

MAINE STATE LEGISLATURE

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**Final Report
of the**

**SELECT COMMISSION TO STUDY THE OPENING OF A
DISCOUNT STATE LIQUOR STORE IN FORT KENT**

December 28, 1998

Members:

**Senator Judy Paradis, Co-Chair
Representative Joseph Driscoll, Co-Chair
Senator Norman K. Ferguson, Jr.
Senator Lloyd P. LaFountain, III
Representative Duane Belanger
Representative Charles Fisher
Representative Janice Labrecque
Representative Kenneth Lemont
Representative Gary O'Neal
Representative John Tuttle
Mr. Joel Chasse
Mr. Eben Marsh
Mr. Gary Voisine**

Staff:

**Danielle D. Fox, Legislative Analyst
Deborah C. Friedman, Legislative Analyst**

**Office of Policy & Legal Analysis
13 State House Station
Augusta, Maine 04333**

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I. INTRODUCTION

The Select Commission to Study the Opening of a Discount State Liquor Store in Fort Kent was established by 1997 Public Law chapter 755. That law directed a 13-member commission to explore the feasibility and benefits of locating a discount state liquor store in Fort Kent. The study was contained in a bill directing the state Bureau of Alcoholic Beverages to open a discount store in Calais.

The Commission was composed of three members of the Senate, 10 members of the House of Representatives, the Director of the Bureau of Alcoholic Beverages and Lottery Operations, and two business people from Fort Kent.

Commission co-chairs Senator Judy Paradis and Representative Joseph Driscoll convened the first meeting of the Commission in Augusta on October 6th, 1998. At that meeting, members received information from the Director of the Bureau of Alcoholic Beverages and Lottery Operations about liquor sales trends and about the recently-opened Calais discount liquor store. Commission staff also presented information about agency stores in the Fort Kent area and about liquor sales trends in the State and in the bordering Canadian province of New Brunswick. The meeting concluded with a plan to hold the next meeting in Fort Kent and with requests for additional information to be presented at that meeting.

For its final meeting, the Commission met in Fort Kent to tour the area, hold a public hearing and vote on recommendations. The tour was organized in cooperation with the Greater Fort Kent Area Chamber of Commerce.

Public comment received at the November meeting is summarized in section II part D of the report and commission recommendations are reported in section III.

II. BACKGROUND

To evaluate the feasibility and impact of opening a discount state liquor store in Fort Kent, the commission gathered information relating to factors that would impact sales at the store, the likely impact on economic development of the area, and the experience with the Calais discount liquor store.

A. Sales Factors

The factors the commission examined the following factors that impact liquor sales in the Fort Kent area: population, vehicle traffic, existing liquor stores, New Brunswick liquor pricing and policies.

1. Population: The population of Fort Kent and the surrounding Maine towns in a twenty mile radius is estimated to be approximately 8,000 persons (according to Fort Kent Economic Planning and Development). Fort Kent serves as a service hub for many of the small communities to the west and halfway to Madawaska to the east and south. Grocery stores, hardware stores, dentist offices, banks and credit unions are the types of essential services available that draw persons from surrounding areas to Fort Kent. Thus, approximately 8,000 Maine residents use Fort Kent as their “downtown.”

2. Traffic: Commission members hoped to determine how much sales volume would be generated by New Brunswick residents and persons traveling north or south using Fort Kent as their border crossing point. However, it was difficult to draw any conclusions or make assumptions based on available traffic figures.

Daily average vehicle crossings at Fort Kent.....	1670
Daily crossings into Canada.....	835
Percentage of crossings by Canadians (vehicles).....	65%

(Traffic figures based on estimates by the Department of Transportation and U.S. Customs.)

Fort Kent, in comparison to a border point like Calais, is not a high traffic crossing for travelers heading for popular Maine or Maritime Province destinations.

3. Liquor Stores: There are nine Maine State Agency liquor stores in the Fort Kent area. Two agencies are located in Fort Kent itself, three in Madawaska, one in St. Agatha, one in Frenchville, one in St. Francis and one in Eagle Lake. These agency liquor stores are contained in either a supermarket or gas/convenience-type establishment. Liquor sold at these agencies is sold at a price determined by the Bureau of Alcoholic Beverages and Lottery Operations and the price would be higher than the same product at a State discount liquor store.

