



April 24, 2017

Dear Representative:

You have before you House bills that deal with the wholesale and retail sale of wine and spirits, HB 438, HB 975, HB 991 and HB 1075. Our organization opposes each of these for various reasons which we will happily detail.

For the record, our primary reason for opposition is based on the following:

**If legislation is to be enacted to create additional liquor outlets these should be limited to allowing wine and spirits licenses or permits only at a reasonable cost to the retail distributor, the independent Pennsylvania business that currently provides strong market competition and the best value in the sale of beer.**

The addition of distributor licensees selling wine and spirits, as a supplement to the 606 state stores, makes perfect sense:

1. A total of 1,200 “all-beverage outlets” hits the stated goal of lawmakers who want to create a “one stop shop”. It is consistent with the parameters established in the Final Report, *Liquor Privatization Analysis* (October 13, 2011), The PFM Group. After significant analysis and study, they recommended “the goal should be to meet consumer needs while preserving sufficient license scarcity to enhance individual license valuation.” PFM Report, P. 126.
  - a. The Summary provides, “PFM believes that approximately 1,500 licenses would be a reasonable accommodation of consumer convenience and license scarcity.” P. 9.
  - b. After an extensive analysis, the report provides, “In option three (full privatization with limits on number of retail licenses), using the above range – but also seeking to maintain scarcity – PFM believes that approximately

1,500 licenses would strike a reasonable balance; in general, the preference is to err on the higher side of the range of number of licenses. P.126.

- c. In order for a market to fully function, as the beer market does now with 1,200 distributors, it is essential that an equilibrium be maintained to enable those merchants who are in the market to be able to service a sufficient volume in order to balance inventory, selection, service and price. State wide, with beer now available in grocery stores, convenience stores, taverns, six pack shops, and distributors, we still offer customers the best value with our case sales – a fact one can easily verify anywhere in our Commonwealth.
2. Our specialty retailer business model, primarily limited to adult patrons who enter specifically intending to buy alcoholic beverages, is a far better fit to sell wine and spirits than any other general retailer.
    - a. Officials in the State of Washington documented the huge shoplifting problems that were created there when grocery stores got into the market (Example, \$800 per week!).
    - b. Reports within their own industries show that low paid employees create a significant problem which includes theft and alcohol abuse on the job.
    - c. With a distributor, if the business person loses his or her license, they lose their livelihood. This is not true in the food service business with liquor being one of many products and the fines – substantial to an independent R or D licensee – being an inconsequential amount when gross sales are measured in the multimillions.
    - d. In each local beer marketplace, distributors offer multiple times more selection than any competitor – 1800 SKUs versus 150, as an example. A study in Washington State showed that liquor stores provided far better selection than food merchants – and 25 times better selection than Costco. Kerr, Analysis of Price Changes in Washington Following the 2012 Liquor Privatization, Alcohol and Alcoholism, 2015.
  3. Distributors, as marketers of wine and spirits, will respond to the local market just as they do best now with malt and brewed beverages to offer their customers far better selection and service than any general retailer. Remember, the person who owns the beer distributorship, unlike the corporate owners of a grocery or convenience store, deals directly with their customer. There is no better relationship.
  4. Any new state model for selling liquor that includes R and E licenses creates more than 10,000 potential outlets, far too many for an efficient system that will provide balance, selection, control and service.

We welcome the opportunity to meet with you, your staff, or to testify before the Liquor Committee. Your local constituent operating a small business based on their own private investment would appreciate a “no” vote.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Frank Pistella', with a horizontal line underneath.

Frank Pistella  
President  
Malt Beverage Distributors Association