

Chapter 1: Overview of the Liquor Store Industry

A macro overview of the liquor industry and the economy are critical starting points for any valuation analysis. In many cases, the liquor store industry trends are better indications of the future than a review of the company's historical operations.

History

The liquor store industry has undergone many changes throughout its history. The strictest period for the liquor store industry in the United States was during the Prohibition Era which lasted from 1919 through 1933. During Prohibition, the sale and consumption of alcohol were completely outlawed and stores were forced to close down. After Prohibition, state control was returned, which led to varying prices and competition levels per state. Taxation plays a large role in many states, while others choose not to tax alcohol. States also have a strong role in regulating production, distribution, and the sale of alcohol.

In 1978 many states chose to deregulate liquor prices, thereby allowing supermarkets and convenience stores to enter the market and compete. In response to this, independent liquor stores lobbied to sell small food items and other miscellaneous items. In 1996, the Joint Committee of the U.S. Department of Health and Human Services and the Department of Agriculture issued dietary guidelines indicating that moderate consumption of alcohol could be beneficial to one's health. Other studies were published thereafter, which furthered the notion that drinking in moderation could lead to health benefits. Furthermore, a lift of a self-imposed ban on advertising among distilleries in 1996 helped increase earnings for liquor stores.

Today, liquor stores are facing competition from a variety of sources, as well as scrutiny from local residences within their respective areas. However, liquor stores still compose 60 percent of the liquor industry.¹

1. Encyclopedia of American Industries, 2007.

Industry Snapshot

As of 2005, according to the U.S. Census Bureau, the beer, wine, and liquor store industry included 33,415 liquor stores throughout the United States, while employing an estimated 136,350 individuals.¹ Together, the cumulative revenues of the beer, wine, and liquor store industry total over \$30 billion. Liquor stores alone account for \$7.7 billion which can be broken down into:

- \$3.2 billion for beer
- \$2.6 billion for spirits, and
- \$1.9 billion for wine.²

The average revenue per store, as of 2008, is \$400,000. No major companies dominate a significant portion of the industry due to varying regulation by state governments. The top 50 companies combined only form less than 20 percent of the sales in the United States.³

The heavy fragmentation leaves room for competition among “mom-and-pop” type liquor stores. However, in recent years, with lobbying of local government agencies, there have been efforts to legalize the formation of chain liquor stores, which will further pressure independent retailers.

In California, where multiple licenses can be issued, Beverages and More (BevMo!), which currently (2008) operates 64 stores in the state, has grown at a pace of roughly 17% over the past ten years. Other operators, such as Wal-Mart, have begun to enter the market as well, creating more competition as well as shifting the industry dynamics.

Industry Profile

Industry Makeup

The liquor store industry is composed of independent stores, local chains, state-run outlets, and large wholesaler type stores.

The independent stores, “mom-and-pop” type stores, are typically small (from a thousand to a few thousand square feet) and serve the local area. They typically generate revenues of less than \$1 million annually with an average of \$400,000 per store. These stores also average \$200,000 in revenues per worker. In some states, an independent store may sell items on behalf of the state and work on commission.

Recently, the industry has begun shifting from the small, independently run stores (mom and pop) to large superstores or wholesalers. These stores stock a

1. Encyclopedia of American Industries, 2007.
2. Encyclopedia of American Industries, 2007.
3. Hoovers: Beer, Wine, and Liquor Stores Overview

wide variety of beverages and can be as large as 50,000 square feet or larger and can generate between \$1 and \$5 million in revenues or more, depending on area. Larger stores can average \$800,000 in revenues per worker. These superstores are usually located in shopping centers, where they can receive maximum exposure and a high traffic volume.

State laws may control or limit inventory selection by regulating the types of alcohol sold. In several states, liquor stores cannot sell beer, while grocery stores are limited to only selling beer and wine (see Table 1-12 on page 36 for a state by state usage and distribution chart, which shows what types of alcoholic beverages can be sold by a given outlet. Distributors often limit inventory selection in control states, as well as the products they choose to stock. For popular, high-end products, demand may exceed supply, and stores receive limited allocations. These distributors have relationships with alcohol suppliers and will sometimes push to get those products into the market.

Liquor stores may specialize in a beverage type such as wine, in which it may carry a few thousand brands, while a liquor superstore may offer between 20,000 and 70,000 different alcoholic beverages.

There are several organizations for the liquor store industry as well as the alcoholic beverage industry as a whole. The **Distilled Spirits Council (DISCUS)** is one of the largest national trade associations, which represents nearly 80% of all distilled spirits brands sold in the United States. The organization is proactive on policy and legislation in the nation's capital, state capitals, and foreign capitals worldwide. They also employ a team of economists, scientists, lobbyists and public affairs professionals to increase adult market access for spirits products, and to allow greater convenience and choices for the adult consumer. The council also takes an active role in preventing higher taxes and barriers to trade.

Organizations

Another association, formed in 2002 through the merger of the **National Beverage Retailers (NABR)** and the **National Licensed Beverage Association (NLBA)**, called the **American Beverage Licensees (ABL)** represents off-premise licensees in the "open" or "license" states and on-premise proprietors in markets across the nation. Most of the 18,000 members are independent family owned operators and small business owners. ABL keeps track of legislation and industry trends and works with other industry groups toward the responsible sale of alcoholic products in order to protect the small business owners. The *ABL LEADER* is a monthly publication for members, industry executives, and members of Congress, and it provides up to date news and developments about the industry.

Many states have regional trade associations; for a listing of these associations please see Table 7 on page 156. These organizations serve as the voice of alcoholic beverage licensees and local breweries in their respective communities.

