Testimony to be delivered before the subcommittee on liquor control board management

The House Liquor Control Committee, State Office Building, Philadelphia, November 30, 1973

Mr. Chairman, members of the subcommittee, I would first like to express my appreciation in being invited to testify regarding the Administration proposal to auction off the Pennsylvania state liquor stores and the desperate need for reform of the current system.

I am testifying today on behalf of the Retail Clerks' Union representing state store employees across the Commonwealth and numerous other interested groups and individuals who oppose what has become known as the biggest booze giveaway in American history. This summer Governor Milton J. Shapp released and endorsed a 135 page report calling for the auctioning off to the highest bidders all the state's 752 retail liquor stores. I am sure that many of you are familiar with the recommendations made in the Governor's report. Most Pennsylvanians are not. It might be well, therefore, to recount briefly some of the Governor's recommendations and point out what we consider to be serious flaws in the proposal.

The Governor, as you know, wants to auction off the Commonwealth's 752 retail liquor stores to the highest bidders, and allow each successful bidder to be granted a second franchise, thereby doubling the number of stores. The report also recommends a five percent across-the-board reduction in retail prices.

To accomplish this the Governor's own consultants say an increase of 32.5 percent in consumption would be required. Translated this means THAT EVERY MAN, WOMAN, AND CHILD WOULD HAVE TO CONSUME AN ADDITIONAL TWO AND ONE-HALF FIFTHS OF WHISKEY JUST SO THAT THE STATE COULD MAINTAIN ITS CURRENT LEVEL OF REVENUE. The same Governor's consultants also say that this increase, even if it were to be desirable, and we strongly submit that such an increase would not be desirable, could not be accomplished solely by turning over the system to so-called private industry.

At the same time that the Governor is calling alcoholism the number one drug problem in Pennsylvania, he is advocating an increase in consumption of nearly one-third with no real guarantee, even from his own experts, that such an increase could be achieved.

What are the real issues? The Administration has attempted to present the people of Pennsylvania with an either/or choice: take the system as it is with all of the admitted inequities and inefficiencies or turn it over to 752 unnamed individuals or organizations to run it for their own personal profit. We do not oppose private enterprise. Private enterprise has done much to make this nation great. But, the sale of alcohol is not at all like the sale of stationery or slacks. It is admittedly a dangerous drug, and every one of the 50 states regulates its sale and use.

Frankly, there are some points in the Governor's report with which we agree. The system as currently constituted is inefficient. With the exception of certain self-service stores, the consumer is presented an unattractive place to shop, often cold in the winter and hot in the summer. Prices should be lowered. And there is an immediate need not only to provide the standard retail amenities, but also to improve the distribution system so that stock is on the shelves when customers desire to purchase it.

The Governor has offered two choices. We propose a third. There is no reason why the people of Pennsylvania cannot get a better break while still being guaranteed the nearly 54 million dollars per year in net profit generated by the state store system, and maintain strong state control over the sale of distilled spirits.

Let us for just a moment consider some of the implications of the Governor's proposal before going into a series of positive recommendations to reform the PLCB's retail operation. First of all, who would buy these 752 state stores? Quoting the Governor's own consultants again, the price would vary between a quarter of a million dollars and $400,000.00 per store. That is not the kind of money which can be accumulated simply by returning empty soda bottles to the grocery store. The possibility of penetration by organized crime is immense. So too is the potential for corruption. Some franchise holders would have a guaranteed life income; a single store could produce as much as a million dollars in profit. Surely the bidders would not be content to see such a sinecure slip away simply because their offer might be too low.

And, would it all stop at 1504 stores? The history in other states argues the contrary. Recently the PLCB closed the most profitable retail operation in the Commonwealth, located in West Philadelphia, because of community protest.

Is it reasonable to imagine that any private entrepreneur would bow to such community concern. Nor is it reasonable to assume that the state would stop at 1504 liquor stores or 3008 liquor stores. Many of you have visited New York and Baltimore and seen store after store after store on the same street with customers being subjected to panhandlers, harassment, molestation, and even muggings.

