

Why can't we sell alcohol like tires and mayonnaise?

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Questions:

- ▶ Why do we need marketplace regulation?
- ▶ Does regulation really work or are these just “antiquated rules”?
- ▶ Just what are marketplace rules and what do they do?

Why do we need special regulations for businesses that sell alcohol?

- ▶ The simple answer:



...because some normal business practices — quite legitimate for other commodities — may produce social harm when alcohol is sold

Illustration: Floral business



Imagine you own a floral business

Your business plan would include:

1. Efforts to retain and increase customers who are “frequent buyers”
2. Discounts and promotions to gain new 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:
 - Marketing to heavy drinkers and alcoholics
 - Use of volume discounts and other incentives to encourage heavy use
 - Marketing to youth to encourage present and future alcohol use
 - Estimates indicate underage drinkers are 17.5% of the alcohol market and adult abusive/dependent drinkers are another 20.1% (*Archives of Pediatrics and Adolescent Medicine, 2006*)

“Frequent buyers” include alcoholics, heavy drinkers and underage drinkers

- ▶ Unfortunately, your “best customers” include these groups. In fact, data show that underage drinkers consume more alcohol per capita than do adults
- ▶ Efforts to gain more frequent buyers could simply induce more people to become heavy drinkers

The problem with volume discounts and other price incentives



- Research shows per capita alcohol consumption and social problems are directly related
- Volume and other price discounts — particularly if heavily promoted — can increase consumption and problems

Free markets and alcohol a bad mix

Illustration: Brazil

▶ No business regulation

- High homicide rate (27 per 100,000 pop. V. 5.7 for US)
- Estimated 50% alcohol involvement in traffic fatalities v. 32% for US
- Liver cirrhosis rate is 11.31
- V. 7.47 for US



Price is Brazil's Number One Problem for Preventing Abuse

▶ Price comparisons

- Milk = 60 cents (1 liter)
- Mineral water = 40 cents (1 liter)
- Big Mac = \$1.30
- Beer = 25 cents (1 can)
- Cachaca = 50 cents (1 liter)

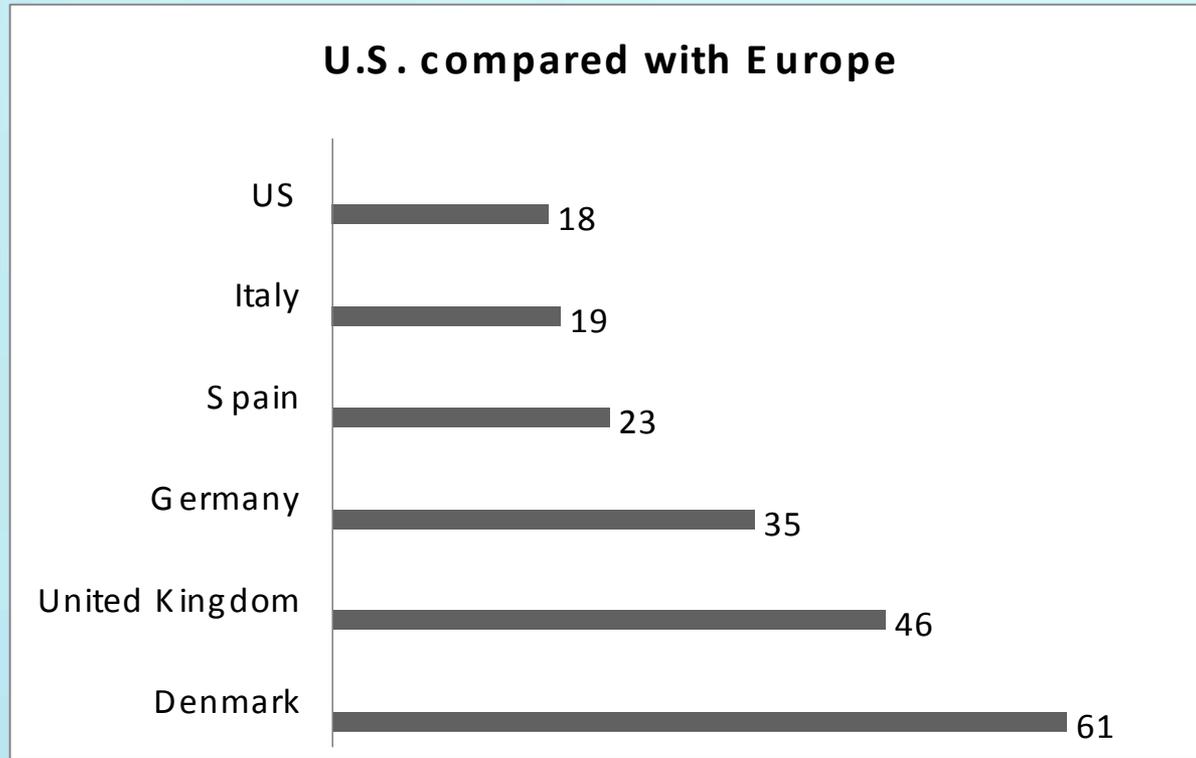


Deregulation and alcohol—another bad mix!