Government Agencies

On the federal level, there are two main authorities who oversee the sales, importation, and exportation of alcoholic beverages: (1) the **Alcohol and Tobacco Tax and Trade Bureau (TTB)** as well as (2) the **Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)**.

The Alcohol and Tobacco Tax and Trade Bureau's function regarding alcohol is to collect excise taxes, ensure that beverages are properly labeled, advertised, and marketed in accordance with the law; and to administer the laws and regulations in a manner that protects the consumer and the revenue, and promotes voluntary compliance¹. Meanwhile, the Bureau of Alcohol, Tobacco, Firearms and Explosives is the agency that enforces Federal laws and regulations relating to alcohol, tobacco, firearms and explosives.

Federal laws to take note of include:

Requirements on Retail Dealers Who Sell to Other Dealers

- Registration as wholesale dealer - A retail dealer becomes a wholesale dealer when selling distilled spirits, wine or beer to another dealer other than a limited retail dealer. Under law, a retailer who sells or offers for sale distilled spirits, wine or beer in quantities of 20 wine gallons (75.7 liters) or more to the same person at the same time is presumed to be engaged in business as a wholesale dealer.
- Permit requirements - Retail dealers may not sell any distilled spirits, wine or beer to another dealer for purposes of resale until they obtain a wholesaler's basic permit under the Federal Alcohol Administration Act.

Prohibited Purchases of Distilled Spirits

- Retail dealers may purchase distilled spirits only from wholesale dealers who are required to keep records under section 5114 of the Internal Revenue Code of 1986 (26 U.S.C. 5114) or from: (a) proprietors of distilled spirits plants; (b) administrators, executors, or receivers in bankruptcy who are disposing of assets; or (c) dealers who are going out of business and selling their entire stock.

On the state level, regulations regarding alcohol differ from state to state. Each state has its own form of alcohol control, which is responsible for issuing liquor licenses, as well as enforcing compliance with state and federal regulations. In some states, such as Pennsylvania and Washington, an agency known as the **Liquor Control Board (LCB)** operates as a retail outlet of all alcoholic beverages, which maintains a monopoly on all liquors sold. The LCB is also responsible for imposing large increases in the retail price of alcohol through the means of taxes and mandatory markups on all alcoholic beverages. The markups and taxes provide an additional source of revenue for the state. Other states have some form of an **Alcoholic Beverage Control/Commission (ABC)** which performs the same duties as the LCB as far as enforcing and regulating sales of liquors, yet, depending on the state, it does not compete with liquor stores and other liquor outlets.

1. www.ttb.gov: About TTB Section

Several main regulations affect the liquor store industry. The most significant laws pertain to the following: Sunday sales, spirits tastings, zoning, taxes, liquor licenses, and type of product that can be offered in a given type of store. Depending on how the state regulates the liquor sale environment, the ability and appeal of establishing a liquor store varies drastically.

Regulatory Oversight

Table 1-1: List of Liquor Control Boards by State

State	Name of Liquor Control Board	State	Name of Liquor Control Board
AL*	Alcoholic Beverage Control Board	MT*	Liquor License Bureau
AK	Alcoholic Beverage Control Board	NE	Liquor Control Commission
AZ	Department of Liquor Licenses and Control	NV	All beverage alcohol permits are regulated by each individual county
AR	Alcohol Beverage Control	NH*	State Liquor Commission
CA	Department of Alcoholic Beverage Control	NJ	Division of Alcoholic Beverage Control
CO	Department of Revenue-Liquor Enforcement Division	NM	Regulation & Licensing Department
CT	Department of Consumer Protection - Liquor Division	NY	Division of Alcoholic Beverage Control
DE	Alcoholic Beverage Control Commission	NC*	Alcoholic Beverage Control Commission
DC	Alcoholic Beverage Regulation Administration	ND	Office of the State Tax Commissioner
FL	Division of Alcoholic Beverages and Tobacco	OH*	Division Of Liquor Control
GA	Alcohol & Tobacco Tax Division	OK	Alcoholic Beverage Law Enforcement Commission (ABLE)
HI	Department of Liquor Control	OR*	Oregon Liquor Control Commission
ID*	State Liquor Dispensary	PA*	Liquor Control Board
IL	Liquor Control Commission	RI	Liquor Control Administration
IN	Alcohol and Tobacco Commission	SC	Alcohol Beverage Licensing Section
IA*	Alcoholic Beverages Division	SD	Division of Special Taxes & Licensing
KS	Department of Revenue Alcohol Beverage Control	TN	Alcoholic Beverage Commission
KY	Alcoholic Beverage Control Department	TX	Alcoholic Beverage Commission
LA	Alcohol and Tobacco Control Office	UT*	Department of Alcoholic Beverage Control
ME*	Bureau of Liquor Enforcement	VT*	Department of Liquor Control
MD	Alcohol and Tobacco Tax Unit	VA*	Department of Alcoholic Beverage Control
MA	Alcoholic Beverages Control Commission	WA*	Business License Services
MI*	Liquor Control Commission	WV*	Alcohol Beverage Control Commission
MN	Liquor Control Division	WI	Department of Revenue
MS*	Alcoholic Beverage Control Office	WY*	Liquor Commission
MO	Liquor Control Division		

* denotes Control State; *Source*: TTB (Alcohol and Tobacco Tax and Trade Bureau)

In order to serve and sell alcohol, an establishment must acquire a liquor license from the official state agency which regulates alcoholic beverages and in some areas, an additional license from municipal or county authorities may be required. Liquor stores are also subject to health, sanitation, safety and fire