Economic Impact of Expanding Wine Retail Outlets

For the Five-Town Area Including

Monroe, Woodbury, Chester, Blooming Grove and Tuxedo

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I. Introduction

The economic impact of proposed New York State Legislation enabling a significant increase in the number of wine retail locations is examined in the context of a five-town area including Monroe, Woodbury, Chester, Blooming Grove and Tuxedo. Using a wine and liquor retail sales model existing and potential future sales are projected and compared with industry accepted wine consumption data. Model results are shown to be consistent with local profiles and the impact of these results on the local economy is discussed.

II. Wine and Liquor Retail Sales Model

A wine and liquor retail model was created to evaluate wine and liquor retail sales for the ten (10) existing retail outlets in the five towns. Wine retail sales were divided into lifestyle and luxury. The lifestyle category was further subdivided into 5L boxes, 750mL bottles and 1.5L bottles. Liquor retail sales were divided into basic and top shelf.

Total retail sales volumes and percentages for the retail categories were assigned to each of the ten retail outlets in the area. Based on these input parameters, the model provides average case volumes for the wine and liquor categories, thus allowing estimates for New York State wine and liquor taxes.

In addition to wine and liquor sales the retail model includes estimated Full Time Equivalent, FTE, employment, local sales taxes and Lotto sales.

III. Wine Consumption New York State

A test of the validity of the wine case volumes obtained from the model was made by comparing the model results with published New York State wine consumption data.

The Free Library at www.thefreelibrary.com published wine consumption statistics for all 50 states. The consumption data is based on Adams Wine Handbook for 2007. The data for New York State wine consumption is reported in 9-Liter Cases per 1,000 adults for table wine, wine coolers, Champagne/sparkling, dessert/fortified and vermouth/aperitif.

IV. Wine Consumption Five-Town Area

The US Census adult population for 2000 was used to estimate the adult population for 2007. The wine consumption data were then applied to obtain the following projected wine consumption for the five towns.

Municipality	Population US Census 2007	Projected Wine Consumption				
		Table	Sparkling	Dessert	Vermouth	Total
Monroe	19,294	29,095	1,736	540	289	31,661
Chester	9,736	14,682	876	273	146	15,977
Woodbury	7,125	10,745	641	200	107	11,692
Blooming Grove	12,244	18,464	1,102	343	184	20,092
Tuxedo	2,800	4,222	252	78	42	4,595
Total	**51,199**	**77,208**	**4,608**	**1,434**	**768**	**84,018**

Consumption based on population yields a total of 84,018 cases of wine consumed in the five-town area for 2007. The retail model yielded 117,210 cases or 40% more than predicted by consumption based on population for the same area.

V. Understanding The Five-Town Wine Consumption Results

A comparison of the population based consumption with the retail model projection for each of the five towns is presented below.

Municipality	Population US Census 2007	Project Percent NYS Consumption	Model Percent Existing
Monroe	19,294	38%	50%
Chester	9,736	19%	23%
Woodbury	7,125	14%	9%
Blooming Grove	12,244	24%	15%
Tuxedo	2,800	5%	4%

Monroe has a large retail wine and liquor outlet with local, regional and web based clientele. The difference between the population consumption of 38% and the retail model consumption of 50% could be an indication of the affect that the regional and web based sales have on retail sales in Monroe.

Chester retail outlets draw residents from Goshen, Blooming Grove and Warwick. The regional attraction of Chester retail outlets could explain the difference in the population projection of 19% compared with the model value of 23%.

Woodbury residents have one medium sized wine and liquor retail outlet. Residents in the northern portion of the town are closer to the shopping centers in New Windsor and Cornwall while those in the southern portion are closer to Monroe. These shopping patterns could explain some of the difference in the population projection of 14% compared with the retail model result of 9%.

