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Private Label Drops Vodka Price to $.20 per Drink

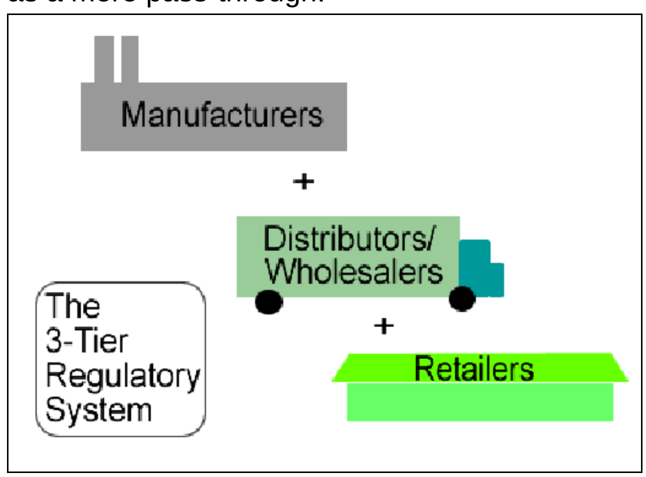
Cheap alcohol has always been the subject of regulation because it attracts vulnerable populations such as kids and abusive drinkers. Until recently, you rarely saw private "store" labels on the alcohol shelves. But, that is changing. Recently, a coupon for $7.99 was offered for a 1.75 ml bottle of Albertson's Vodka. Since a bottle that size contains 39.4 shots, that equals about $.20 per drink. (0ne shot is 1.5 ounces.)

Price is one of the most powerful tools available to reduce social problems with alcohol. Consider this evidence: a team of researchers from the University of Florida reviewed over 100 separate studies that had over 1000 statistical estimates of price versus consumption. The showing was very consistent, demonstrating that higher prices are related to lower rates of drinking. It should be noted that price balancing is accomplished by a series of comprehensive measures, not just taxes.

Private labels are definitely cheaper. According to a USDA study, private brands are priced an average of 23% lower than national brands and are put on sale more often. During the recession private labels became a larger part of the market as consumers searched for ways to reduce food costs. And large chains upgraded the quality of the "store brands" and began to directly compete with the leading national brands. As a result, private labels are no longer a small part of customers' purchases. According to the Private Label Manufacturers Association, "store brands' share of America's shopping carts are at record highs. In grocery stores, private label brands' unit and dollar shares rose to 23.4% and 19.4% respectively."

Aside from dramatic price reductions, it is hard to see how private labels meet legal requirements which prohibit exclusive arrangements between suppliers and retailers. These store labels are almost always exclusive to a particular retail chain. Most states and the Federal Alcohol Administration Act (FAA) prohibit such exclusive arrangements. All products on the market are supposed to be available to any retailer and, for some states, at the same price.

To create a private label as a regular store product, the retailer must work with a supplier to specify the product, i.e. beer, wine, vodka, or a series of products. The retailer must also agree to a label design and a price. Federal law prohibits such an arrangement on a continuous basis because it is an exclusive arrangement. A one-time buy with no continuing obligation may be legal, but a store label available month after month would not likely meet federal requirements. Most states require all products to be sold by a licensed distributor who typically offers all products to all retailers. Private labels skirt this system or use distributors as a mere pass-through.



Private brands may have an unfair advantage against their small, local competitors. Small liquor and grocery stores do not have the financial ability to invest in a "store brand" and, thus, can be undercut on price. Because the 21st Amendment gave each state the responsibility to regulate alcohol, each state market has its own regulations. National private labels should not

For more information, see www.healthyalcoholmarket.com Contact Pam Erickson at pam@pamaction.com

Public Action Management P.O. Box 4364 Scottsdale, AZ 85261 (503) 936-0443 pam@pamaction.com

be used to override state regulations.

It is also hard to see how private labels are good for the supplier. The manufacturer of a national brand develops the product, pays for the advertising and promotion and then gets undercut by a private label that is very similar and sits next to it on a shelf. Furthermore, the three-tiered system was designed so that distributors work with retailers to develop national brands, not store labels. In many ways, private labels threaten to undermine our three-tiered regulatory system.

A healthy alcohol industry with a fair and even playing field is important. Not only does it reduce the incentive to cheat, it reduces the kind of market domination that can lead to business practices which induce consumption through deep discounts and aggressive marketing. The U.S. Supreme Court has noted that regulation which promotes an "orderly market" is important.

When Prohibition ended, the task of regulating alcohol was turned over to the states, with the idea that communities should have some say in regulations. The profit motives of a few national chain stores may overrule what communities feel is appropriate and may be at odds with the need to foster moderation. Profits may be global, but problems occur at the local level.

Sources:

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2. "The Relationship Between National Brand and Private Label Food Products, Prices, Promotions, Recessions, and Recoveries," Richard Volpe, United States Department of Agriculture, Economic Research Service, Economic Research Report Number 129, December 2011.
3. mediapost.com for Private label manufacturers Association information.

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