

Presentation to the
Joint Committee on Ways and Means
Subcommittee on Transportation and Economic Development
State of Oregon

March 18, 2019

Chairs Rep. Gomberg – Sen. Manning, committee members; My name is Saleem Noorani - a liquor agent with stores in Albany, Corvallis and Springfield and serving as the President of Associated Liquor Stores of Oregon (ALSO). We appreciate the opportunity of appearing before the committee and be able to voice our concerns regarding liquor compensation to operate our stores.

Liquor store compensation is set by the legislature as a commission on each dollar of sales. From this very low percentage **liquor store owners are responsible for all expenses** including rent, labor, liability insurance, mandated employee benefits, maintenance and upgrades, OLCC requirements and many other expenses of running a small business. Profit, if any, is whatever is left over after expenses. We have no guaranteed compensation level in our contracts with the OLCC.

FACT: In the last 16 years the legislatively mandated commission has risen .05% from 8.88% to 8.93%.

FACT: Minimum wage in 2003 was \$6.90 an hour; today \$11.00 - \$12.50 an hour, up 60% - 80%.

FACT: Consumer Price Index has increased 37% between 2003 and 2018.

FACT: OLCC has approved 36 new liquor stores with more expected. This expansion is impacting existing stores.

FACT: Store expansion generated \$48 million in additional sales but \$0 set aside to help liquor stores.

FACT: Net revenue to the state has increased on average by 10.59% each biennium since 2003.

The liquor agents are not state employees nor do they receive any of the benefits state employees do, like health insurance, PERS, vacations, etc.

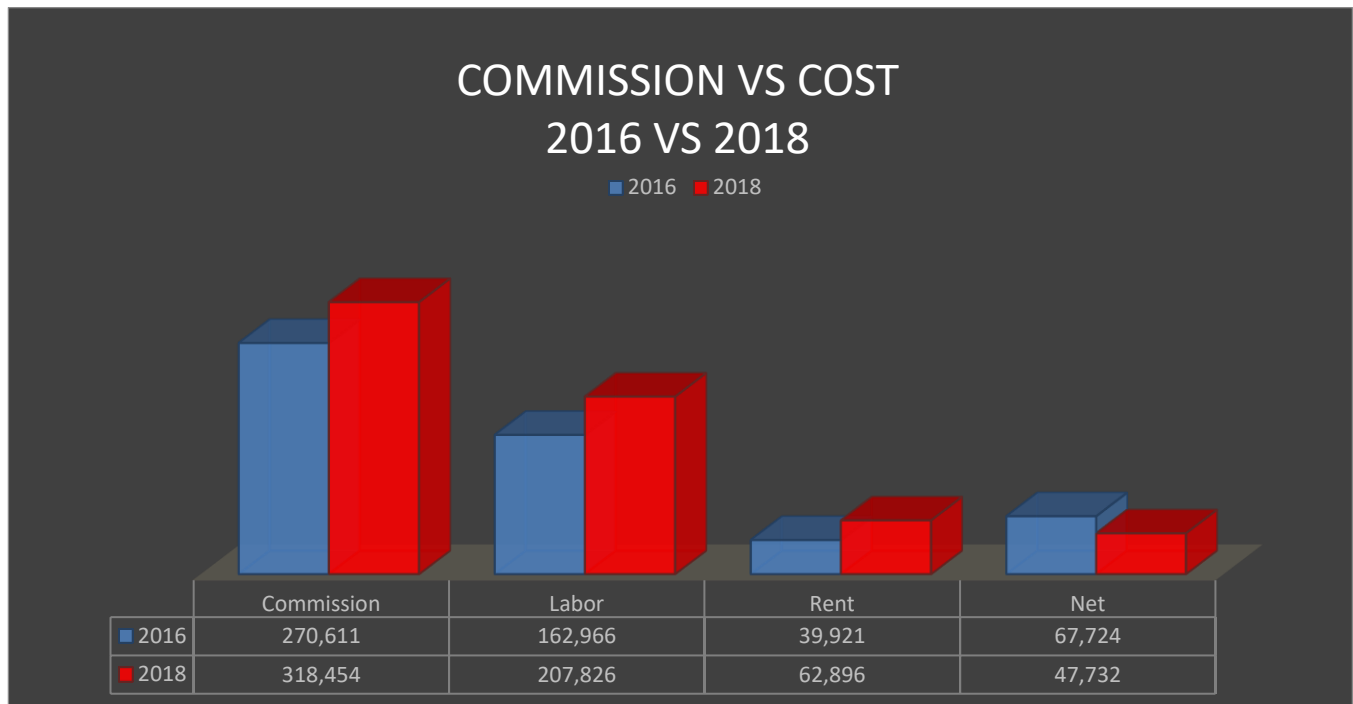
The amount of responsibility placed on our employees, requires that we pay much higher than minimum wage. Our employees deal with the customers on a daily basis ensuring we are consumer/customer friendly while at the same time making sure we are making a legal sale and are not selling to minors or the intoxicated.

