

STONEBRIDGE

WINE INDUSTRY MARKET SOLUTIONS

Economic Impact of Allowing Wine Sales in Food Stores in Connecticut

Prepared for the Connecticut Food Association

January 2012

A STONEBRIDGE RESEARCH REPORT

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Executive Summary

Allowing Connecticut's food stores to sell wine will create **1,018 new jobs in the state and generate more than \$23.9 million in state revenues in the first year and more than \$21.9 million in annual revenues in subsequent years.**

Connecticut is one of only 17 states in the U.S. which still prohibit or severely limit, the sale of wine in food stores.

Although the objective of these laws and regulations was to constrain and monitor the availability of alcoholic beverages so as to discourage alcohol consumption, they have had several unintended and unfortunate consequences:

- Reduced consumer choice and convenience, requiring consumers to search out a limited number of specialized stores and make additional shopping trips to buy wine;
- Created alcohol-retailing monopolies, with limited business opportunities and artificially constrained business strategies dependent on state protection;
- Deprived the state of significant revenues from additional license fees, from sales taxes on potential incremental wine sales, and revenue generated by increased employment and business profitability, as summarized in Table 3 below and discussed in Chapter V below;
- Reduced employment opportunities that would have been generated in food stores and related businesses had food stores been able to include wine in their offerings, as summarized in Table 4 below and discussed in Chapter IV below;
- Reduced sales and profitability of food retailers, for whom wines sales may directly increase total revenue by 2.5% to 12.5%, as shown in Table 8, and indirectly drive significant increases in total food spending¹, discussed on pages 16-17 below;
- By separating the sale of wine from the sale of other foods, healthier consumption of wine with meals is discouraged in favor of consumption of wine merely for its alcoholic components.

Continuing anxiety about allowing wine sales in Connecticut's food stores has focused on the potential loss of jobs and livelihoods among Connecticut's 1226 existing package stores, all of which, it has been argued by the Connecticut Package Stores Association, are likely to go out of business should the wine market be opened to new competitors.

In reality, a vast number of package stores successfully compete across the U.S. in the several states which have opened their wine markets, as shown in Table 5 below.

As a specific example of such successful co-existence, a 2010 study by legal firm Venable LLP, found that all of the 54 package stores operating in Washington D.C. prior to food stores there

¹ According to Nielsen Scantrack information presented at the 2011 Unified Wine and Grape Symposium, the average shopping basket ring for non-wine buyers was \$41 for the 52 weeks ending Nov. 27, 2010, vs. \$73 for shoppers who bought wine (\$14 of which was attributable to wine).” Thus, allowing sales in food stores would grow not only Connecticut's wine market but also Connecticut's market for food products and related products and services.

obtaining licenses to sell wine and beer in 2004 were still in operation 6 years later, including the 47 stores located in close proximity to such food stores. As in most industries, the success of these businesses depends on the quality of their management and their business strategy instead of monopoly protection.

Some package stores are likely to find that *increased consumer awareness of wine, generated by the presence of wine in food stores, actually helps grow their business*, leading consumers to search for retailers offering wider selection, expert customer service, consumer education and special events and tastings. These services also tend to stimulate sales of more expensive wines, which tend to bring higher margins, which is one of the reasons why the share of wine market sales dollars of successful package stores across the country tends to exceed their share of wine market case volume.

The analysis which follows demonstrates that rather than cost jobs to the Connecticut economy, **this opening of the wine market will in fact increase employment, by a total of approximately 1,018 jobs**, even after allowing for 51 package store jobs that may be at risk or may shift among retail channels, including an estimated 6 to 7 “mom and pop” package stores which may encounter difficulty, as explained below and in Chapters II and III. Note the phrase is *at risk*: the vulnerability of these positions will depend upon package store business strategies, the mitigations proposed in Chapter III and how the market actually evolves in Connecticut.

Given the particular characteristics of the wine consumer, the final impact on employment and package store competition is likely to be focused in a limited number of Connecticut communities, as noted in Chapter II.

Opening the market will also increase state government revenues in Connecticut by nearly \$23.9 million in the first year and by \$21.9 million annual in subsequent years.

Allowing food stores in Connecticut to sell wine will produce a total economic impact of more than \$189 million, as shown in Table 4 below, reflecting the growth in tax revenues, wine sales and wages generated by the expanded wine market.

Expansion of the Connecticut Wine Market

Allowing food stores in Connecticut to sell wine will increase their total sales by about 4%, or \$177,268,182, representing 28.1% of Connecticut’s wine sales today. Assuming one third of these sales would be shifted from package stores, **total wine sales in Connecticut would increase by 18.7%, or 2,560,540 gallons, valued at \$118,178,788.**

Wine consumption in Connecticut has been too closely associated with just alcohol consumption. Allowing wine sales in food stores will facilitate wine reverting to its natural, and healthier, role, as a part of the meal experience and as a food itself.

Impact on Connecticut Wineries

Connecticut food stores are committed to increasing the offerings of Connecticut wines in their stores, should they be allowed to sell wine. If Connecticut wine came to represent as much as 1% of total projected food store wine sales, or 10,805 gallons, this would represent a **27.6% increase**

in sales by local wineries, generating 51 new jobs in wine and vineyards, not counting the potential impact on wine tourism and winery suppliers.

Impact on Connecticut Package Stores

Wine sales tend to be concentrated in a relatively small segment of the population and a small share of retail outlets, even in the most open market, as discussed in Chapter II.

Introducing wine sales into food stores in Connecticut will not have equal impact on all regions of the state, or on all retailers. The demographic characteristics of the wine consumer are quite specific, as summarized in Chapter II. Chapter II also identifies the communities in Connecticut with significant population fitting this demographic.

As shown in Table 6, only 33 towns out of Connecticut’s 169 towns have sufficient population fitting the wine consumer demographic to attract significant food store activity in wine.

In other regions, sales of liquor and beer are likely to dominate package store sales. Food stores in these communities also would be less likely to seek wine sale licenses or to offer very limited inventory if they secured licenses.

Thus, allowing wine in Connecticut’s food stores would have a small impact on most existing package stores in the state. **Based on market demographics, approximately 216 of Connecticut’s package stores are likely to be impacted by allowing food stores to sell wine,** as explained in Table 11.

