



Oregon Liquor Control Commission

presentation to the
Senate Business and Transportation Committee

Rob Patridge, OLCC Chair
Steven Marks, OLCC Executive Director

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Meeting Challenges

- Appreciation for the legislative interest in the work of the Retail Innovation Committee
- Stakeholder group recommendation to invest more in the current system or modify it
- No consensus on what the modifications should be
- Meeting Senator Beyer's challenge of creating a hybrid model was tough
- However, it was built upon a number of the hybrid concepts discussed in Retail Innovation Committee
- Also tough because we have an effective system today. We want to preserve its values

Values of Today's System

- Statewide access
- Wide selection
- Uniform pricing
- Innovative Oregon craft distillers
- Small business focus
- Stable, consistent revenue generation – Estimated \$442 million distribution to the state, counties and cities for public services

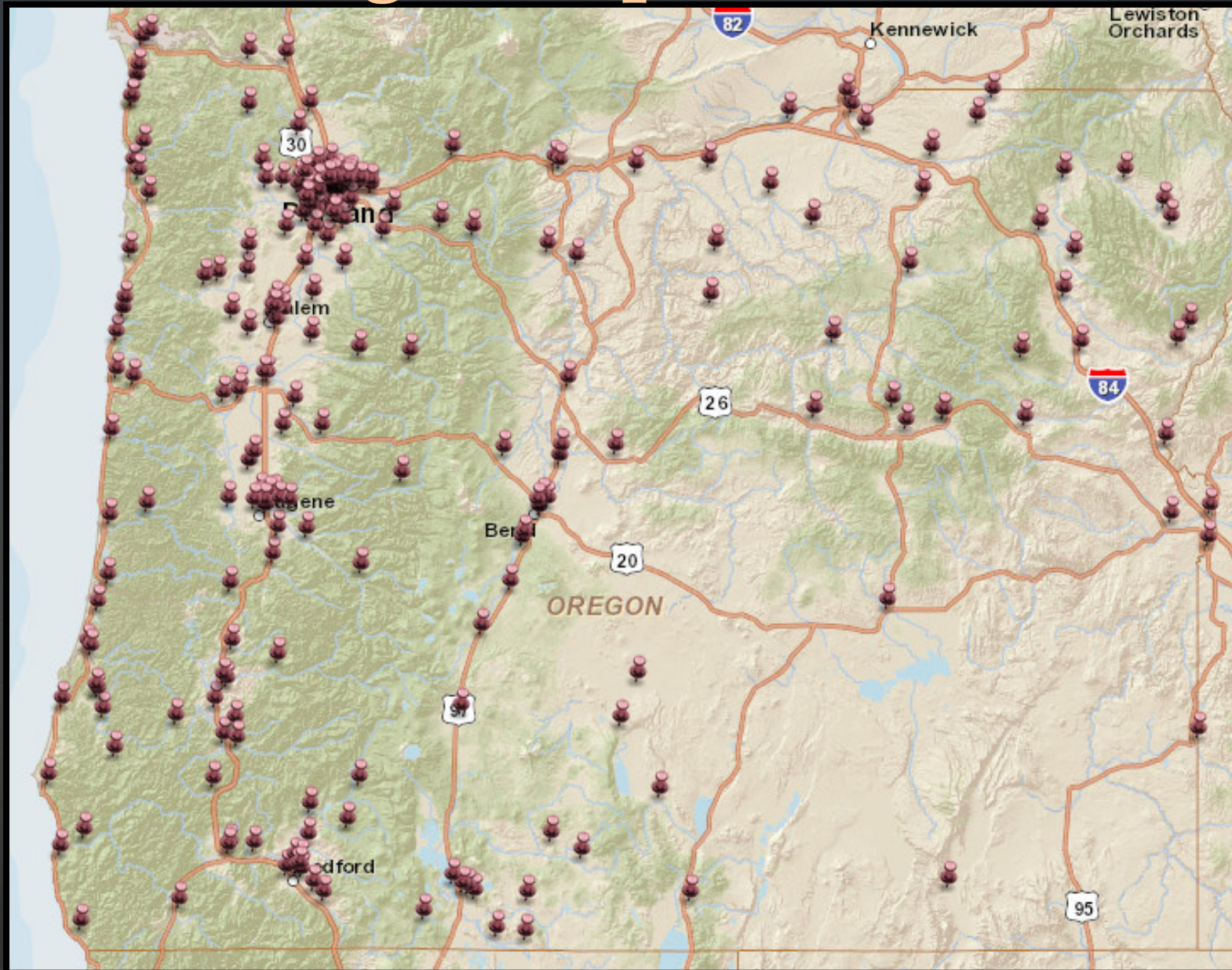


Retail Liquor Stores

- Oregon's 248 retail liquor stores are run by privately contracted small business owners since the mid 1980's
- Over 1,000 people privately employed by liquor store owners
- 148 Exclusive Stores
- 100 Non-Exclusive Stores
- Oregon products available in all stores