At one time, three United States-based duty free shops sold discount liquor along Maine’s Northern border. One Ammex store was located in each of the following towns: Madawaska, Van Buren and Fort Kent. During the past four years, each has closed due to lack of sales according to employees at the Ammex store located in Calais.

4. New Brunswick: Within 20 miles of Fort Kent, on the Canadian side of the border, there is one liquor store. Overall, liquor prices in the Canadian province of New Brunswick are not competitive with those of the Maine agency stores. Canadian brands of liquor, such as Canadian Club and Seagrams VO, are priced slightly lower than the same brands in Maine. Prices for all brands of liquor at a Maine discount liquor store are considerably less than those at a New Brunswick store. (See Attachment C)

New Brunswick collects a harmonized sales tax (HST) on the purchase of liquor, which is included in the displayed price. The tax is divided, with 7% going to the Federal government and 8% to the Province. New Brunswick consumers do not recognize a significant savings when purchasing larger bottles of liquor. In fact, the largest size stocked for most brands is 1.14 liters compared with 1.75 liter bottles available in Maine. In addition, New Brunswick pricing policies do not offer much savings when purchasing “bar brand” or the lower shelf brands of liquor. Typically, these bar brands are sold at a price less than one dollar below that of the premium brands.

5. Customs: In order for a person to bring liquor into Canada from the United States, duty-free, the person must have stayed in the U.S. for at least 48 hours. With a 48-hour stay, a person may bring up to \$200 (Canadian) worth of purchases across the border without paying duty or taxes. This may include up to 40 ounces of liquor or wine or a case of beer (24 12 oz. bottles/cans). With a seven-day stay, a person may cross with \$500 in purchases without paying duty or taxes. (Provincial age restrictions apply to liquor).

An American may bring up to one liter of liquor when crossing from Canada, duty-free, if the person is at least 21 years of age and has been in Canada for at least 48 hours. If the person has not visited Canada for that long, he or she is only permitted to transport four fluid ounces of duty-free liquor across the border.

6. Advertising: Maine law places several limitations on advertising by state and agency liquor stores. The form of advertisements must be approved by the Bureau of Liquor Enforcement (part of the Department of Public Safety). Only one sign is permitted outside the premises of a liquor store. Agency store signs are limited to one printed to read “Agency Liquor Store” in 18 inch letters. (See Attachment D)

Other states have very different laws and policies relating to the advertisement state liquor stores. The commission looked at New Hampshire’s in particular. According to Director of Marketing and Merchandising for the New Hampshire Liquor Commission, the New Hampshire commission’s budget for advertising is between \$725,000 and \$750,000 per year. These figures include radio and newspaper advertising. New Hampshire has 72 state liquor stores (five on interstate highways) and two agency stores (located in the most isolated parts of the state). The New Hampshire director was not aware of any state laws which would place limitation on liquor store advertising.

B. Economic Development

The commission focused a significant portion of its attention on the economic impacts that might be realized by the Fort Kent area if a State discount liquor store were operated there. Particularly, it looked at the estimated impacts on employment, spending and area agency stores. Based on discussions with Fort Kent Economic Planning and Development, a public municipal agency, the commission concluded that the potential impact to the area as a whole would be minimal. Opening a discount store would not be sufficient to attract new business or new outside spending. The store itself may perform well, but the economic contribution to the area would be insignificant. Negative impacts to existing businesses loom as a more likely possibility.

1. Employment: An increase in the number of jobs available in Fort Kent with the operation of a discount liquor store would be minimal if not non-existent. Any new employment would be limited to operating the State discount store itself. Currently, at state liquor stores the number of employees needed correlates with the number of bottles sold. For each 1,000 bottles sold per week, one employee is needed. Thus, if the store sold 3,000 bottles per week it would employ three individuals to run the store.