Blooming Grove residents can choose from shopping centers in Washingtonville, New Windsor and Newburgh or Chester and Monroe depending on their geographic location. The difference between the projected consumption of 24% and the retail model result of 15% is understandable in the context of the regional shopping options for the residents of Blooming Grove.

Tuxedo has only one small wine and liquor retail outlet. The population projection and the retail sales model projection are not significantly different in Tuxedo.

Thus, the individual town projected volumes can be understood in the context of shopping patterns for the five towns.

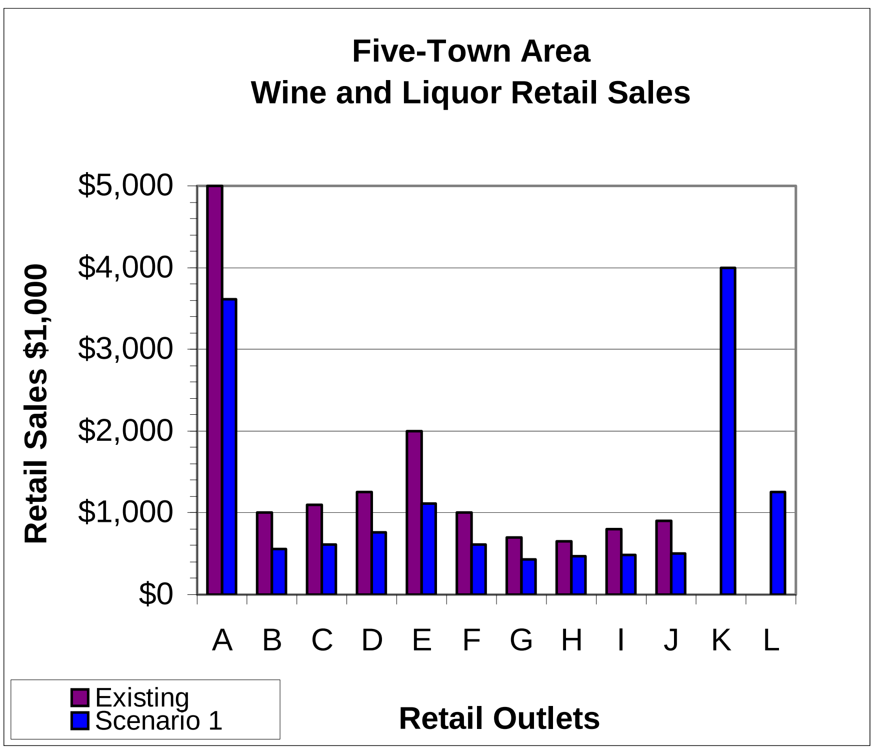
Given that the retail model yields significantly more wine case sales than predicted by population consumption may be an indication that the five-town area has a limited potential for increased wine sales.

VI. Increasing Wine Retail Outlets

The retail model was modified to include wine retail sales by food, drug and convenience stores. Sales volumes were assigned to the various new retail outlets with 100% of the sales in the lifestyle category. This enhanced retail model is referred to as Scenario 1.

The premise for Scenario 1 is that lifestyle wine sales will remain flat. The Beverage Information Group reported that based on national consumption 2008 wine sales increased by only 4% and liquor increased by 3.2% over 2007. These facts combined with the result previously discussed in Section V support the assumption that lifestyle wine sales will remain essentially flat in the five-town area.

The following graph presents the model results comparing retail sales volume under existing conditions with Scenario 1 for the ten (10) existing retail outlets and the new food, drug and convenience stores in the five-town area. Outlets A through J are the existing outlets, K represents the total for food stores and L represents the total for all other new retail outlets.



Under Scenario 1 existing lifestyle wine sales of $9,450,000 will be reduced by $5,250,000 due to sales generated by the new outlets. Because this 55% reduction will affect all of the existing outlets, in the model the reduction is shared equally among the existing outlets.

Increasing the number of wine retail outlets has a rather dramatic affect on the retail sales of the existing outlets. Other parameters in the model allow an assessment of this effect.