Oregon Liquor Stores



Distillery Retail Liquor Agents



- 33 distillery agents
- 44 contract locations
- 19 new distillery liquor agents since Jan. 2011
- Distillers able to sell their own products by the bottle from their tasting room & special events
- New market opportunity for small businesses

Oregon's Distilled Spirits Industry

- OLCC is in charge of listing products available to the public
- 400+ Oregon items available
- 12% of all liquor sales revenue
- 16% of total volume sold
- 55 licensed Oregon distilleries
- Custom shipments allow liquor stores to offer local products
- Distribution creates level playing field for small producers



Room for Improvement

Primary Issues: Customer convenience, accessibility, and investment into system

- Stores are open weekends and evenings but their hours may not be convenient for customers
- There may not be a store nearby
- Some stores are modern, and others aren't
- Lack of incentives for investments by agents

Goals of Legislation

- Protect the good values of the existing system
- Maintain and grow state revenue
- Protect and foster the development of the distilled spirits industry
- Variety throughout the state
- Increasing access and keeping prices stable



Retail Innovation to SB 1559

The focus of retail innovation discussions was about preserving the values of the statewide structure of the existing system while expanding the access for customers.

The concerns with wide-open access:

- Public safety
- Small stores on every street corner

The result:

SB 1559 provides access to 10,000 sq. ft. stores while keeping the basis of the current system

SB 1559 Components

- OLCC sets a minimum retail price
- Continues to floor liquor for agent stores
- Allows grocery stores 10,000 sq. ft. to sell distilled liquor
- Grocers pay cash for distilled spirits
- Both agents and grocers can charge prices higher than the minimum retail price



