



NEWSLETTER

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The Perils of Price Wars!

Did you see the pictures of drunk women face-down in the snow after celebrating New Year's Eve in the United Kingdom? They were shocking, but just one of the UK's current alcohol problems. Others include high rates of liver cirrhosis and acute intoxication of children as young as 8! Cheap alcohol prices are widely blamed for this epidemic. The reason is that lower prices increase consumption, which usually results in increased problems. A recent UK House of Commons report concluded that "Alcohol related-ill health has increased as alcohol consumption has increased..." At the moment, the four largest UK supermarkets are engaged in a price war.

How Cheap is Cheap?

According to the House of Commons report, you can buy alcohol as cheap as 10 pence (\$.16) per "unit." A unit is the UK's measure for calculating safe levels of consumption. For example, at 10 pence a unit, a 4% bottle of beer (1.3 units) would cost about \$.20 and a small glass of wine (1.5 units) \$.24. Such low prices usually require quantity purchase in a supermarket at "loss leader" prices.

Price Wars Harm Businesses

Price wars tend to favor large businesses that can offer discounts and make it up in volume. Smaller business will be hurt because they lack the capability to buy in volume or make up the difference with non-alcohol products. In the UK, price wars have contributed to the closure of many pubs. Businesses may be tempted to violate laws because they are desperate to survive. The US's marketplace regulations are designed to maintain an orderly market with balanced prices so there is little temptation to cheat or engage in price wars.

US Price Policies Help Prevent Price Wars

Many states have a "uniform price" law. This means that all wholesalers have to offer the same price to all retailers. Since no retailer gets a special deal, the opportunity for price wars is lessened. Stores may still decide to use "loss leaders" to bring customers in the door. Many states curb that practice with a prohibition against "selling below cost." Other valuable tools are bans on volume discounts and minimum mark-ups.

Price "Post and Hold" is a Cost-effective Enforcement Tool

This is an ingenious tool to enforce uniform pricing. It requires a wholesaler to set prices without change for a particular time period, often 30 days. Without such a provision, uniform pricing requirements could be ineffective. For example, a wholesaler could set a price, sell to one retailer; then, change the price two hours later and sell to another retailer at that price. This is exactly what happened in New York during the 1940's. Prices sometimes changed several times a day. The endemic price wars were finally quelled by adoption of a price posting regulation. Since prices have to be "held", a wholesaler can't lower prices based on what a competitor does. And, since the prices are published, a regulator has a tool to check uniform price compliance.

This is a publication of Public Action Management. For more information, contact Pamela S. Erickson at pam@pamaction.com or visit the campaign website:

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