Table 1: Increased Wine Sales from Allowing Wines Sales in Food Stores

	Gallons	Value at 4% Increase in Food Store Sales	%
2010 Wine Sales	13,681,574		
Projected Food Store Wine Sales	3,840,811	177,682,176	28% of total wine sales
Sales Shifted from Package Stores	1,280,270	59,227,392	9.4% of total package wine store sales
Net Increase in Total Wine Sales	2,560,540	118,454,784	18.7%

Source: Stonebridge Research Group, Industry data, US Census and Connecticut state data

Measuring the impact of these wine sale shifts on Connecticut's package stores is a multi-step process:

- As explained in Chapters II and III and shown in Table 1 above, about one third of the wine sales case volume that would occur in Connecticut's food stores, or 9.4% of the new state total for wine sales, would be shifted from Connecticut's package stores. These sales would be concentrated in these "wine demographic" communities;
- Such a shift implies a decline of 15.6% in wine sale case volume and perhaps 12% in wine sales dollar revenue in package stores in these communities. Package store profitability may decline by a far smaller percentage, as a result of shifts in the overall package store product mix toward higher margin products and the introduction of new product lines and because their spirit sales would not be affected;
- Wine seldom represents more than 60% of package store sales. Thus, a 12% decline wine sales would translate into an approximate 7.2% loss in total package store sales in the affected communities;
- U.S. Economic Census data (along with U.S. Bureau of Labor Statistics (BLS) data) suggest that about 42% of Connecticut's package stores would be considered "mom and pop" stores, basically owner-operated, without full-time employees, as defined by these statistics (and explained in Chapter II.) The remaining package stores employ an average of 4.2 persons per store;
- Lacking alternative data, we assume that a similar share of the 216 stores impacted by wine sales in food stores would be "mom and pop" stores, equal to approximately 91 stores;
- Thus, a 7.2 loss in total sales in impacted package stores would translate into 38 full time equivalent jobs at risk and also put at risk approximately 6 "mom and pop" package stores. Assuming those 6 to 7 stores have 2 owner-operators, another 13 jobs would be put at risk, for **a total of 51 jobs at risk among package stores as a result of food stores being allowed to sell wine, as shown in Table 12 below.**

These risks can be offset by the mitigations described below, to improve store operating prospects and to increase the asset values of these stores.

Employment Implications

As discussed in Chapters II through IV, the expected expansion in overall wine sales would have a significant impact on employment in a variety of businesses, including food stores, wine wholesalers, wine producers, and a variety of related businesses, suppliers and service businesses.

To project the actual employment impact of this expansion in the wine market, we applied the IMPLAN model, the standard model for economic impact analysis as described in Chapter VI. Table 2 below summarizes these findings.

Table 2: Employment Created By Allowing Wine Sales in Food Stores

SECTOR	JOBS CREATED	WAGES
DIRECT IMPACT (INCLUDING FOOD AND BEVERAGE RETAILERS, WINERIES, WHOLESALERS)	665	\$27,431,284
INDIRECT EMPLOYMENT CREATION	135	\$8,905,103
INDUCED EMPLOYMENT CREATION	218	\$11,148,714
TOTAL JOBS CREATED	1,018	\$47,485,101

Source: Stonebridge Research Group LLC and IMPLAN

Thus, the IMPLAN model finds that the projected growth in wine sales in Connecticut resulting from allowing wine sales in food stores will generate **1,018** new jobs, which in turn will generate **\$47.5 million** in new wages in Connecticut, not including the ancillary jobs likely to be created in various supplier and related industries.

Impact on Connecticut State Government Revenues

While creating new employment, allowing wine sales in Connecticut's food stores will also add more than \$23.9 million to state government revenues in the first year and \$21.9 million annually in subsequent years, as summarized in Table 3 below.

Table 3: Government Revenue Impact of Allowing Wine Sales in Food Stores

Revenue Type - State Level	First Year	Recurring Revenue in Subsequent Years
License Issuance Fees	\$2,448,884	
License Renewal Fees		\$460,500
Excise Tax	\$1,843,589	\$1,843,589
Sales and Use Taxes	\$7,504,353	\$7,504,353
Other Indirect Business Taxes (IMPLAN)	\$11,820,675	\$11,820,675
Household Taxes (IMPLAN)	\$69,649	\$69,649
Corporate Taxes (IMPLAN)	\$238,920	\$238,920
Total State Tax Impact	\$23,926,070	\$21,937,686

Source: Stonebridge Research, Connecticut state data and IMPLAN

This analysis likely underestimates the full impact of the potential market growth as it excludes revenues which may be realized from auction resales of existing licenses or, alternatively, fees generated by multiple licenses, which are among the market mitigations proposed the food industry and explained in Chapters III and V. This revenue analysis also likely underestimates the tax implications of the “basket effect” of wine sales, as described in footnote 1.

Summary of Economic Impact

These several components of the economic impact of opening the wine market, totaling \$197.2 million are summarized in Table 4, below.

Table 4: Summary First Year Economic Impact of Allowing Wine Sales in Food Stores in Connecticut

Growth in Wine Sales, including increased sales of Connecticut wines	\$ 118,178,788
Growth in Total Wages	\$ 47,485,101
State Tax Collections from increased wine sales	\$ 23,926,070
Total Economic Impact	\$ 189,589,959
Subsequent Years Increased Tax Collection	\$ 21,937,686
Net New Jobs Created	1,018

Source: Stonebridge Research Group LLC and IMPLAN

I. Overview of Package Stores and Wine in Food Stores

Table 5 below tracks the evolution of store counts over the past decade for food and package stores in a cross section of states where beverage alcohol can be sold in food stores.

*This table demonstrates that **package stores continue to operate successfully in states where wine is sold in food stores, and, in many cases, their numbers increase, even as the number of food stores selling wine expand.** These findings negate the concerns that have been raised by package stores that allowing food stores to sell wine will severely damage the business of existing package stores, causing many to go out of business.*

Table 5: Food and Package Store Counts

	Arizona		D.C.		Florida	
	Food	Package	Food	Package	Food	Package
2005	1093	144	283	171	5,833	1,084
2006	1129	155	276	165	5,780	1,197
2007	1141	161	300	170	5,860	1,244
2008	1151	165	318	170	6,018	1,283
2009	1163	171	321	167	6,044	1,289
	Illinois		Iowa		Missouri	
	Food	Package	Food	Package	Food	Package
2005	3,548	1120	654	108	1,235	390
2006	3,569	1172	663	115	1,217	379
2007	3,555	1203	654	111	1,219	377
2008	3,559	1226	640	107	1,227	384
2009	3,593	1267	641	114	1,244	372
	Nebraska		Texas		Vermont	
	Food	Package	Food	Package	Food	Package
2005	160	477	5,592	1,225	322	44
2006	159	470	5,485	1,205	316	44
2007	156	461	5,573	1,302	303	45
2008	147	459	5,608	1,259	310	43
2009	137	463	5,641	1,285	305	38

Source: Stonebridge Research Group LLC, U.S. Bureau of Labor Statistics and U.S. Census Bureau, Economic Census

A recent survey found that package stores represent up to one third of the retail wine market in Florida, although only 8% to 10% of the total store count for off-premise retail outlets. Since wine is just one of the many product categories for food stores, they typically stock a smaller number of products, at more modest price points, and are unable to offer specialized customer service for wine purchases. Wine consumers, particularly more involved wine consumers, therefore tend to seek out more specialized outlets, with specialized customer service, for their more expensive wine purchases. Thus, the dollar share of package store wine sales dollars tends to exceed their share of wine sales case volume.

To moderate negative impacts that may arise as the market adjusts to wine sales in food stores, several mitigations have been proposed by the food retailing industry, as described in Chapter III below.