2. Spending: Most residents of the greater Fort Kent area visit the town frequently to pay bills, shop and conduct general errands because that is where those services are available. Thus, spending by residents of these areas outside the town of Fort Kent would not be likely to increase. The benefit realized by locating a discount store in Fort Kent would be availability of a product at lower price.

3. Agency Stores: There are two agency stores operating in the town of Fort Kent. According to Fort Kent Economic Planning and Development, it is likely that sales of liquor and incidentals at these establishments would decrease with the operation of a discount store. Unlike discount liquor stores, these agency stores sell other products aside from liquor, a consumer patronizing the store to purchase liquor may also decide to pick up an "extra" item, such as a bag of chips, a magazine or lottery ticket. These sales could potentially be lost if the consumer decided to patronize the discount store instead of the agency store. The impact of the loss of these "extra" sales is difficult to estimate.

C. Calais Experience

In August of 1998, the state opened a state discount liquor store in Calais, Maine pursuant to Public Law 755. This store was located in the same space that just prior to its opening housed a state liquor store. The commission thought it would be helpful to look at the liquor sales and other economic impacts in the Calais area since the opening.

The discount liquor store in Calais has experienced an overall increase in the number of bottles sold but a decrease in the amount of income contributed to the General fund. (For trends and a graphic comparison see Attachment E). Since the operation of the discount store began, sales as a whole in the area have increased but profits have decreased.

*Calais Discount Store	July to October 1997	July to October 1998	Percent Change
Sales	\$416,259	\$498,390	19.7 %
Profit	\$179,825	\$174,195	- 3.1 %

* Discount store operated as state store in 1997.

Source: Bureau of Alcoholic Beverages and Lottery Operations

Agency stores, individually, have experienced the most dramatic impact since the opening of the Calais store. There are two agency stores in the general Calais area. Both have realized a significant decrease in sales since its opening.

Sales Calais Area Agency Stores	July to October 1997	July to October 1998	Percent Change
Agency #209	\$62,263	\$27,643	- 55.6 %
Agency #226	\$90,262	\$53,169	- 41.1 %

Source: Bureau of Alcoholic Beverages and Lottery Operations

This decrease in sales by the Calais area agency stores resulted in a loss to the General Fund of more than \$7,000.

D. Public Comment

Most of the testimony at the public hearing focused on the impact that a discount state liquor store would have on existing agency stores. Typical of the testimony was that of Bob Williams, owner of Bob's Neighborhood Store in Madawaska. Mr. Williams told the commission that agency store owners spend money and time to compete for and win bids for a liquor license and they devote time, money and selling space to operate the liquor business at their stores. He felt it would be unfair for the state to take away or diminish that business by selling liquor at a price lower than the wholesale price the agency store pays to buy liquor from the State.

Many who testified said that the discount store would not attract enough additional business from Canada to make up for the loss of sales and low-cost sales that the discount store would create. The unfavorable exchange rate means that few Canadians will come across the border to shop. Loss of sales at agency stores would mean layoffs of staff and reduced income. Lowered sales and lower-cost sales at the discount store would also impact the state's revenues, as seen with the Calais discount store.

III. RECOMMENDATIONS

The Select Commission to Study the Opening of a Discount State Liquor Store in Fort Kent recommends:

1. That no discount state liquor store be opened in Fort Kent.

Information presented to the commission indicates that a discount state liquor store will not increase the volume of liquor sales enough to offset the loss to state revenues from the lower prices charged at such a discount store. Traffic moving through Fort Kent on the way to and from Canada is not sufficient to bring a great number of people to the store. Lower prices at the liquor store are not enough to draw Canadians into the State, partly because the exchange rate is unfavorable to Canadians.

We are also concerned that agency stores in the area would be adversely affected by the presence of a discount state liquor store in Fort Kent. Those businesses have invested significant amounts of time and money to serve the local market and it would be unfair for the State to now take over that market by offering prices against which the agency stores cannot compete.

2. That the Bureau of Alcoholic Beverages and Lottery Operations re-evaluate the operation of a discount state liquor store in Calais and report its findings to the Legislature.