Illustration: Great Britain

- ▶ 24-hour sales allowed in pubs and stores
- ▶ Price controls, bans on volume discounts do not exist
- ▶ Large retail grocers sell alcohol below cost
- ▶ Drinking-related deaths doubled between 1991 and 2004 for 15–34 year olds (Office for National Statistics)
- ▶ Liver cirrhosis deaths for men increased in England and Wales from 8.3 per 100,000 in 1987 to 17.5 in 2002.

Regulation works



**Percent of Youth Intoxication
(15–16 year olds intoxicated in past 30 days)**

Source: 2003 European School Survey Project and
2003 Monitoring the Future Survey

U.S. experience

- The regulatory system in the US has kept consumption rates and problems at lower rates than in Europe and other countries
- System prevents domination by a few large companies
- Social mores, drinking patterns are key factors (drinking is heavier in northern areas)
- Enforcement is crucial

Alcohol must be sold and promoted with care and restraint



The Marketplace System restrains unwise business practices

- ▶ Alcohol marketplace regulation requires businesses to structure their operations and practices to conform to the rules. They cannot use several normal business practices, and substantial reporting requirements exist.
- ▶ The trade-off: protection from unfair business practices and cutthroat competition.

Three-Tiered System



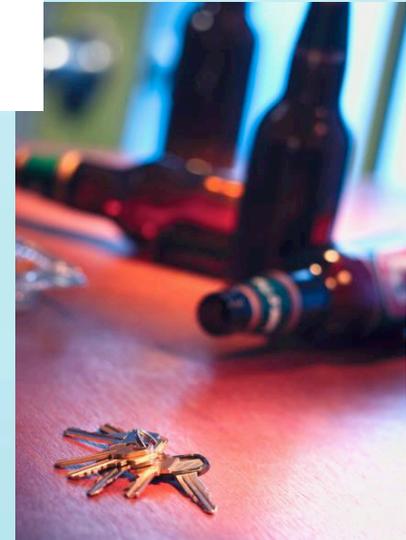
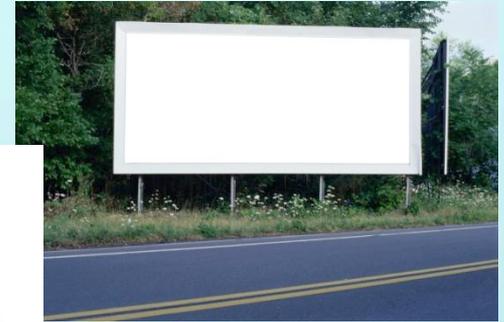
- ▶ Designed to prevent marketplace domination by maintaining three separate business sectors: retailers, wholesalers and manufacturers
- ▶ Prohibits ownership and financial “deals” or inducements between sectors (Tied House and Financial Assistance laws)
- ▶ Designed to prevent vertical integration, where one company owns or controls all three sectors. History shows this often leads to business practices that create social problems

Price regulation

- ▶ Prevents major availability of cheap alcohol
- ▶ Minimum mark-up requirement, prohibition on volume discounts and instant coupons discourage purchase in high volume
- ▶ “Same price to all retailers” discourages cutthroat competition and allows small retailers to compete with large retailers
- ▶ Price recordkeeping facilitates enforcement

Marketing/advertising restrictions

- ▶ Prohibitions against marketing which encourages youth consumption
- ▶ Prohibitions against promotions that encourage excessive consumption



Importance of state/local regulation



- ▶ Pressure for uniform nationwide regulations with federal enforcement
- ▶ Impact of alcohol problems invariably is local
- ▶ Must have a responsive enforcement mechanism (local or state)
- ▶ Imagine calling a federal agency for a local alcohol problem?

Why the urgency?

- ▶ Marketplace regulation under attack nationwide
- ▶ Pressures: foreign ownership of alcohol companies, market globalization, bottom-line orientation of public corporations
- ▶ Popularity of “deregulation,” myths about “antiquated regulations”
- ▶ Lawsuits like recent Costco case
- ▶ Competition in the retail sector could bring the British experience to the USA!



- ▶ Education is needed for policy makers, regulators, prevention and enforcement.
- ▶ Research is almost non-existent
- ▶ Changes to marketplace regulation need laser-like precision as small modifications can unleash powerful forces

Educational Tools

Education

- ▶ PowerPoint tailored to a given state
- ▶ Explanatory pieces on several topics
- ▶ Website

Advocacy

- ▶ Newsletter—one page quarterly on-line
- ▶ Issue Alerts—for specific states
- ▶ Testimony on particular bills

Elements of a Healthy Alcohol Marketplace—a Discussion

- ▶ Freedom from monopoly or domination by a few large companies
- ▶ Fair and ethical business practices
- ▶ Responsible advertising and promotions targeted to adults
- ▶ Pricing is high enough to discourage over-consumption, but not so high as to encourage bootlegging
- ▶ A system that ensures safe products
- ▶ An efficient tax collection system
- ▶ A responsive enforcement system that effectively deals with problems

For more information

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