II. The Regional Impact of Market Expansion: Where are the Wine Buyers?

Introducing wine sales into food stores in Connecticut will not have equal impact on all regions of the state, or on all retailers. Wine sales tend to be concentrated in a relatively small share of retail outlets, even in the most open market. In other regions, sales of liquor and beer are likely to dominate package store sales. Food stores in these communities also would be less likely to seek wine sale licenses or to offer very limited inventory if they secured licenses. Thus, allowing wine in Connecticut's food stores would have a negligible impact on existing package stores in much of the state.

The size of the US wine market is often over-estimated. In fact, consumers who buy wine as often as once a week represent only about 14% of the US adult population. Moreover, it is a highly concentrated market: 26% of US wine consumers account for fully 67% of all US wine sales. Extensive research² has defined the demographics of the frequent wine consumer, whose key characteristics are:

- Households having incomes of \$75,000 per year or more
- Having at least an undergraduate college degree
- Predominantly having professional, managerial and related professions

To identify those regions in which retailers are most likely to be affected by wine sales, we reviewed the demographics of each Connecticut town, as shown in Table 5, using U.S. Census data.

Examining each town in the state, we identified 33 towns, out of Connecticut's 169 towns, with sufficient population in this "wine demographic" to attract significant food store activity in this category. Overall, only about 39% of the households within the identified towns, and 18% of all households within Connecticut, fit the wine buyer demographic. Although both Hartford and Stamford are included in this list, only some communities within these towns are significant wine markets.

In Connecticut's other 136 towns, demand for wine is likely to be limited. Food stores in these towns would be less interested in securing wine sale licenses or would offer highly limited inventory should they obtain such licenses. Wine is also likely to represent a relatively modest share of sales, relative to spirits and beer, of existing package stores in non-wine-demographic communities.

² For example, "Understanding and Enhancing the Market for California Wine in the U.S.", conducted by Yankelovich Partners for Wine Institute, California, 2005. "Understanding Wine Demographics in a Down Market". Wine Business Monthly, February 15, 2009.

Generally, wine represents between 10% and 60% of a package store's total sales, depending upon the demographics of the store's market and the store's business strategy.

Table 6: Wine Demographics of Connecticut Towns: Towns Most Likely to Consume Wine

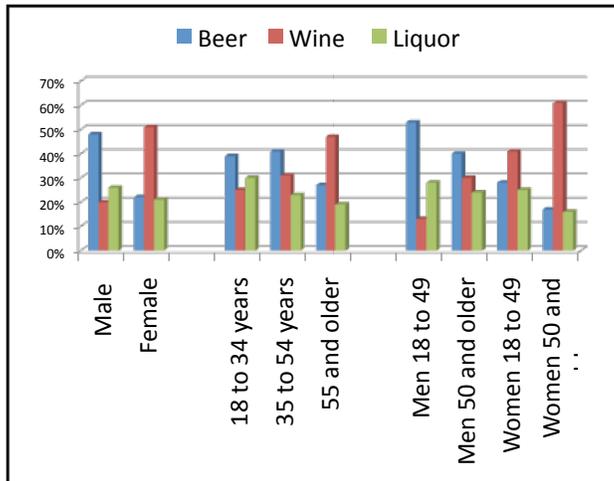
County	Households with Income > \$75,000	Total Households in Town	Wine Buying Demographic as % Total Households	Population with least College Degree	Professional, Managerial or Similar Occupations
Stamford	23,418	46,190	50.7%	36,225	16,292
Greenwich	13,511	22,941	58.9%	26,151	12,177
Bridgeport	11,930	50,695	23.5%	12,743	6,494
Norwalk	11,896	33,057	36%	22,204	12,258
Fairfield	10,425	18,631	56%	20,517	9,067
Hamden	9,990	23,000	43.4%	16,024	12,368
W. Hartford	9,334	23,387	39.9%	24,171	9,176
Manchester	8,941	23,779	37.6%	12,728	8,281
Stratford	8,067	18,937	42.6%	8,781	4,547
Danbury	7,907	29,160	27.1%	16,600	7,713
Milford	7,702	22,837	33.7%	15,010	8,267
Bristol	7,211	25,077	28.8%	8,381	16,604
Hartford	7,047	45,761	15.4%	9,876	11,401
New Haven	6,551	22,387	29.3%	23,430	10,263
Westport	6,353	9,499	66.9%	12,962	5,871
Glastonbury	6,320	12,229	51.7%	12,473	6,194
Groton	5,957	16,232	36.7%	8,158	6,879
Trumbull	5,883	11,573	50.8%	11,416	6,538
Southington	5,849	16,060	36.4%	10,132	5,084
Shelton	5,780	14,895	38.8%	9,154	7,473
Wallingford	5,493	17,287	31.8%	10,710	6,491
Ridgefield	5,271	8,256	63.8%	10,441	4,731
Darien	5,061	6,556	77.2%	8,938	3,358

County	Households with Income > \$75,000	Total Households in Town	Wine Buying Demographic as % Total Households	Population with least College Degree	Professional, Managerial or Similar Occupations
Cheshire	5,044	9,186	54.9%	9,693	12,460
New Canaan	4,787	6,838	70%	9,387	4,870
Simsbury	4,717	8,538	55.3%	4,140	9,946
Middletown	4,692	10,060	46.6%	10,455	5,893
Newtown	4,692	8,636	54.3%	8,752	8,164
Meriden	4,665	23,107	20.2%	7,901	6,104
New Milford	4,304	11,992	35.9%	7,356	5,222
Farmington	3,935	10,153	38.8%	10,519	4,115
Branford	3,874	5,262	73.6%	9,267	7,287
Avon	3,545	6,542	54.2%	7,302	4,693
Total	240,152	618,740	38.8%		
State Households	18.09%	1,327,482			

Source: Stonebridge Research Group LLC, U.S. Census

We assume that licensing requirements for food stores to carry wine would be comparable to those in place for food stores to carry beer. These 33 towns currently are home to 539 food stores with beer licenses, as shown in Table 7. However, wine consumers tend to be older (45 and older, and particularly 55 and older) than beer consumers and are more likely to be female, as shown in Chart 1 below, drawn from Gallup's annual survey of alcoholic beverage preferences. Thus, not all groceries with beer licenses are likely to be interested in wine sale licenses or to develop significant wine sale businesses.

Chart 1: Beverage Alcohol Consumers



Source: Gallup.com

Based on the demographic characteristics of these communities, Stonebridge estimates, in Table 7 below, that 207 food stores in Connecticut might seek to sell wine, representing about 23% of all food stores in Connecticut licensed to sell beer and 7.5% of Connecticut’s total food stores³. However, based upon the makeup of Connecticut’s food industry, where chain stores seek to provide consistent advertising across all their stores in a state, 300 stores are expected to apply for wine sale licenses.

Table 7: Licensing Patterns

Town	Food Beer Licenses	Package Store Licenses	Estimated Food Wine Licenses
Stamford	77	29	39
Greenwich	8	19	8
Bridgeport	123	34	29
Norwalk	37	28	13
Fairfield	8	16	8
Hamden	11	21	5
W. Hartford	10	18	4
Manchester	9	23	3
Stratford	11	17	5
Danbury	15	24	4
Milford	9	20	3

³ According to US Census and Bureau of Labor Statistics (BLS) data.