What about the aspect of control? If a state store clerk knowingly sells a bottle to a minor, he will be fired. Is it reasonable to assume that a private liquor clerk would receive the same treatment. We take no position on the age for drinking in Pennsylvania, but we do believe that whatever the age limit, that limit should be scrupulously observed and enforced. Would the marginal privately owned liquor store concern itself with this. We think not.

We favor reform, not revolution. It is possible to meet all of the objections to the current method of merchandising alcoholic beverages in Pennsylvania as put forth in the Governor's report without jeopardizing either revenue or control. In this connection, the Retail Clerks' Union commissioned my firm last April to prepare a study on the PLCB's retail operation and to make recommendations for positive reform. Copies of the report will be available to all members of the committee, and I respectfully request that it be made a part of the record. Of the 16 recommendations for reform, more than half can be implemented simply by board action and do not require any legislation. We believe that these 16 reforms will go far toward updating the state store system so that it can deal realistically in the economics and environment of the 1970's rather than remain as it has for so long rooted in the policies and the procedures of the 1930's and 40's. Some of the recommendations cited in our report have already been put in the form of bills and introduced in the House. But at the risk of sounding redundant I would like to cite each one of the recommendations.

1. Increase the number of stores through the lease of space in existing retail facilities such as department stores. Recently the Ohio Liquor Control Board took such action and opened a liquor section in one of Cleveland's leading department stores. This would provide the consumer with all the convenience that he or she rightly desires, while at the same time maintain strong state control.

2. Allow state store clerks to "sell" and receive a commission on their sales. This would remove the long held legal restriction against state store clerks recommending brands. The commission we have in mind would be very small and it would not materially increase current liquor clerks' salaries. The recommendation is made to avoid the possibility of distillers bribing liquor clerks to push a particular brand. The commissions would be pooled and divided among all the employees in the store which would eliminate the possibility of an eager beaver from actively "pushing booze".

3. Introduce "private labels" in an effort to compete more effectively with such brands sold in other states. There has been considerable misinformation about prices in neighboring states, particularly New Jersey. Our survey and others have proven conclusively that prices in New Jersey are equal or slightly

higher for distilled spirits and considerably higher for wines. But one of the reasons why the public persists in mistaken belief that prices are lower across the Delaware River is because of a widespread sale of private labels at prices lower than the name brands. This could be done administratively by the Liquor Control Board and would not require legislative action.

4. Improve the distribution system so that wanted brands are on the shelves in the stores when customers desire to purchase them. The current system of warehousing is archaic. In realistic terms, it takes a state store manager as much as seven weeks before an order is delivered.

5. Establish a credit policy permitting the use of recognized credit cards or the creation of a PLCB credit card which would be honored in all state stores. Legislation to this effect has already been introduced. We would recommend, however, that a minimum purchase be required before customers would be permitted to use the cards. Under current practice the only persons permitted to pay by check are licensees. A consumer purchasing a half case or a full case is required to plunk down as much as $100.00 in cash.

6. Provide home delivery for large purchases with the option of taking telephone orders. This proposal would actually accomplish two aims. First, to provide convenience and safety for the large purchaser because the transportation of alcohol can be every bit as dangerous as the transportation of cash. And secondly, the very same trucks which are used for home and licensee delivery could also be used for the movement of merchandise from store to store so that a store with an overstock of one item would be able to move the merchandise to

a store with a shortage. This proposal could be implemented simply through board action and would not require legislation.

7. Improve the interiors and the display areas of state stores. In this connection we strongly recommend an increase not only in the allover number of stores but also particularly in the number of self-service stores. Here again, this could be implemented simply through board action.

8. Liberalize the exchange policy. At present the exchange policy is cumbersome and at times actually dehumanizing. There is no reason why the customer should be treated like a criminal.