Revenue Neutral for State, Counties and Cities

Current

37%

**Profit for State,
Cities and Counties**

8.88% Liquor Store

5% OLCC Expenses

49%

**Manufacturer
Cost**

SB 1559

Minimum Retail Price

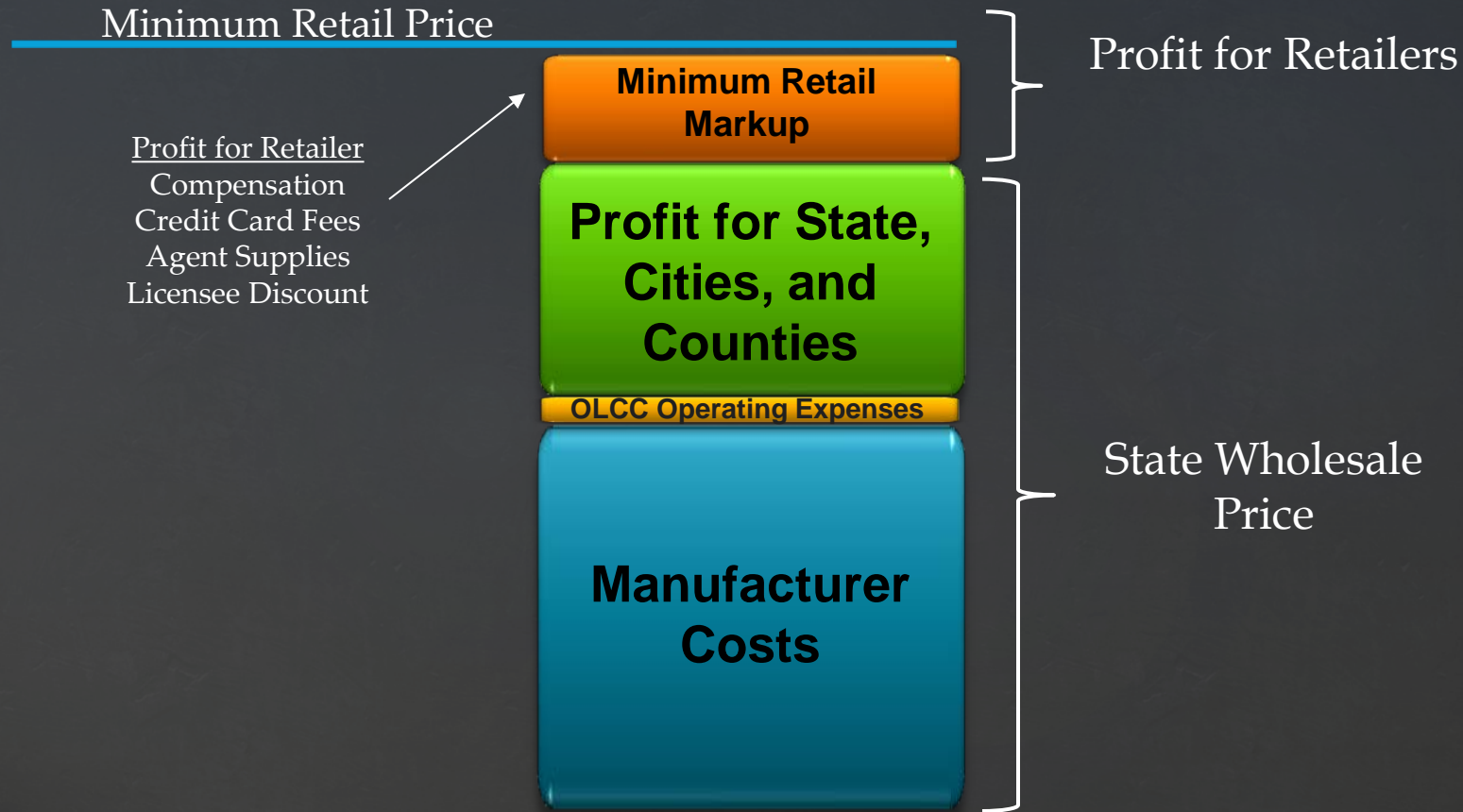
Minimum Retail Markup

**Profit for State,
Cities, and
Counties**

OLCC Operating Expenses

**Manufacturer
Cost**

OLCC Establishes Minimum Retail Price



Minimum Retail Price = State Wholesale Price + Minimum Retail Markup

State Wholesale Price = Manufacturer Costs + OLCC Operating Expenses + Profit for State, Cities, & Counties

Retail Sales Agents

- Allows retail sales agents to set prices
 - No discounting below the OLCC established minimum retail price
- OLCC owns all distilled spirits at liquor store
- When sold, the agent pays the state wholesale price to OLCC
- Revenue for agents will be the difference between the state wholesale price of the distilled spirits and the retail price sold at the store
- Authorizes provisions in agreements to enhance customer convenience and experience
- Authorizes provisions in agreements to promote and carry a selection of Oregon distillery products



Grocers/Off-Premises Licensees

- Allows grocers (approx. 650) with distilled spirits endorsement to set prices
 - No discounting below the OLCC established minimum retail price
- Allows OLCC to sell distilled spirits to grocers at state wholesale price – requires cash payment at delivery
- Revenue for grocers will be the difference between the state wholesale price of the distilled spirits and the retail price sold at the store
- OLCC can set minimum order requirements and requires purchases of 750 mL bottles or greater (fifths)
- Allows OLCC the flexibility to use multiple or existing distribution channels to support efficient operations



Endorsement Requirements

- Off-premises licensee must be 10,000 sq. ft. or greater (approx. 650 eligible stores)
- Application conforms with Commission rules, not subject to pending violation, and applicant must submit plans describing:
 - Public Safety Plan: How product will be secured, theft loss will be prevented, and how sales to minors will be prevented
 - Oregon Products Plan: How Oregon distillery products will be promoted and how the licensee will maintain shelf space previously devoted to the sale of wine, cider, and malt beverages produced in Oregon
- OLCC can suspend or cancel the endorsement for any violation that would be grounds for license suspension
- Must pay a distilled liquor endorsement fee
 - Applied towards transition costs, capital investment, and on-going operating costs

Restaurants/Bars Full-On Premises

- Must purchase distilled spirits from a retail sales agent or other full on-premises licensee who has purchased from a retail sales agent
- Maintains 5% discount off the minimum retail price
- (Amendment) Provides flexibility for licensees to purchase from other sources if the licensee is not able to purchase distilled spirits from a liquor store (with Commission approval)



Implementation Timeline

- **Effective on passage**
- **January 1, 2015**
 - Commission to begin issuing endorsements to grocers
- **March 1, 2015**
 - Endorsement holder may begin selling distilled spirits to the public
 - Retail sales agents must have a renegotiated agreement in order to sell distilled spirits
 - All agent agreements not renegotiated will be terminated
- **September 1, 2015**
 - OLCC report to the Legislative Assembly

Report to Legislature

- OLCC will report to the Seventy-eight Legislative Assembly by September 1, 2015 including:
 - Number of endorsements
 - Brief description of the rules to implement
 - Data regarding ability of liquor stores to compete with off-premises sales licensees
 - Data regarding sales and prices
 - Description of revenue impact and expenses
 - Impact on public safety
 - Impact on Oregon distilleries
 - Estimate of budget needs regarding administration, enforcement, distribution, revenue collection costs, and nonrecurring capital investment needs

Concerns

- Level of competition – retailers next to grocery stores; loss of income
- Lost value of investment
- Sustainability for rural agent outlets
- Potential for higher prices and fewer product choices
- Maintaining the momentum for craft distillers



Balancing Choices

- Customer access, convenience and pricing
- Introducing market dynamics into the system
- Retention of wide selection, craft products and statewide distribution
- Considerations for agent investment