Town	Food Beer Licenses	Package Store Licenses	Estimated Food Wine Licenses
Bristol	11	19	3
Hartford	104	47	16
New Haven	20	46	6
Westport	5	12	5
Glastonbury	4	12	4
Groton	4	13	1
Trumbull	4	4	4
Southington	6	15	2
Shelton	8	16	3
Wallingford	4	13	1
Ridgefield	2	10	2
Darien	6	8	6
Cheshire	4	10	4
New Canaan	1	6	5
Simsbury	5	6	5
Middletown	8	14	4
Newtown	3	10	3
Meriden	8	23	2
New Milford	6	11	2
Farmington	1	0	1
Branford	5	11	4
Avon	2	4	2
Totals	539	559	207
State Total	900	1,226	

Source: State of Connecticut Liquor Authority

Interviews with a cross section of food chains across the US that sell wine indicate that wine sales represent between 2% and 12.5% of total store sales, with higher percentages in the Northeast and the West Coast. It would be reasonable to assume that introducing wine in Connecticut's food stores, particularly given the state's attractive demographics, would increase total store sales by at least 4%.

Wine's value to the food industry extends beyond the sale of wine itself. The wine consumer is a very attractive consumer segment, as noted above. There is substantial data over several years documenting what The Nielsen Company calls the "basket effect" of wine sales in grocery. For example, according to Nielsen Scantrack information⁴, for the 52 weeks through November 2011, the average shopping basket ring for non-wine buyers was \$41, compared with \$73 for shoppers who bought wine (\$14 of which was attributable to wine). Thus, allowing sales in food stores would grow not only Connecticut's wine market but also Connecticut's market for food products and related products and services.

Table 8: Forecast Wine Sales by Food Store Wine Licensees

	Assuming wine adds 4% to total store sales
Projected Average Wine Sales per Food Store Licensee	\$858,368 equivalent to 18,556 gallons
Projected Number of Food Store Wine Licensees	207
Projected Total Wine Sales Volume by Food Stores	3,840,811 gallons
Total Wine Sales Connecticut, 2010	13,681,574 gallons
Projected Food Store Wine Sales as % of Total State Wine Sales	28%

Source: Stonebridge Research Group, Connecticut DRS and Connecticut State Liquor Authority

Industry research indicates that the annual average per store sales for Connecticut 350 supermarkets is \$21.4 million⁵. Thus, allowing food stores to sell wine would add an average of \$858,368 to each licensed store's sales just from the sale of wine itself. Assuming an average price of \$9 per 750 mLiter (a fairly high average price for food store wine sales), this would represent wine sales per store of 18,556 gallons. We continue to assume that wines sales would be concentrated in 207 stores in key wine markets, although a larger number of stores may apply for wine sale licenses, Thus, total wine sales in Connecticut food stores would represent approximately 3,840,811 gallons, equal to about 28% of Connecticut's total 2010 wine sales.

This estimate does not include the impact of the "basket effect", the impact of which underlies expectations of a sizable overall sales increase from adding this product category to food stores, well beyond this assumed 4% sales impact from purchases of wine itself.

⁴ Scantrack data is data collected from food and drug store register scans. Presented at the 2011 Unified Wine and Grape Symposium, for the 52 weeks ending Nov. 27, 2010. Based on these data, the forecast food store wine sales would indicate at least 34 million shopping trips per year generating about \$616 million in new food store revenue from sale of non-wine grocery products.

⁵ This is likely an underestimate as the "wine demographic" towns are also likely to have higher value sales than the state average, often of higher value specialty products.

Employment Impact in Food Stores

Such an increase in sales would be expected to generate a significant need by food stores and their suppliers for increased staffing. To be conservative, we assume employment would grow by half the rate of the sales increase, implying an increase of 2% in employment for each of the affected stores. With an average of 129 employees per food store, based on industry and U.S. Census data, that translates into 2.6 new jobs per license. If 207 food stores in the wine demographic towns were to sell wine, 534 jobs would be created.

Additional jobs may be created. Some chains may create regional management opportunities for the category. The increased profitability potential per store offered by wine sales may also encourage other chains to enter the state, further increasing both license value and employment opportunities. The “basket effect” of wine sales in groceries may also generate numerous jobs among suppliers of other foods to the stores.

Table 9: Employment Impact in Food Stores

Type of Impact	Assuming Wine Adds 4% to Total Store Sales
New Jobs Created	534
New Wages Generated	\$13,097,952

Source: Stonebridge Research, Industry data and US Bureau of Labor Statistics

Chapter III below discusses the potential shift of these jobs among retail channels and other sectors, putting some existing positions at risk during the market transition. This impact will vary by community and type of store and even then will be only partial for most affected stores.

Impact on Total Wine Sales in Connecticut

Extensive research, observation and precedent argue that allowing wine to be sold in food stores will increase total wine sales in Connecticut.

First, several studies⁶ have demonstrated that increased retail outlets for wine, and thus increased availability, increases overall demand for wine and therefore total sales.

Second, consumer observation and logic show a powerful link between wine sales and food.

Wine has a particular place in American culture -- for gathering together with friends, for social occasions, for events, celebration. Wine is an alcoholic beverage but it is also a food product, typically consumed with meals, unlike other alcoholic beverages. It is not generally something consumed merely for the alcoholic purposes. This is the corollary to the “basket effect”: consumers buy food to complement their wine purchases because consumers usually consume wine at a dinner with friends.

⁶ National Alcohol Beverage Control Association: Alcohol Policy Research and Alcoholic Beverage Control Systems: Annotated Bibliography and Review, 2008.

Qualitative and survey research⁷ have repeatedly found that:

- Women and older Americans are more likely to consume wine, by a significant margin, while men and younger consumers favor beer and spirits;
- Women tend to associate wine with food;
- More than 50% of the wine sold in the U.S. is purchased by women as part of regular grocery shopping and meal planning;
- Women often find it uncomfortable to shop in conventional liquor stores, particularly traditional stores focused on beer and spirits.

Thus, we assume that about one third of the wine that would be sold in food stores would be shifted from package stores. The balance of the wine sold in food stores would represent a net increase in total Connecticut wine sales of 18.7%, as a result of improved access and awareness.

Table 10: Increased Wine Sales from Allowing Wines Sales in Food Stores

	Gallons	Value at 4% Increase in Food Store Sales	%
2010 Wine Sales	13,681,574		
Projected Food Store Wine Sales	3,840,811	177,682,176	28% of total wine sales
Sales Shifted from Package Stores	1,280,270	59,227,392	9.4% of total package store wine sales
Net Increase in Total Wine Sales	2,560,540	118,454,784	18.7%

Source: Stonebridge Research Group, Industry data, US Census and Connecticut state data

⁷ "U.S. Drinking Rate Edges Up Slightly to 25-Year High", by Frank Newman, Gallup.com, July 30, 2010. "Understanding and Enhancing the Market for California Wine in the U.S.", conducted by Yankelovich Partners for Wine Institute, California, 2005. "Understanding Wine Demographics in a Down Market". Wine Business Monthly, February 15, 2009 and various Stonebridge Research Group LLC proprietary studies.