9. Increase the current five percent discount on case lot sales. In this connection we recommend a ten percent discount which would place Pennsylvania in line with neighboring states. This could also be accomplished by board action.

10. Allow the special ordering of non-listed brands on less than a full case basis. Presently if a consumer wishes to purchase a brand which is not listed by the PLCB, he or she must agree to purchase twelve bottles. This places an undue and unnecessary economic hardship on the part of the consumer. Again, such a change could be accomplished administratively.

11. Lower the 18 percent emergency tax. Were the emergency tax to be dropped only six percent from the current rate of 18 percent to twelve percent, an allover across-the-board saving of ten and nine-tenths percent could be

implemented on the retail level. Such a reduction would put Pennsylvania below most of the neighboring states in terms of retail prices. Legislation to this effect has also already been introduced in the House.

12. Initiate sales on various brands just as private package stores do by lowering the statutory 48 percent uniform markup policy. Right now a 48 percent markup is placed on every item sold by the PLCB whether the retail purchase price is $1.00 or $10.00. I know of only two retail establishments in the world that have similar policies, the GUM department store in Moscow and the People's Department Store in Peking. The practice is, in all candor, asinine. The national standard for markup in the liquor industry is approximately 37 percent. Pennsylvanians are at this point paying too little at the low end of the scale and too much at the high end of the scale. This is why the so-called "top shelf" items, particularly Scotch whiskey, are somewhat less expensive in neighboring states such as New Jersey. The markup is lowered as the retail purchase price is increased. A sliding scale markup policy would permit Pennsylvania state stores to have sales in the same sense as the private package stores.

13. Increase the number of self-service stores and the allover number of stores. At present we understand that there is a freeze on opening new stores, and that a new store cannot be opened unless an old one is closed. Little more than two percent of the state stores are currently self-service. Yet customer response and increased profits point firmly to the acceptability of such stores.

14. Create specifically designed wine cellars staffed with personnel conversant with wines and have open display areas and coolers to hold chilled wines. Wine

consumption nationally is increasing at a faster rate than distilled spirits or so-called "hard" liquor. We expect this trend to accelerate over the next decade. There is no reason why Pennsylvania consumers should not be able to purchase their wines chilled just as they do in other states. Nor, should any customer be made to feel inadequate simply because he or she is baffled by the profusion of brands or vintages. It is not that the state store clerks do not know what to recommend; it is that they are not now permitted to recommend.

15. Change the name "State Store" to "Pennsylvania Package Store" and improve the allover retail image of the system to make it less sterile and more consistent with current merchandising practice. Admittedly, this recommendation is cosmetic, but there is no reason in our view why the state store cannot be as attractive as a private store.

16. Finally, we recommend that the caliber of PLCB management be significantly upgraded and that those concerned with the board's retail operations have solid retail merchandising experience. There is no doubt in our minds that the system as currently constituted is inefficient. We feel this inefficiency stems basically from two causes. First, top management has had little if any experience in the liquor or the retail business. And secondly, the current ratio of chiefs to Indians or managers to clerks is nearly one to one. This puts the PLCB perhaps on a par with the Tanzanian army. It works out to one officer for every enlisted man or one chief for every Indian. No organization, retail or otherwise, can function effectively or efficiently on such a basis. We are not advocating that anybody lose his or her job. But merely, that the

board's table of organization be restructured to meet the retail realities of today rather than the political dictates of yesterday. If a single individual can manage a store grossing a million or more dollars per year, there is no reason why any Pennsylvania state store requires three or four or five managers for a single store.

There is a way then that the Commonwealth can have its cake and eat it too, that the consumer can get a better break in terms of improved service and lower prices while at the same time guaranteeing a significant and growing source of revenue for the general fund. The alternative to these reforms is simply to put our faith in 752 unnamed organizations or individuals who would run the system for private, not public, profit. Let us remember that we own the state stores. Private industry is not the answer to all our problems. Certainly the Penn Central proved that. But in opening the issue, the Governor may have done the Commonwealth a service in providing the first real chance for reform in several decades. You gentlemen have the opportunity to make the Pennsylvania state store system the best in the nation.

