

Testimony – SB 298

March 31, 2015

Senate Committee on Federal and State Affairs:
Chairman Ostmeyer and Members of the Committee:

This week the Committee is asked by Uncork Kansas, a coalition of non-resident convenience, grocery stores and big box retailers to consider SB 298, at the eleventh hour of the session, a muddled-up bill that will make major changes to the state liquor laws by asking for a county option vote. The information presented by this coalition portrays only one side of a multi-faceted industry. As an owner and operator of a wine and spirits store since 1979, and who has contributed to and influenced many of the changes in the current liquor laws of the State, I ask you to consider the following points as you formulate an opinion on the subject.

1. **Proposed changes will not create new jobs.** The Alcoholic Beverage Control Division (“ABC”) of the Kansas Department of Revenue says that thousands of new alcohol-selling outlets will be added by this legislation. At most, only twenty percent (20%) of these outlets would add even one new employee. Instead, liquor wholesalers will be expected to stock and service these new accounts seven days per week, just as other wholesalers stock and monitor soda, water, chips, and other grocery store items.
2. **Kansans are accustomed to “stopping by” a liquor store for their adult beverage needs.** Uncork Kansas would have you believe that Kansas is currently suffering from a loss of revenue in adult beverage sales because these adult beverages are not sold in grocery and convenience stores. There is absolutely no research to suggest that Kansans are not buying adult beverages because these items are sold only in liquor stores. In 1979, the year Jacob Liquor was founded, Kansas was ranked 48th in wine consumption, in 2013 it had moved up to a tie for 47th. Yes there was growth, but not faster than any other state. Kansans are accustomed to making their adult beverage purchases in a liquor store with a trained staff.
3. **Proposed changes will not generate revenue as promised.** Expanding adult beverage sales into grocery and convenience stores will not actually generate additional revenue for the State as Uncork Kansas has indicated. . There will be a shift in sales and not an increase. It will be a matter of where the consumer will buy and not how much. In addition, the chain and big-box stores will sell adult beverages at drastically discounted prices, which will actually result in a **loss** of revenue for the State as the gross retail sales will be reduced.
4. **Proposed changes will force small businesses right out of business.** Right now, Kansas has over 750 family-owned liquor stores. It is my estimation that at least fifty percent (50%) of these stores will be forced out of business within five (5) years of the inception date. Several hundred stores will close before the start date because of attrition (retirements, lease expirations, inability to secure bank loans because of this law, among other reasons). How many Kansas families will be left without a primary means of income and support? How many years spent building small businesses will be lost, hard work and sacrifice essentially for nothing?
5. **Loss of sales for the liquor store retailer cannot be compensated for.** Attempting to compensate retailers for the inevitable loss of revenue by allowing the sale of non-alcoholic items in liquor stores is of no comfort. The sale of these non-alcoholic products cannot come close to compensating for the lost adult-beverage sales.
6. **Liquor-law reform will have unintended societal consequences.** In June 2012, the State of Washington changed from State owned liquor stores to allow for sales in stores, similar to that proposed by Uncork Kansas. The result? Out of control shoplifting, reduced tax revenue, increased underage alcohol sales and usage, and the development of a black market focused on theft and resale of alcohol.
7. **Expanding sales to grocery and convenience stores will not provide more selection to the consumer.** This is an interesting observation since very few of the Uncork Kansas members will only carry 200-300 sku’s and the average liquor store now carries several *thousand* sku’s. More choice will come only by the introduction of their inferior private label products.
8. **Any generated revenue will benefit non-state entities.** The financial backers behind Uncork Kansas are out-of-state entities, *non-Kansas residents*. Can you honestly believe that all profit generated by this proposed liquor law will be sent out of state. Current wine and spirits retailers are Kansans through and through. Most, like me, grew up here. We raised our families here – supported our children by working hard to build and cultivate locally-owned businesses. The dollars we make are invested right back into the revenue stream, helping to support other locally-owned small businesses. Also, how does the State pay for all the additional enforcement personnel that would be needed to cover enforcement?

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It is easy to understand why members of Uncork Kansas want to sell adult beverages: a 2-liter of Coke and a 1.75-liter of Jack Daniels take up the same shelf space. The 2-liter of Coke generates a twenty-cent (\$0.20) profit, Jack Daniels a five-dollar (\$5) profit, a 1.5 liter of wine \$1.50 profit, toilet paper ?? profit. Basic economics tells Uncork retailers that alcohol products are the more profitable way to go. During a recent CNBC documentary, entitled “The Costco Craze: Inside the Warehouse Giant,” **Costco’s principal wine buyer Annette Alvarez-Peters stated that selling alcohol, wine in particular, “is just a beverage product”, basically no different than toilet paper is a product.** This simple statement reflects everything that is wrong with big-box retailers, including grocery and convenience store, entering the adult beverage market. **Profits of chain outlets go out of state, Kansas retailer’s profits support their families.**

To a Dillon’s employee, liquor is just something stocked in the beverage aisle. To the clerk at QuikTrip, beer is something stocked in the cooler. To me and my employees, these products are something completely different. Wine now represents a life style in Kansas that did not exist 36 years ago, not just a special occasion. Beer is not only something to grab and stick in a cooler on your way to the lake, but a craft brew, painstakingly cultivated and brewed for a unique taste.

The Jacob family, like so many other families across Kansas, currently operates two retail liquor stores licensed to family members. My family and my employees have built relationships with our customers, earning their trust and loyalty one day, one sale at a time. How can we maintain these basic pillars of business when we are ultimately forced to raise our prices to support our families, where the Dillons across the street sell alcohol products as a loss leader? The answer is simple: we cannot.

Jacob Liquor supports 43 employees and their families. In the end, all of us and all of the owners, employees, and families comprising the other 750 retail liquor stores are counting on you, *trusting* you to support your constituents, not the faceless national corporations that comprise Uncork Kansas.

In summation, SB 298 says, three years after a county vote

We are giving retailers 3 years to get out of business:
i.e., retailer don’t sign long term leases or borrow money.

There will be 1800+ additional full strength beer outlets
i.e., retailer, you better hope that beer is less than 20% of your sales!

Grocery stores can sell all alcohol products if they buy existing retail license, if needed, since they expect several hundred to be available by attrition, lost leases, and other closures of stores since 7/1/2015.
i.e., retailer - did you really think your license would be worth anything?

Also, if you are one of the existing retailers that survive, we will let you sell soda, chips, & candy – oh yes, don’t forget you can sell toilet paper, too.
i.e., retailer - what more could you ask for?

If SB 298 is passed, Uncork will be back several times asking you to change all the restrictions that the Kansas retailers have had to live under since 1948 – allowing 18-year olds to sell the product is just the start and just like Tennessee (their model for this County option bill) a bill will be introduced to move the start date up to one year.

Sincerely,

Tom Jacob