III. Implications for Package Stores, Owners and Employees

Tables 5 and 6 above identified the towns in Connecticut where wine is most likely to be sold, the number of food stores licensed to sell beer, and the projected wine sale licenses and the number of licensed package stores in those towns.

Allowing Connecticut's food stores to sell wine may lead to a shift of 9.4% of total Connecticut wine sales volume from package stores to food stores, concentrated in these "wine demographic" regions. Such a shift implies a decline of 15.6% in wine sales volume and perhaps 12% in wine sales revenue in these package stores, as explained below. Package store profitability may decline by a far smaller percentage, as a result of shifts in the overall package store product mix toward higher margin products and the introduction of new product lines and because their spirit sales would not be affected.

All Package Stores Are Not Alike

As Chapter I discusses, package stores continue to thrive in the many states across the US which allow food stores to sell wine. The continued success of these package stores is determined by the quality of their management and operating strategy instead of preservation of a monopoly on wine sales - which in fact represent only part of most package store' sales. In fact, the availability of wine in food stores has even helped grow the wine business of package stores which can offer more specialized service and inventory.

As context for that assessment, the average SKU (store keeping units or retail count of separate products for sale) count for a grocery store is about 430, although some higher end and specialized groceries may offer up to 1400 SKUs, with a (very) few offering as many as 3000 SKUs. Even then, these offerings tend to focus on major brands offered by major wine groups and wines under \$7.99⁸ per 750mL, or certainly under \$15 per mL, simply because, among their hundreds of product categories most food stores cannot provide the complex inventory, logistics and specialized staffing needed to support more elaborate offerings.

The package store business models which tend to compete successfully in these environments have some consistent characteristics:

1. Offer a level of customer service and expertise and size and variety of wine inventory that few food stores could, or would wish, to offer; and/or
2. Have built strong local customer-driven relationships, or unique business models in a niche segment (e.g. craft beers, local wines, quality spirits) of the industry, based on selection, price, product line; and/or

⁸ Year to date Infoscane data from Information Resources Inc. indicates wines costing less than \$7.99 represent 71% of all wine sold in food stores in the US, with wines costing less than \$15 representing 97% of all wine sold in the food store channel.

3. Are primarily spirits/liquor stores, especially in communities with a relatively small wine demographic profile.

On-line sales have also offered small stores in even the most competitive markets the opportunity to build themselves into regional centers based on their extensive selection, industry expertise and market skills.

Stores which are heavily dependent on wine sales yet offer little customer service and no distinctive inventory are likely to struggle if faced with strong competition, whether from a food store or from a better managed package store. Similarly, stores which are currently marginally profitable are likely to find any loss of market a threat to their survival. Most such stores would likely be struggling in any case to compete with larger and better managed stores within the package store market.

Even among these stores, the impact of competition with wine sales in food stores would be quite variable among regions, as discussed in Chapter II. Package stores in towns not listed in Table 7 would be less affected by allowing wine sales in food stores because their markets would be more focused on spirit and beer sales, with wine representing as little as 10% of total sales. Food stores in these areas would be unlikely to offer wine, or very much wine, for the same reason. Overall, as indicated in Table 11, about 216 existing package stores are likely to be impacted, based on their market demographics, by allowing food stores to sell wine.

Table 11: Forecast Impacted Package Stores

Town	Package Store Licenses	Wine Buying Demographic as % Total Households	Impacted Package Store Licenses
Stamford	29	50.7%	15
Greenwich	19	58.9%	11
Bridgeport	34	23.5%	8
Norwalk	28	36%	10
Fairfield	16	56%	9
Hamden	21	43.4%	9
W. Hartford	18	39.9%	7
Manchester	23	37.6%	9
Stratford	17	42.6%	7
Danbury	24	27.1%	7
Milford	20	33.7%	7
Bristol	19	28.8%	5
Hartford	47	15.4%	7
New Haven	46	29.3%	13

Town	Package Store Licenses	Wine Buying Demographic as % Total Households	Impacted Package Store Licenses
Westport	12	66.9%	8
Glastonbury	12	51.7%	6
Groton	13	36.7%	5
Trumbull	4	50.8%	2
Southington	15	36.4%	5
Shelton	16	38.8%	6
Wallingford	13	31.8%	4
Ridgefield	10	63.8%	6
Darien	8	77.2%	6
Cheshire	10	54.9%	5
New Canaan	6	70%	4
Simsbury	6	55.3%	3
Middletown	14	46.6%	7
Newtown	10	54.3%	5
Meriden	23	20.2%	5
New Milford	11	35.9%	2
Farmington	0	38.8%	0
Branford	11	73.6%	8
Avon	4	54.2%	2
Totals	559		216
State Total	1226		

Overall, opening the market for wine sales is likely to drive some stores to work harder to distinguish themselves in this new market while weakening stores with more vulnerable finances and less viable business strategies. Strong, well managed stores with well defined business strategies will hardly be affected, as they are barely impacted in other states, even in regions with strong food store activity in wine.

Estimated Sales Impacts on Package Stores

Wine can represent between 10% and 60% of total sales of a package store, depending on its business practices and demographics of its market. Stores for whom wine represents 60% of

sales typically offer an extensive inventory and large variety of wines, including more expensive wines, with specialized customer services -- and would see minimal threat to their business from food store sales.

Wine represents 18% of total beverage alcohol sales volume in Connecticut and about 36% of dollar sales. Stores in these wine demographic communities represent about 50% of total package store dollar sales in Connecticut, with wine likely claiming a somewhat larger share than statewide averages. Thus, of the 13.7 million gallons of wine sold in Connecticut in 2009-2010, about 8.4 million gallons would be sold in these communities, or about 60% of the wine sold in the state.

A shift of 9.4% of total Connecticut wine sales volume from package stores to food stores, concentrated in these “wine demographic” regions, could lead to a loss of 1,920,405 gallons, or **15.6% in wine sales volume and a smaller share, perhaps 12%, of wine sales revenue in these package stores. Package store overall profitability may decline by a far smaller percentage**, as a result of shifts in the overall package store product mix toward higher margin products and the introduction of new product lines and because their spirit sales would not be affected.

Employment Impact on Package Stores

The number of jobs *at risk* in package stores in the affected communities would be comparable to, the loss in overall profitability experienced by these stores. Thus:

- As wine seldom represents more than 60% of total sales revenue of package stores; and
- If the impacted package stores lost about 12% of their wine sales revenue;
- The profitability of the average impacted package store would be expected to decline by no more than 7.2%.
- Thus, about 7.2% of package store jobs in the specific communities might be vulnerable, depending on the success of managers in building competitive business responses to this new challenge and the effectiveness of the proposed mitigations.

The Economic Census of the US estimates that 707 of 1226 Connecticut package stores employ a total of 2998 employees⁹, equal to an average of 4.2 employees per store.

The Census and the Bureau of Labor Statistics (BLS) define full-time employee as those eligible for unemployment compensation. Owner-operators are not considered employees in these data. These data suggest that most of Connecticut’s other 519 licensed package stores, equivalent to 42% of Connecticut’s package stores, are too small to engage such full-time employees.