The model results for FTEs, taxes and Lotto sales under existing conditions and Scenario 1 are presented in the following matrix.

	Employees			Taxes			
	FTE	**FT**	**PT**	**Local**	**Wine**	**Liquor**	**Lotto**
Existing Conditions	37	25	25	$1,170,000	$63,025	$219,669	$921,600
Scenario 1 New Licenses Lifestyle No Volume Increase Luxury Volume is Unchanged	24	16	16	$1,170,000	$63,025	$219,669	$921,600
Change in Local Jobs	-14	-9	-9				
Change in Tax Revenue & Lotto				$0	$0	$0	$0

As expected, given that Scenario 1 is a redistribution of sales without any increase, taxes and Lotto sales do not change. However, a major reduction in FTEs for the existing outlets is projected. No increase in FTEs is anticipated for the new retail outlets due to terms that have been proposed for the new licensing.

Retail outlets that currently hold a beer license will be able to apply for a new beer and wine license. Just as under the existing beer license beer distributors are allowed to stock the shelves of retail outlets, the amended beer and wine license will allow wine distributors to stock the shelves of the new retail outlets. Thus, the food, drug and convenience stores will not need to provide staff or hire additional staff to stock the lifestyle wines. Because these stores have existing sales staff it is anticipated that existing staff will handle the increased sales volume. Hence, no new FTEs are projected.

Under the current wine and liquor license regulations wine and liquor distributors are not allowed to stock the shelves of a retail outlet. This difference between the existing wine and liquor license and the proposed new beer and liquor license puts the existing retailers at a great disadvantage because wine and liquor retailers must have employees to stock the shelves. As retail sales decrease the existing retailers will find it increasingly difficult to afford the required FTEs to maintain their businesses.

VII. Conclusions

If the proposed change in wine retail sales is allowed by New York State, the projected sales volumes based on the retail model for the ten (10) existing retail outlets in the five-town area indicate that within one year at least four (4) of the existing retail outlets will have total sales volumes of $500,000 or less as shown in the chart on page 3. This level of sales volume will support 1.3 FTEs. A minimum of 2.0 FTEs is required for even the smallest business to maintain the rigorous schedule of operations seven days per week.

By allowing wine retail in the local food, drug and convenience stores in the five-town area the State of New York will not gain significant wine tax increases. There will be an initial increase in wine tax as the new outlets acquire their stock. However, at $0.45 per 9-Liter case this initial "spike" is estimated to be less than $1,000 in the five-town area.

By allowing the new wine retail outlets in the five-town area the local economy will loose 14 FTEs. At a minimum there will be 9 full time employees who will be terminated and given the current business environment these employees will presumably be applying for unemployment compensation. For reasons previously discussed it is unlikely that the 9 part time employees will find employment at the new retail outlets.

By allowing the new wine retail outlets in the five-town area there will be a shift in the distribution of profits from these retail operations. Currently profits from the locally owned and operated retail operations remain in the community. The profits from the significant retail sales by the food and drug stores will be redistributed to the states where these corporations are centered.

By allowing the new wine retail outlets in the five-town area within the first year of operation under the new regulations 40% of the existing wine and liquor retail outlets in the five-town area will be either on the verge of going out of business or will have gone out of business.

By allowing the new wine retail outlets in the five-town area local jobs will be lost, local businesses will close and wealth will be redistributed from the local communities to other states. In return the State of New York, County of Orange and local municipalities are not projected to gain any new revenue from wine sales and in fact will loose other revenues as jobs are lost and businesses close.

In conclusion, the adoption of the proposed NYS legislation allowing wine to be sold by any retail operation holding a beer license for which the sale of beer is not the major retail income is projected to have a detrimental affect on the local economy of the five-town area of Monroe, Woodbury, Chester, Blooming Grove and Tuxedo, the County of Orange and the State of New York.