Although the number of bottles sold at the state liquor store in Calais has increased since the store offered discount prices, the increase in sales has not been enough to offset the losses resulting from the lower prices. The gross profit realized in October of 1998 was 16% less than the year before. In addition, sales at agency stores in the area have decreased dramatically. It does not appear that the area is benefiting from the location of the Calais store. We therefore recommend that the Bureau of Alcoholic Beverages and Lottery Operations present information to the Joint Standing Committee of the Legislature with jurisdiction over liquor issues to assist the committee in determining whether public interests are served by the continuation of that store. The committee should be authorized to report out legislation following its review of that information.

3. That the Bureau of Alcoholic Beverages and Lottery Operations explore alternative pricing mechanisms that would allow agency stores to increase their profits.

Under current law, agency liquor stores purchase liquor from the state for 8% below the retail list price, and sell that liquor at retail for no more than the list price. 28-A MRSA §606. The law limits the amount of profit that an agent can derive from liquor sales to 8% of the list price. Some store owners believe the state pricing policy should allow agency stores to make a greater profit than 8% on their sales.

Prior to 1987, the state marked down its liquor by 10% to agency stores, thus allowing at least a 10% profit on agency store sales. The state at one time also allowed agents to sell above the retail list price if they so chose. The commission believes that the bureau should examine ways to enable agency stores to derive a greater profit from their liquor sales and report its findings to the joint standing committee of the Legislature with jurisdiction over liquor matters.

APPENDIX A

1997 Public Law chapter 755
established

The Select Commission to Study the Opening of a
Discount State Liquor Store in Fort Kent

APPROVED

CHAPTER

APR 16 '98

755

BY GOVERNOR

PUBLIC LAW

STATE OF MAINE

—
IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND NINETY-EIGHT

—
H.P. 277 - L.D. 341

**An Act to Open a Discount State Liquor Store in Calais and
Conduct a Study Concerning the Opening of a Store in Fort
Kent**

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 28-A MRSA §403, sub-§2, as enacted by PL 1987, c. 45, Pt. A, §4, is amended to read:

2. **Location.** One store must be located to be convenient to the southbound lanes of the Maine Turnpike near Exit 1 of the Maine Turnpike. One store must be located in Calais.

Sec. 2. Select commission established. The Select Commission to Study the Opening of a Discount State Liquor Store in Fort Kent, referred to in this section as the "select commission," is established. The select commission consists of 3 members of the Senate appointed by the President of the Senate and 7 members of the House of Representatives appointed by the Speaker of the House. The first-named members appointed from each body are cochairs of the select commission. The select commission also consists of the Director of the Bureau of Alcoholic Beverages and Lottery Operations within the Department of Administrative and Financial Services and 2 business people from Fort Kent, one appointed by the President of the Senate and one appointed by the Speaker of the House. The select commission shall explore the feasibility and benefits of locating a discount state liquor store in Fort Kent. The members of the select commission who are Legislators are entitled to receive the legislative per diem, as defined in the Maine Revised Statutes, Title 3, section 2, and reimbursement for travel and other necessary expenses for

attendance at meetings of the select commission. The select commission may hold 4 meetings, one of which may be held in Fort Kent. All appointments to the select commission must be completed within 15 days after the effective date of this Act. The chairs shall convene the first meeting of the select commission within 30 days after the effective date of this Act. The select commission may request staffing assistance from the Legislative Council. The select commission shall submit its report, along with any proposed legislation, to the First Regular Session of the 119th Legislature by January 1, 1999.

Sec. 3. Appropriation. The following funds are appropriated from the General Fund to carry out the purposes of this Act.

1998-99

LEGISLATURE

**Select Commission to Study
the Opening of a Discount State
Liquor Store in Fort Kent**

Personal Services	\$2,200
All Other	3,400

Provides funds for the per diem and expenses of the legislative members and other miscellaneous expenses of the Select Commission to Study the Opening of a Discount State Liquor Store in Fort Kent.