Mark Forrest
Mark Forrest Associates
Fourth Floor
Lewis Tower Building
Locust at Fifteenth Street
Philadelphia, Pennsylvania 19102

PENNSYLVANIA LIQUOR CONTROL BOARD . . . . Release: Immediately

PUBLIC RELATIONS OFFICE - 717-787-3945
413 NORTHWEST OFFICE BUILDING, HARRISBURG 17124

#72-28

The Pennsylvania Liquor Control Board, today, took issue with recent statements that the Board's retail wine and liquor prices are higher than those in the neighboring states and the second highest prices in the nation.

Chairman Edwin Winner revealed the results of a retail price survey which was conducted by the Board's Comptroller at various times during the period from January 31 to February 23 of this year (1972). The items surveyed were the 10 fastest-moving wine items and the 10 fastest-moving whiskies sold in Pennsylvania State Stores. Prices were obtained from 30 different sources including liquor or "package stores," supermarkets, and state price lists.

Whiskey		Pa.	N.J.	Ohio	N.Y.
Seagram 7 Crown	5th	5.54	5.57	5.25	5.61
Windsor Canadian	5th	5.54	5.57	5.24	7.02*
Imperial	5th	4.80	4.93	4.61	5.18
Seagram V.O.	5th	7.73	7.45	7.12	7.60
Calvert Extra	5th	5.54	5.57	5.25	5.64
Corby's Reserve	5th	4.55	4.72	4.39	5.01
Canadian Club	5th	7.70	7.45	7.10	7.55
Gordon's Dry Gin	5th	4.90	4.93	4.76	5.14
Kessler	5th	4.82	4.88	4.63	5.27
Jacquin Vodka 80 proof	5th	3.99	4.44	--	4.63

*quart price -- only available data

Wine					
Pio Gallo Thunderbird	qt.	1.35/.28	1.31	1.45*	1.29
I.S.C. Gold Medal Tokay	qt.	1.30/.28	1.31	1.44*	1.30
Taylor's N.Y. Port	5th	1.99/86	2.05	2.32	2.00
Boone's Farm Apple	5th	1.00/94	1.05	1.09	1.04
Gold Seal Catawba Pink	qt.	1.67/59	1.78	1.91	1.74

(more)

68

Wine (Cont'd)		Pa.	N.J.	Ohio	N.Y.
Andre Cold Duck	5th	2.28 2.14	2.09	2.90	2.05
Tiger Rose Wine	qt.	1.20 113	1.25	--	--
I.S.C. Bali Hai	5th	1.00 .99	1.14	1.21	1.12
Gallo American Port	qt.	1.35 1.29	1.31	1.45*	1.29
Gallo Vin Rose	qt.	1.10 1.04	1.25	1.24*	1.15

*price of 5th -- quart prices not available

Maryland and the District of Columbia are consistently lower in their prices than Pennsylvania. The District of Columbia has no taxes on alcoholic beverages, and, Maryland, to be competitive with the District, must maintain lower prices because of its proximity to the District.

On the other hand, New Jersey and New York prices are consistently higher than Pennsylvania, with the exception of imported items (this exception could result from lower transportation costs or lower mark-ups or both).

Ohio and Delaware, while lower-priced in whiskies, are higher-priced in wines.

Chairman Winner pointed out that all of Pennsylvania's neighboring states are "open states," except Ohio and West Virginia which, like Pennsylvania, are "Control States." In Ohio, however, wine is sold through grocery stores and supermarkets.

The Pennsylvania Liquor Control Board Chairman noted that the survey used the retail prices in effect in Pennsylvania on February 9, 1972. Retail prices for the other states include sales taxes where applicable.

----- 30 -----