Economic Impact of Replacing 3.2 Beer Sales With Full Strength Beer Sales

Prepared for:

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Peer into the future before it becomes the present

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Executive Summary

Introduction

Colorado is currently one of a handful of states that sells 3.2% beer, including Utah, Oklahoma, and Minnesota. It is sold at grocery and convenience stores. Summit Economics forecasts the impact of a possible change to Colorado law allowing supermarket and convenience stores to sell full-strength beer. Changing the law would essentially eliminate the regulated market segment for 3.2 % beer in Colorado.

Industry Characteristics

The Colorado Liquor Stores (CLS) industry is comprised of 1,650 small independent liquor stores. The CLS employs 7,500 people in addition to an estimated 2,500 liquor store proprietors. Two-thirds of the stores employ fewer than 5 people. Total industry revenue in Colorado is estimated at $1.9 billion annually. The CLS produces $190 million in wages and earnings to Colorado households annually.

Colorado has more liquor stores per capita than 45 other states. This is mostly due to small store size. There are many small liquor stores throughout the State that survive by selling to clientele mostly within their own neighborhoods. Full-strength beer is the most popular product at many of these stores.

Colorado Liquor Stores currently outperform the nation in a number of areas, including small business development, entry-level job creation, and wage growth. If the legislation were to pass, the CLS industry will enter a decline stage. Surviving liquor stores will get bigger, but will be less numerous, similar to the supermarkets.

Industry Impacts

The CLS will lose 50 percent of full-strength beer sales to supermarkets and convenience stores in the first year alone.

They will lose 70 percent of beer sales within 3 to 5 years.

It is estimated that 40 percent or 700 of the stores will be forced to close within the first 3 years.

This will result in the loss of 4,830 wage and self-employment jobs. Overall the CLS will lose $700 million in annual revenues, resulting in a permanent $90 million loss in annual wages and proprietor income earnings.

These losses will continue through the fifth year. After the fifth year the new market structure will stabilize with 900 fewer stores.

There will be 5,500 fewer jobs in the industry, resulting in a loss of $120 million annually in employee and proprietor earnings.

Impacts on the Colorado Economy

8,600 jobs will be permanently lost within 3 years. Up to 10,000 jobs could be lost by the fifth year.

These lost jobs will result in lost wages, up to $200 million annually by the third year and $240 million by the fifth year.

Lost wages will result in lost tax revenue. Colorado could lose $11.9 million in state and local taxes by the third year. This number could increase to $15 million by the end of the fifth year.

Colorado would likely see $1 billion in asset devaluation from defaulted loans and permanently lower rent to landlords.

Distribution practices in supermarkets and convenience stores favor volume over premium small-scale products. This will greatly impact Colorado micro breweries, wineries, and spirits distilleries. It will become more difficult for these products to find their way to market shelves.

Consumer Prices & Consumption Changes

During the industry restructuring it is expected that full-strength beer prices decline until many liquor stores are out of business.

The price of wine and spirits will increase as liquor stores struggle to survive.

Full-strength beer prices will increase back to existing levels after many liquor stores are out of business.

Summit Economics forecast consumption of domestic beer produced by the three large international brewers will increase by 5 percent by the end of the restructuring, due to lack of variety in supermarkets and convenience stores.

Consumption of wine and spirits will decrease by 9 percent due to higher prices and lack of availability as liquor stores close and others raise prices to survive. Consumers will have fewer choices overall.

Conclusion

There will be a number of direct and indirect impacts besides the closure of liquor stores:

- Job and proprietor losses of income will multiply throughout the Colorado economy to other sectors.
- Losses of tax revenue at State and local levels will result.
- Corporate profits to out-of-state corporations will replace Colorado proprietor income.
- Colorado producers of wine, beer, and spirits and the farmers they support will lose significant market access. Much of what is produced in Colorado is sold in Colorado as well.
- Any decrease in beer prices will be temporary. In an oligopolistic industry, any decrease will be offset by higher prices for wine and spirits as liquor stores struggle to stay in business.
- Supermarkets and convenience stores will exploit the profitability of beer sales, reducing shelf and cooler space for low-margin foods and beverages and limiting consumer choice.