**LEGISLATURE
TOTAL**

\$5,600

APPENDIX B

Select Commission Membership List

SELECT COMMISSION TO STUDY THE OPENING OF A DISCOUNT STATE
LIQUOR STORE IN FORT KENT
(Public Law, Chapter 755)

Membership 1998

Appointed by the Senate President

Senator Judy A. Paradis, Co-Chair
40 US Route 1
Frenchville, Maine 04745

Senator Lloyd P. LaFountain, III
322 Alfred Street
Biddeford, Maine 04005

Senator Norman K. Ferguson, Jr.
P.O. Box 36
56 Howard Pond Road
Hanover, Maine 04237

Joel Chasse
Ft. Kent Pharmacy
17 West Main Street
Ft. Kent, Maine 04743

Appointed by the Speaker of the House

Representative Joseph D. Driscoll, Co-Chair
45 Spring Street
Calais, Maine 04619

Representative John L. Tuttle
54 Cottage Street
Sanford, Maine 04073

Representative Gary O'Neal
13 Vernon Avenue
Limestone, Maine 04750

Representative Charles D. Fisher
117 Silk Street
Brewer, Maine 04412

Representative Duane J. Belanger
P.O. Box 72
Wallagrass, Maine 04781

Representative Kenneth F. Lemont
154 Whipple Road
Kittery, Maine 03904

Representative Janice E. Labrecque
13 Hurricane Road
Gorham, Maine 04038

Gary Voisine
West Market Street
Fort Kent, Maine 04743

Ex Officio
Eben Marsh, Director
Bureau of Alcoholic Beverages and Lottery Operations
8 State House Station
Augusta, Maine 04333-0008

Staff: Deb Friedman and Danielle Tetreau, Office of Policy and Legal Analysis

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APPENDIX C

Liquor Pricing Chart
New Brunswick vs Maine

LIQUOR PRICING N.B. VS. MAINE

	Maine Retail Price	Maine Discount Price	New Brunswick Price
Canadian Brands			
Canadian Club	\$ 13.34	\$ 9.99	\$ 13.01
Seagrams VO	\$ 13.56	\$ 9.99	\$ 13.01
U.S. and Puerto Rico Brands			
Jim Beam	\$ 11.23	\$ 8.99	\$ 13.24
Allen's Coffee Brandy	\$ 9.53	\$ 6.99	Not Sold
Popov Vodka	\$ 7.41	\$ 4.99	\$ 12.57
Barcardi Gold Rum	\$ 10.60	\$ 7.99	\$ 12.54
Premium Import Brands			
Bailey's Irish Cream	\$ 23.31	\$ 15.99	\$ 18.06
Absolut 80 vodka	\$ 18.01	\$ 13.99	\$ 13.69
Beefeater Gin	\$ 17.58	\$ 12.99	\$ 13.16
Mount Gay rum	\$ 15.89	\$12.99	\$14.21

Source: Stafford Business Advisors Market Evaluation Analysis

* Maine retail price includes sales tax but excludes 15 cents/bottle deposit. Discount prices include tax and deposit.

* Exchange rate at time of data collection = 30%

APPENDIX D

Department of Public Safety
Bureau of Liquor Enforcement
Chapter 7 Advertising and Signs Applicable to all License Holders