While the data that is available suggests that stores in the affected markets tend to be somewhat larger than stores in other parts of the state, we assume that 42% of impacted package stores, or 91 stores, are “mom and pop” stores.

⁹ The U.S. Bureau of Labor Statistics offers no data on the remaining stores, either because the numbers are too small to disclose without violating BLS disclosure guidelines or because at least some of these stores have no eligible employees (i.e. full time employees subject to unemployment insurance). BLS data does not include owner-managers or part-time or contract workers not eligible for unemployment insurance.

Thus, the employment impact in package stores is estimated as follows:

- The 125 impacted package stores which have regular full time employees may experience at 7.2% decline in total sales.
- At an average of 4.2 employees per store, this translates into 38 jobs which may be at risk.
- The wage impact is based on U.S. Bureau of Labor Statistics reports of average 2010 annual wage of \$22,392 in Connecticut’s wine and spirits retailing sector.
- 91 “mom and pop stores” may experience a decline in total sales of up to a 7.2%.
- This translates into between 6 and 7 “mom and pop” package stores at risk.
- Assuming 2 owner-operators per store (or an equivalent number of contract or part-time workers), 13 jobs may be at risk.

These risks can be offset by the mitigations described below, to improve store operating prospects and to increase the asset value of these stores.

Table 12: Employment Impact in Package Stores

	Potentially Impacted Larger Stores	Potentially Impacted “Mom and Pop” Stores (42% of total)	Total Impact Employment Impact on Package Stores
Potentially Impacted Stores	125	91	216
Employment in Potentially Impacted Stores	526	181	708
Total Wages in Impacted Stores	\$11,782,133	\$4,062,804	\$15,844,937
Potential Employment Loss	38	13	51
Potential Wage Loss	\$848,314	\$292,522	\$1,140,835

Source: Stonebridge Research and US Bureau of Labor Statistics (BLS)

Shift in Package Store Product Mix

Evidence from other regions indicates that the presence of wine in food stores not only increases overall wine sales in the region but increases awareness of and interest in wine, leading interested consumers to search for retailers offering wider selection, expert customer service, consumer education and special events and tastings. Such expanded services generally are not found in food stores. These services also tend to stimulate sales of higher margin, more expensive wines, one of the reasons why the market share of sales dollars of successful package stores across the

country tends to exceed their share of sales case volume. Thus, the loss in package store revenue and profitability may be far smaller than that projected above.

Negative impacts are likely to be concentrated in a few stores with poor market strategies, while other, well managed, stores would hardly be affected. In addition, food stores have proposed various actions that would be expected to mitigate the scale of such potential job loss, as described below.

Potential Mitigations to Reduce Negative Impacts on Package Stores

The food store industry has proposed various options designed to make up for possible losses in revenue by package stores or to increase the capital value of existing package store licenses. These mitigations are intended to allow existing stores to maintain their business and employment or to leave the industry with substantial assets.

Mitigations to Expand Package Store Businesses & Reduce Potential Job Loss

Add Products to Package Store Permitted Offerings

To make up for the potential 15.6% decline in wine sales case volume and 12% decline in wine sale case revenue by the average package store in a region with attractive wine sale demographics, package stores could be allowed to sell additional products, complementary to current stock and as a convenience to customers, such as salty snacks, crackers, soft drinks, standard party goods and other food staples. A survey of package stores in states where food stores are allowed to sell wine indicates that sale of such products can represent between 2% and 20% of total store revenues. Another, although more complex, possibility, is to add selected perishables complementary to wine such as cheese.

Consultation with package and food stores in Connecticut and other states could identify the combination of products likely to generate the desired level of revenue. Availability of some products not previously available, at least in these settings, might even produce a net increase in revenues for these stores.

Allowing off-premise license holders to operate multiple licenses, as discussed below, would also strengthen these businesses.

These several adjustments could help ensure that job loss in the sector could remain well below the 51 jobs (including six to seven “mom and pop” stores) potentially at risk, as noted above, as well as to help existing package stores to continue to operate successfully and maintain value in their businesses.

Mitigations to Increase Package Store License Asset Value

Other mitigations would increase the value of existing package stores and their licenses, allowing owners concerned by the more competitive market to exit or retire profitably, should they wish to do so. By adding to the demand for licenses, without increasing the overall number of available licenses, valuations of existing licenses would be expected to increase.

A Medallion System

Currently, if an existing licensee goes out of business, its license is forfeited to the Bureau of Consumer Protection. Connecticut's food stores propose instead the creation of a "medallion" system for Connecticut's off-premise wine retail sale licenses to build value for current package store licenses.

Connecticut's food stores propose current license holders be allowed to sell their licenses. Purchasers would include conventional package store applicants as well as food stores seeking the proposed new Wine and Beer¹⁰ retail sale license. The revenue from the sale of these existing licenses would, it is proposed, be shared among the license seller, the state and the town of the licensee. License applicants would still be required to seek approval from and meet standards set by both the state and towns. The total number of authorized licenses need not increase and towns would continue to control the number of permits per town based on the current rule of one license per 2500 population.

Some regions have found that an auction system, rather than private (although regulated) sale, for resale of licenses maximizes revenue.

Revenue from the resale of such licenses has generated from \$25,000 per license from private license sales in California to \$250,000 and as much as \$500,000 in auctions in New Jersey and Florida.

Allow Entities to Hold Multiple Licenses

Connecticut's food stores recommend that Connecticut increase the number of off-premise licenses any single entity may hold to a **maximum of 10 off-premise licenses**. (Massachusetts has recently authorized an increase to as many as nine licenses per entity.)

The proposal for multiple licenses for Connecticut would have no impact on the total number of licenses available within a locality or the locality's right to approve licenses within its jurisdiction. As in Massachusetts, it is proposed that Connecticut localities may limit the number of multiple licenses any entity may have within its jurisdiction. The number of licenses available within each city or town would continue to be based on population, as set by statute.

Massachusetts does not permit private sale of licenses but requires applicants to pay the state a \$5,000 fee for each license incremental to the initial single license that they are approved to hold. Such a payment, in addition to the purchase price paid to the seller of a package store license, might be considered as an alternative to the auction system for licenses.

Allowing multiple off-premise licenses would enable these entities to build their brands to increase traffic, further increasing asset value, which would be particularly important to existing package stores so far limited to single locations.

¹⁰ See page 32 below.

IV. Employment Creation in an Expanded Connecticut Wine Market

The expected expansion in overall wine sales would create **1,018** net new jobs in Connecticut in a variety of related businesses including, but not limited to:

- Food stores
- Licensed wine wholesalers/distributors
- Wine brokers and wine marketing companies
- Transport other than that owned by distributors and retailers
- Construction companies and suppliers, to build display, specialized warehousing, inventory and logistics capacity and technology
- Specialized equipment suppliers
- Advertising and marketing service providers, including printers, agencies, media
- Producers of ancillary products, from wine product accessories to general food store equipment to support the expanded “basket” impact of wine sales in food channels
- Food suppliers, distributors, packagers etc., benefiting from the “basket impact” of wine sales in food channels
- Connecticut’s wine producers
- Producers of products which are allowed to be added to package stores’ offerings

Estimates of the specific impacts on each of these industries requires more detailed modeling of food store and package store businesses and their plans for rolling out new products than this analysis can undertake at this time. We explore below the impacts on food stores, wholesalers and Connecticut wine producers below.