We understand customer sentiment and their desire for convenience, nicer locations, modern stores and longer hours. Most liquor stores are now open 7 days a week from 10am till 9pm. The challenge and dilemma for most agents in moving to better locations, longer hours and remodeling to new modern and inviting interiors is revenue.

It is interesting to note that when OLCC is asked about agent comp increase, the answer is that we are making more money now than before because of increased sales. The assumption is that if we made \$1000 in 2003 with \$ 700 labor cost, today we are making \$1500, we are making \$500 more in revenue. What is not taken into account is that it is impossible to generate \$1500 of retail sales with the same labor as when generating \$1000 of sales, just as it is impossible for the OLCC warehouse employees to move 1500 cases with the same labor cost required to move 1000 cases.

What is also not mentioned is that in order to efficiently handle additional sales, we need larger space, additional labor, more utilities, insurance and a myriad of costs that all escalate with increase sales. The question is whether just the increased commission on sales is enough to cover the increased cost?

The graph below illustrates my Corvallis store in a smaller location 2016 sales vs newer larger location 2018 sales. The commission for 2018 went up 17.68%, as did labor by 27.53% and rent by 57.55% resulting in net revenue drop of **29.52%**. **My Sales increased by \$620,000 creating additional revenue to the General Fund by \$229,000.** The chart highlights major expenses only and does not include utilities, insurance, employee benefits and all other expenses.



It would be a moot point to mention that the move cost over half a million dollars with \$0 help from the state. How long would it take to recover my investment and what would be the incentive for other stores to making the move? We have seen OLCC budgets in the past requesting more FTE's to move additional liquor cases and improvement to the warehouse and investment in efficiency and IT systems, and I have personally testified in support. Why is it then we do not see the need or support to make the same investment in the retail stores which generate \$1.5+ billion dollars sales out of our stores?

It may also be argued that we have additional revenue from related items including for some beer and wine. Beer & Wine accounts for less than 10% of my revenue and with those items, I have the flexibility to raise prices to cover increased costs but the product that generates 90% of my revenue (liquor), **I DO NOT. Should the revenue from non-liquor items subsidize state liquor sales?**

It is also interesting to note that Distillery Tasting rooms sell their products directly to the consumers and are compensated at a 22% rate, while the liquor agents selling the same product get a commission rate of 8.93%. We have a great relationship with local distillers and support local Oregon businesses and do not begrudge them receiving the higher rate. We would just like to be treated fairly and equitably.

The commission and the liquor agents have a symbiotic relationship and it is in both their interest to ensure a good working relationship. Unfortunately, since the legislature sets the compensation rate, in the past, the agents have not been seen as valuable business partners worth investing in. We understand the economic downturn of the last few years and the need of the state for more revenue. Sadly, the policies of not investing in the infrastructure of the retail side of liquor sales, is evident in the condition of the majority of liquor stores.

The commission and the legislature need to recognize the fact that we need to modernize the system and make it more equitable for all – the small business liquor store owners and the people they employ, while maintaining the revenue stream for the state.

I would like to end my presentation by emphasizing the fact that we support the state monopoly system. In order to be a viable business model for the future, both for the State and the small businesses that we are, changes both in the compensation model and modernization of antiquated process are long overdue.

Thank you again, for the opportunity of being able to present a liquor agent's perspective of Retailing Distilled Spirits in Oregon.

Saleem Noorani

President



Increase Agent Compensation

From 8.93% to 10.5%



As we begin modernizing liquor retailing in Oregon, **liquor stores need more money to operate NOW!**

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FACT: Since 2003 the legislatively mandated commission has risen .05% from 8.88% to 8.93%.

FACT: The minimum wage in 2003 was \$6.90 an hour; today \$11.00 - \$12.50 an hour, up 60% - 80%.

FACT: The Consumer Price Index has increased 37% between 2003 and 2018.

FACT: The OLCC has approved 36 new liquor stores with more expected. This expansion is hurting existing stores.

FACT: Store expansion generated \$48 million in additional sales but \$0 set aside to help liquor stores.

FACT: The legislature has mandated increased wages, paid medical leave and other employee benefits but has not increased compensation for liquor stores to cover these additional costs.

FACT: Many liquor stores are at a point of failure. We need the 2019 legislature to act NOW!

In 2018 the OLCC recommended a policy option package to increase liquor store compensation but the POP was not included in the Governor's 2019-21 budget. This is inconsistent with previous studies, OLCC Commission recommendations and industry standards for fair compensation to remain a viable \$1.5 billion sales entity.

SOLUTION: Increase the commission from 8.93% to 10.50%

This investment in liquor stores will ensure we remain viable and continue to safely and efficiently do the important job of selling distilled spirits to the public. With this increased investment we will be able to better retain valuable employees, increase pay and health benefits, and reinvest in capital improvements to continue to help drive sales and more net revenue for the state. Liquor sales are the third highest income stream to the state after property tax and income tax.

Don't risk our collective futures, invest in Oregon's liquor system NOW!

For further information contact:

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