16 DEPARTMENT OF PUBLIC SAFETY

226 BUREAU OF LIQUOR ENFORCEMENT

CHAPTER 7 ADVERTISING AND SIGNS APPLICABLE TO ALL LICENSE HOLDERS

- 7.1 All liquor advertising, or any claims for liquor advertised, shall conform with the standards set forth in regulations under the provisions of the Federal Alcohol Administration Act as well as the Maine State Liquor Laws and the Commission Rules and Regulations.
- 7.2 No descriptive matter in liquor advertising shall be inconsistent with the description of the contents as listed on the labels of such liquor.
- 7.3 Advertisements of liquor shall not contain any undignified or improper illustration.
- 7.4 No advertisement of liquor shall contain either subject matter or illustrations inducing minors or immature Persons to drink. nor shall depict any Person in the act of drinking liquor.
- 7.5 No liquor advertising shall suggest any beneficial or tonic effect from drinking thereof.
- 7.6 The use of radio or loud speaker equipment in or on any licensed premises for the purpose of attracting attention to the interior of the said Premises is forbidden. except radio programs originating from the licensed Premise.
- 7.7 Repeal
- 7.8 Repealed and replaced by law Title 28A Section 710.
- 7.9 No advertising of liquor shall contain any subject matter relating to contests or Prizes that require the purchase of or the awarding of any alcoholic beverage.
- 7.10 Signs, posters, placards, or other items bearing advertising matter for use inside a retail premise may be furnished, given, rented, loaned or sold to a licensee if they have no value to the licensee except as advertisements, and if the total value of all such materials furnished by any manufacturer or wholesaler and in use at any one time in any licensed premises does not exceed \$1000; provided, that the manufacturer or wholesaler does not directly or indirectly pay a licensee for displaying such materials or for any expense due to their operation. The value of such materials shall include all expenses incurred directly or indirectly by the manufacturer or wholesaler in connection with the purchase, manufacture, transportation, assembly and installation of such materials and all additions thereto, and further provided that any manufacturer or wholesaler may furnish, give, rent, loan, or sell one malt and one vinous inside electric sign to each

licensee which shall not be included in the \$1000 maximum for all materials furnished in this rule.

- 7.11 No licensee, except wholesalers, shall have malt or vinous liquor advertisements or signs on or attached to delivery vehicles owned or controlled by them which advertise by brand name.
- 7.12 No licensee, except a wholesale licensee, shall advertise liquor by any lighted sign visible from the exterior of a licensed premise during the hours that liquor is prohibited for sale. All outside and window signs bearing advertising must be approved for use by the bureau. Signs not approved must be removed within 60 days of notification by the bureau..
- 7.13 Consumer specialties such as ash trays and corkscrew and other merchandise bearing advertising may be given or sold as long as a retail licensee is not paid to distribute such material.
- 7.14 Advertising specialties such as trays, coasters, menu cards, wine list, meal checks, napkins, bar mats, tap markers, thermometers, clocks may be furnished given or sold as long as the cost of such items does not exceed \$300. annually.

EFFECTIVE DATE: December 1, 1977 (Filed 11-14-78)