Wine Wholesaling and Distribution

An increase in total annual wine sales in the state of 18.7% would increase distribution revenues from wine significantly.

Distributors may need to expand warehousing, transport, administrative and customer service and sales staff to cope with this increased volume. Employment may not increase proportionately, as no doubt some efficiencies will be found, but the increase should still be sizable. According to the U.S. Bureau of Labor Statistics (BLS), wine and liquor wholesalers in Connecticut currently employ 1,433 individuals. Wine currently represents about 68% of wholesale wine and spirits volume and 36% of wholesale alcohol value, based Connecticut Department of of Revenue Services data on wholesale tax collections. Wholesalers’ revenues are a percentage of beverage sales. However,

wine's wholesale profitability is probably a smaller share of wholesaler profits, as wine lacks some of the economies of scale of spirits and beer distribution.

Thus, an increase of 18.7% in total wine sales in the state could generate as many as **131** new jobs in wine distribution, and nearly \$12.3 million in wages, in wine wholesaling/distribution in Connecticut. The wage impact appears quite large but is based on U.S. Bureau of Labor Statistics reports on average 2010 annual wages \$93,975 in Connecticut's wine and spirits wholesaling industry.

Wine and spirits wholesaling and distribution is quite different than wholesaling and distribution in other sectors: these companies do not just deliver product but actively "hand sell" several thousand highly individual domestic and imported wine and spirit products to many of the state's 7,000 restaurants as well as the 1226 package stores. Moreover, by law they must take title to the products and usually hold them in inventory prior to sale. Various beverage alcohol regulations also help ensure relatively high margins in this sector.

Table 13: Employment Impact on Wholesale Sector

2010 Wholesaler jobs	1,433
New Wholesaler jobs created	131
Increase in wages generated	\$12,321,955

Source: U.S. Bureau of Labor Statistics, Connecticut Department of Revenue Services and Stonebridge Research Group LLC

Connecticut Wine and Grape Industry

Another industry which would benefit from the expansion of Connecticut's wine market is Connecticut's own wine industry. Connecticut's food stores have committed to supporting Connecticut's wine industry.

In many emerging wine producing states, food stores represent a significant share of retail sales of local wine. For example, in Missouri, sales through instate food stores represent nearly 40% of total winery sales and these sales in turn represent between 3% and 5% of total food store wine sales. In Florida's smaller wine industry, sales through instate food stores represent about 1% of total food store wine sales. Local residents as well as visitors seem to possess a genuine interest in sampling their state's wine production as part of their regular food buying experience. Sales of local wines also complement many food stores' promotion of "locally grown" foods.

Connecticut's wine industry directly employs about 160 persons, not counting its impact on related industries and services, such a trucking, tourism, professional services or farm suppliers. The Alcohol and Tobacco Tax and Trade Bureau (TTB) of the U.S. Department of the Treasury reports 2010 bottled wine production by Connecticut's wine industry at 120,910 gallons, less than 1% of Connecticut's total wine sales volume.

Connecticut's food stores have suggested that Connecticut's wines could come to represent 1% of total projected *Connecticut food store wine sales volume*. *Such sales would require 31.8% Connecticut's 2010 bottled wine production, creating 51 new jobs in wineries and vineyards. as*

shown in Table 14 below. These new jobs do not include the potential employment impact on wine tourism and winery suppliers of this growth in sales and visibility.

Table 14: Employment Impact on Connecticut Wine Industry

Total 2010 Production of Connecticut Wines (bottled)	120,910 gallons
Incremental Sales of Connecticut Wine	38,408 gallons
2010 Winery and Vineyard Jobs	160
2010 Winery and Vineyard Wages	\$2,741,000
New Jobs Generated	51
New Wages Generated	\$870,542

Source: TTB, US Bureau of Labor Statistics and Stonebridge Research Group LLC

Food Store Employment

As noted in Chapter II, the projected growth in Connecticut’s wine sales would create 534 new jobs in the food store channel in Connecticut, as floor and stock staff, managers, wine buyers, and support staff.

Package Store Impact

As noted in Chapter III, the shift of some wine sales from package stores to food stores may put at risk up to 51 jobs, including those in between 6 and 7 “mom and pop” package stores which might be at risk. However, shifts in package store product mix and the various mitigations proposed by food stores may be expected significantly moderate this impact.

Overall Employment Impact

We show below in Table 15 below the results of applying the IMPLAN model, explained in Chapter VI, for an overall assessment of the impact of this market expansion on employment across economic sectors. The IMPLAN model provides a well-tested and widely accepted analytical framework for such economic analysis, calculating the indirect, induced and tax impacts of such economic events. As indicated, allowing Connecticut’s food stores to sell wine will create 1,018 new jobs in the state.

Table 15: Employment Created By Allowing Wine Sales in Food Stores

SECTOR	JOBS CREATED	WAGES GENERATED
Food Stores	534	\$13,097,952
Package Stores	(51)	(\$1,140,835)
Wine Wholesalers	131	\$12,321,955
Connecticut Wine Industry	51	\$870,542
Subtotal: Direct Jobs Created	665	\$27,431,284
Indirect Employment Created	135	\$8,905,103
Induced Employment Created	218	\$11,148,714
TOTAL JOBS CREATED	1,018	\$47,485,101

Source: Stonebridge Research Group LLC and IMPLAN

V. Impact of Increased Wine Sales on State Tax Collections

The expanded market will impact collection of a wide variety of taxes, directly and indirectly. We discuss just a few of these increased tax collections below.

Excise Tax

The excise tax on still wine in Connecticut was increased from \$0.60 per gallon to \$0.72 per gallon¹¹.

Table 16: Projected Wholesale Wine Tax Collections

	Gallons	Excise Tax Collected @ 2010 tax rate	Excise Tax Collected @ 2011 tax rate
2010 Collections, all wine*	8,691,158	\$8,472,820	\$10,022,008
Increased Gallonage, all wine	2,560,540		\$1,843,589
New Total	11,251,698	\$8,472,820	\$11,865,597

Source: Stonebridge Research, Connecticut Department of Revenue Services.

Thus, allowing food stores in Connecticut to sell wine could generate more than **\$1.8 million** per year in additional collections for the state from excise taxes.

Retail Sales and Use and Other Taxes

The Connecticut retail sales tax rate applicable to alcoholic beverages is 6.35%. Estimating the increase in sales tax revenues requires making some assumptions about the price composition of the incremental wine sales since sales taxes, unlike excise taxes, are levied on value rather than volume.

Connecticut reports sales and use tax collections on wine totaled \$64 million in Fiscal 2010. The additional sales and use tax generated by allowing wine sales in food stores would total more than **\$7.5 million**.

