2	No
New Jersey	1,797	1,797	29.8	29.8	Yes
Minnesota	981	981	28.7	28.7	No
Arkansas	474	474	25.3	25.3	No
Mississippi	465	465	24.2	24.2	No
Kentucky	669	685	23.3	23.9	No
Oklahoma	537	537	22.4	22.4	No
New York	2,495	2,511	18.5	18.6	No
Tennessee	469	469	11.6	11.6	No
Pennsylvania	640	711	7.2	8.0	No

\*Sorted by supermarket wine sales permitted and by number of wine outlets.