AMENDED: October 31, 1979 March 28, 1995

EFFECTIVE DATE (ELECTRONIC CONVERSION): MAY 15, 1996

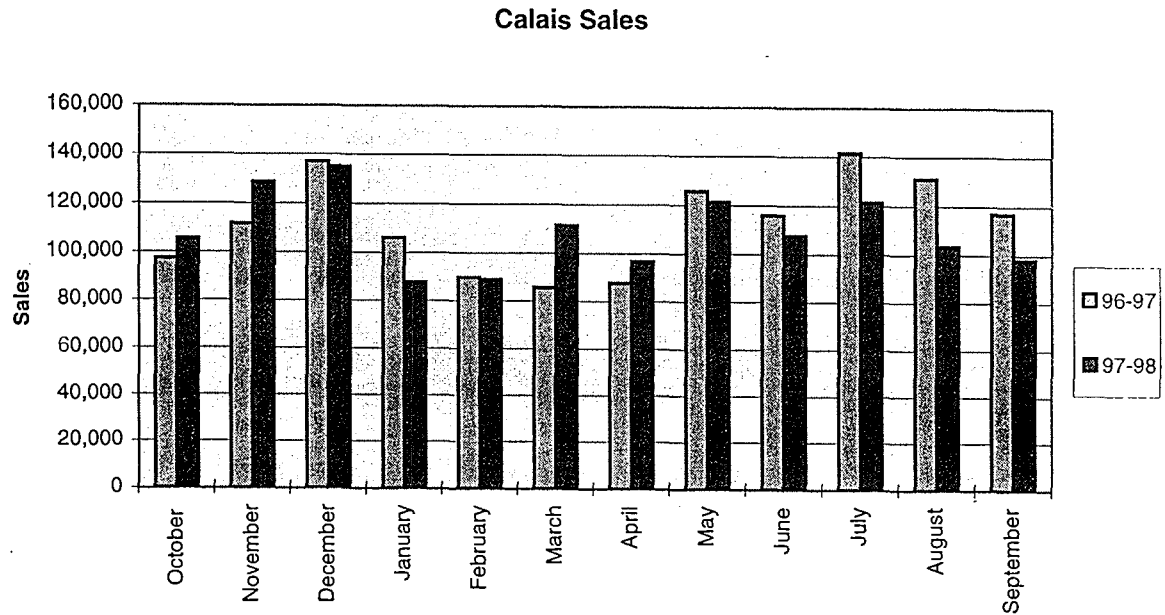
APPENDIX E

Calais Trends in Sales and Gross Margins

CALAIS TRENDS IN SALES AND GROSS MARGINS

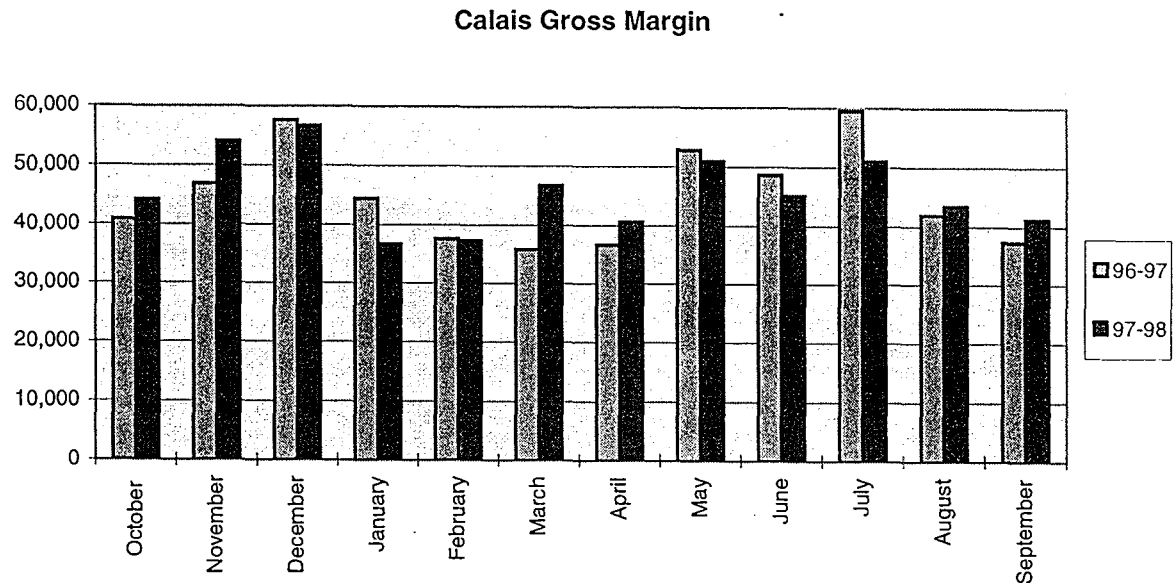
Calais Sales

	96-97	97-98
October	97,310	105,381
November	111,802	128,719
December	137,216	135,094
January	106,008	87,619
February	89,736	88,995
March	85,518	111,469
April	87,612	96,764
May	125,862	121,447
June	116,119	107,706
July	141,642	121,562
August	131,236	103,595
September	117,120	98,205



Calais Gross Margin

	96-97	97-98
October	40,870	44,260
November	46,957	54,062
December	57,631	56,739
January	44,523	36,800
February	37,689	37,378
March	35,918	46,817
April	36,797	40,641
May	52,862	51,008
June	48,770	45,237
July	59,490	51,056
August	41,996	43,510
September	37,478	41,246