¹¹ The excise tax rates for sparkling wine at \$1.50 per gallon and on small wineries at \$.15 remain unchanged.

Table 17: Projected Sales Tax Collections

Total Value of Incremental Wine Sales through Food Stores	State Sales and Use Tax	Increased Tax Collection from wine sales in food stores
\$118,178,788	@ 6.35%	\$7,504,353

Source: Stonebridge Research Group LLC and Connecticut Department of Revenue Services

In addition, the “basket effect,” described in Chapter II above, would generally increase food store revenues per wine-buying customer and most likely net income per store, which would be translated into increased business franchise and excise taxes as well as sales taxes at the food tax rate. As the actual tax impact of this “basket effect” depends on the number of wine-related shopping trips which could occur, we have not attempted to estimate at this time the specific dollar value of this effect.

A New “Beer and Wine License” Category

Connecticut currently charges \$100 to apply for a package store permit, \$535 for processing of a package store permit, plus \$500 for a provisional permit to operate the store while awaiting final approval. Applicants for grocery beer permits must pay \$270 plus \$500 for a provisional permit.

The food store industry proposes the establishment of a new license category, a “Beer and Wine License,” which would be available to current holders of food store beer licenses. Such licensees would pay:

- A one-time “franchise fee” of \$5,000 per store to acquire this class of license;
- An annual renewal fee for this license category of \$1000, incremental to the present \$535 package store license renewal fee;
- A one-time tax, at the prevailing excise tax rate, on their initial (first year) wine inventory build equal to 22% of food store incremental gallons (assuming an inventory turn of between four and five times per year).

The potential revenue from this new category, in addition to existing package store license processing and provisional fees, is summarized in Tables 18 and 19 below. We assume 300 applicants for such licenses, as noted below.

Table 18: Projected First Year Incremental Beer and Wine License Fee Revenue

License Fee Type	Cost of License	Licenses Issued	Total Revenue
Application Fee	\$635	300	\$190,500
Provisional Application Fee	\$500	300	\$150,000
“Franchise Fee”	\$5,000	300	\$1,500,000
Inventory Build Fee*	\$608,384		\$608,384
Total Revenue First Year**			\$2,448,884

Source: Stonebridge Research and state data. *Total all stores, 22% of first year inventory at \$.72 excise tax rate

**Assuming all permits are issued first year.

Table 19: Projected Annual Beer and Wine License Revenue (After First Year)

License Fee Type	Cost of License	Number of Licenses	Total Revenue
Annual Renewal Fee	\$1,535	300	\$460,500

Source: Stonebridge Research and state data.

License Transfer Revenue

Other revenue would be generated from any government share of auction revenues or other proceeds from the resale of package stores licenses. Alternatively, as noted above, the state may, as in Massachusetts, require applicants for multiple off-premise licenses to pay the state a special fee for each license issued incremental to the initial single license that they are approved to hold.

Total Tax Impact

The IMPLAN model, combined with the specific taxes described above, projects the **total tax collection impact of the market expansion at more than \$26.2 million in first year revenues and \$24.2 million in recurring annual revenue in subsequent years**, as shown in Table 20 below.

Table 20: Total First Year Estimated Tax Collection Impact of Market Expansion

Revenue Type - State Level	First Year	Recurring Revenue in Subsequent Years
License Issuance Fees	\$2,448,884	
License Renewal Fees		\$460,500
Excise Tax	\$1,843,589	\$1,843,589
Sales and Use Taxes	\$7,504,353	\$7,504,353
Other Indirect Business Taxes (IMPLAN)	\$11,820,675	\$11,820,675
Household Taxes (IMPLAN)	\$69,649	\$69,649
Corporate Taxes (IMPLAN)	\$238,920	\$238,920
Total State Tax Impact	\$23,926,070	\$21,937,686

Source: IMPLAN and Stonebridge Research Group LLC

VI. Methodology

The data for this analysis was collected from the Connecticut Department of Consumer Protection (Liquor Control Division) and the Connecticut Department of Revenue Services, similar agencies in other states, U.S. Government data, various industry surveys and interviews with industry participants. The findings from the research were then entered into the IMPLAN model, described below, to determine the overall employment and tax impacts of the actions being examined.

Direct, Indirect and Induced Effects (IMPLAN)

Much like dropping a rock into a pond, the wine industry has ripple effects on the Connecticut economy. Economic impact studies estimate the direct, indirect and induced impacts of an industry in a defined geographical area by identifying and measuring specific concrete economic “events.” The events tracked in this report are increased employment (number of jobs by NAICS¹² category) resulting from allowing wine sales in Connecticut’s food stores.

The IMPLAN model is the standard analytical tool used to estimate these impacts. IMPLAN is the acronym for “**IM** impact analysis for **PLAN**ing.” IMPLAN is a well established and widely used¹³ economic model that uses input-output analyses and tables for over 500 industries to estimate regional and industry-specific economic impacts of a specific economic event.

The IMPLAN model and its structure are updated annually to reflect changes in the U.S. economy, in wages, in productivity assumptions and in regional economic structures.

¹² NAICS stands for North American Industrial Classification system codes, the standard for most economic and statistical studies.

¹³ The IMPLAN model is used by most states, the Federal Reserve Board and many private and non-profit organizations.

About Stonebridge Research Group LLC

Stonebridge Research Group LLC is a leading and authoritative source of research, data and insight into the business of wine and the key trends and forces driving the industry. Stonebridge Research's services include market and consumer research, basic industry research, litigation research, financial and operational benchmarking, economic impact studies and business and strategic planning for all segments of the wine industry.

Stonebridge Research Group LLC has conducted major market and consumer studies for the Wine Institute, Wines of Chile, Wines from Spain, French Trade Ministry/UBIFRANCE, Bodegas de Argentina, Napa Valley Vintners, the Office of Champagne, several U.S. states and regional wine organizations, major producers, industry investors and suppliers in the U.S., Europe and Latin America, among others. Stonebridge's Fine Wine Trade Monitor is considered a definitive assessment of the state of the U.S. independent wine trade. Stonebridge provides the litigation research for the U.S. Coalition for Free Trade, has been a cited reference in U.S. Federal Trade Commission and Court findings.

Barbara Insel is President and Chief Executive of Stonebridge Research Group LLC. Prior to creating Stonebridge Research LLC in 2008 with a group of industry investors, Ms. Insel was the Managing Director for MKF Research LLC for four years, leading all research and advisory activities for this leading wine business consulting firm, including the first study of the Impact of Wine, Grapes and Related Products on the American Economy and managing the Wine Institute's first market research project in twenty years, which culminated in its California First promotion strategy.

Ms. Insel teaches in the Wine Business program at the Culinary Institute of America, speaks widely on the business of wine and the U.S. wine market, has been quoted in publications ranging from the Wall Street Journal and Bloomberg to many leading wine media, where her research has also been widely published.

Previously, Ms. Insel spent more than twenty years in senior positions in international investment and investment banking, with organizations including Salomon Brothers, Morgan Stanley Asset Management, Kleinwort Benson, the European Bank for Reconstruction and Development and the World Bank.