APPENDIX F

Fort Kent Liquor Store Study
State and Agency Stores in Aroostook County

**Fort Kent Liquor Store Study
State and Agency Stores in Aroostook County**

FISCAL YEAR 1998		
STATE STORES		
	BOTTLES	SALES
Caribou	158,218	1,444,067
Houlton	94,669	966,200
Presque Isle	105,847	1,082,916
AGENCY STORES		
#234 Ashland Food Mart, Inc.	8,768	85,301
#247 Bob's Neighborhood Store	0	0
#216 Caswell Parent's Country Store	10,882	97,357
#285 Connor Plantation Pete's Market.- closed	3,565	26,119
#142 Eagle Lake Grocery	4,809	39,242
#241 Fort Fairfield Higgin's Market. - closed	6,464	44,254
#242 Fort Fairfield Hillside IGA	15,855	137,297
#201 Fort Kent Paradis IGA	24,513	263,448
#219 Fort Kent Texaco Food Mart	12,268	93,048
#291 Grand Isle Victor's - closed	0	0
#233 Island Falls Jerry's IGA	11,074	92,250
#278 Jim's Convenience Plus	5,026	42,596
#207 Limestone Ouellette's	11,057	85,880
#277 Madawaska Bob's Servicecenter	31,385	287,976
#290 Mars Hill IGA	10,021	95,291
#286 Paradis Shop and Save	15,176	161,338
#203 Patten Ellis Family IGA	9,164	84,416
#130 Portage Coffin's General Store	7,724	71,129
#134 Sherman Mills IGA	5,579	47,127
#143 St. Agatha The Naborhood Store	8,328	85,711
#109 St. Francis John's Country Store	4,636	40,487
#202 Van Buren Ouellette's Trading Post	6,255	50,218
#215 Van Buren Saucier's IGA	10,964	96,805

APPENDIX G

Memorandum on Liquor Pricing
November 16, 1998



ANGUS S. KING, JR.
GOVERNOR

STATE OF MAINE
DEPARTMENT OF
ADMINISTRATIVE & FINANCIAL SERVICES
BUREAU OF ALCOHOLIC BEVERAGES
& LOTTERY OPERATIONS
8 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0008

EBEN B. MARSH
DIRECTOR

Memorandum

To: **Danielle Fox**
Legal & Veterans Affairs Committee

From: **Eben B. Marsh**

Date: **November 16, 1998**

Subj: **Liquor Pricing**

Copy: **Janet Waldron, Greg Nadeau, Commission Members**

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OPLA

This is in response to your request for a statement on Liquor Pricing. The 118th Legislature revised the law pertaining to the Bureau's pricing of spirits in Maine. Previously, all spirits had to be marked up a minimum of 65% above the product FOB price delivered to the warehouse in Portland.

Now the Bureau has flexibility to price a product in accordance with the product's ability to provide optimum net profit to the General Fund. Specifically, the Bureau sets a product price by applying the following five criteria:

1. A brand's standing by competitive position in Maine, New Hampshire, and regionally.
2. A brand's gross profit performance, historical and potential.
3. Anticipated consumer response to product pricing.
4. The vendor's landed cost to the state.
5. The level of vendor promotional support for the brand.

Further, the Bureau has utilized this pricing authority to develop a strategy of producing more profit by reducing the price in the most premium and profitable brands. This is done to keep our business in Maine and encourage retail customers to "trade up" to more profitable brands.

Except for the state's two discount liquor stores in Calais and Kittery, all selling prices are the same retail price charged all retail customers making purchases at all state and agency liquor stores throughout the state.

Any retail customer will pay the same price for a product anywhere it is purchased within the state (except Calais and Kittery).

I understand that there is an inquiry about establishing regional discount pricing, and about reducing the retail prices on high volume items, i.e. Allen's Coffee Brandy.

Regional pricing would disrupt the balance of equity that now exists statewide. It may create unfair competition between regional agents who have made investments in their store's inventory.



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Reducing the retail prices of Allen's Coffee Brandy only would serve to undermine the state's profit, and possibly encourage more consumption.

I would recommend that regional pricing or price reduction on high volume items, as you have described them, not be implemented.

The performance of the pricing strategy appears to be generating higher value of sales in the state, increased agent's commission for sales, has generated a modest increase in gallons sold, produced a higher dollar value/bottle sold, and causing a reduction in NH sales.

We have been into this strategy for six months. Some things being done to improve profits are:

- bringing all agents into compliance on retail pricing
- analysis and revisions to the price list
- seeking reductions in vendor costs
- reduction in operating costs
- assisting the vendors to achieve broader retail awareness of product pricing
- utilizing periodic newspaper inserts