

Dear Friends;

If you are reading this it is because you are looking for more details about the Government's recent announcement that the floor price on Spirits will increase April 1, 2009.

Newspapers, TV and radio noted that the price of spirits was going up but they didn't speak to how or why. That is the purpose of the following.

The British Columbia Liquor Distribution Branch was created as a way to control the flow of liquor in BC with a goal being the prevention of irresponsible consumption. At the time 'moonshine' was a significant problem in terms of tax evasion and the social ills and health costs the consumption of home distilled products posed.

The thought was if the distribution, access and price of all alcoholic beverages was controlled there would be a reversal in the problems associated with 'bath tub gin' and an increase to the province's coffers.

The same thoughts were taking hold across the country and we saw the creation of Liquor Boards from across the country .

Consider that in those days it was considered that only the poor and destitute have problems with alcohol and therefore if access were controlled and the prices kept at a level believed to be above what the less fortunate could afford, then society would be clear of many of its alcohol related problems.

This approach was called social reference pricing (the floor price) and it applies to spirits, wines, beers, coolers and ciders. Social reference pricing is the minimum price for which a beverage alcohol product can be sold off the Government Liquor Store's retail shelf.

The fact is that there is still approximately 1% of the population that struggles with the responsible consumption of alcohol (to be clear what I consider to be irresponsible consumption includes under age drinking, binge drinking, drinking while pregnant, and, of course, drinking and driving). This number holds true to virtually all North American jurisdictions. Some will be a little higher and some a little lower, but British Columbia is neither although we now have the highest prices for spirits in North America, and on April 1st we will have the highest prices for spirits in the world.

Let's ask the question - if irresponsible consumption were directly tied to pricing then why doesn't BC have the lowest rate of irresponsible consumption?

To answer this we did a little experiment. Our license allows us to sell beverage alcohol for as low as our cost, which is a net 16% discount from LDB retail. So we picked two spirit items that were either mature brands or desperate to have their time in the sun- Banff Ice Vodka 750ml and Canadian Club Rye Whisky 750ml. We reduced the price to \$20.99 and \$21.99 respectively; both below BCLDB floor price. To eliminate the effect of a perceived time sensitive sale price, we committed to having the prices in effect for 365 consecutive days.

The results won't surprise anyone. Banff Ice is our number 1 selling Vodka and outsells its nearest competitor by 8 to 1. Canadian Club is our number 1 selling Rye and outsells its nearest competitor 9 to 1.

What was fascinating, was that per capita, we did not sell more Vodka or Rye, just more of these brands, and less of the others. In effect, total Vodka and Rye consumption had not increased, but purchases of these two brands did. That tells me that price does not directly effect irresponsible consumption. What we did was to simply offer better value to the consumer and it did not create more consumption; responsible or irresponsible.

Here is another interesting fact. If you were to price out the least expensive Vodka, Rum, Rye, Gin or Scotch that is available in the world based on the BCLDB markup schedule and not factor in the floor price, the price would be approx. \$18.99.

If the BCLDB eliminated the floor price, they haven't eliminated the suppliers cost of production, supplier/warehouse/sales agent profits, transportation and costs of sales, or BCLDB Liquor taxation (163% mark-up on spirits and an additional 10% at point of purchase). All these put together would insure that a 750ml bottle of spirits would sit on the shelf anywhere from \$18.99 to \$20.99. In other words there would be no worries about high alcohol beverages (anything over 17.1% alcohol by volume) ever being available at prices even close to those in the US, Alberta, or even other provinces. Is there a need for a floor price?

If not society, who then does directly benefit from the floor price and from the increases to the floor price set for April 1?

On April 1, 2009 the BCLDB will increase the floor price of spirits in BC by 4.5%. You the consumer will pay a minimum, depending on your brand, of \$.50 more for a mickey (375ml), a minimum of \$1.00 more for a 750ml (26 ounce), a minimum of \$1.50 more for a '40 (1.14L) and a minimum of \$2.00 for a '60 (1.75L).

The minimum dollars generated by this increase is \$31.9 million. Government expects to add an incremental \$7million to general revenues in the first year. But that is only 21.9% of revenue expected to be generated from the increase. 78.1% or, \$24.9million will go directly into the coffers of the distillers and their agents.

Not only does the floor price secure higher profits for the distillers, but it also dramatically limits competition. The floor price limits the gap between 'value' brands and premium brands to an amount that isn't enough to make the consumer switch from a premium, well established brand to a value or new brand thus minimizing competition between existing brands and significantly curtailing the entry of new brands into the market. In fact, 95% of all new spirit products are supplied to the market by the same producers of the leading brands such as Bacardi, Smirnoff, and Wisers.

I have come across vodkas from Poland, Russia, Japan and Canada, and rums from Cuba, Barbados, Jamaica, and Venezuela, and Gins from England, Wales, Canada, Holland and the US that could sit on the shelf at \$18.99.

Let's consider what would happen if the floor price was eliminated.

In the first 4-6 months market share would shift around as a result of pricing changes. Remember 95% of all spirits comes from 4 major suppliers, so it is not as if they would lose volumes, but the leading brands would have to work harder to keep their current market share.

After around 4 months we would start to see new competitors arrive to the market. A broader selection would appear with a broader range of pricing from value to premium.

If the floor price were eliminated there would be greater selection of products at better prices so the consumer would end up benefiting. At the same time government would still continue to receive the same amount of taxation, while consumption would not increase. Why do we have the highest prices for spirits in the world if the only benefit from this goes to the manufacturers of a limited number of brands of spirits?

Anyway that is enough for now. Below of current prices of your favourite spirits and what they are estimated to be as of April 1. Stock up now!

375 ml products are estimated to go up 1/2 the increase in the bottle amount of the 750ml (if 750ml = \$2.00 375ml = \$1.00)

1.14ml products are estimate to go up 1 1/3 the increase in the bottle amount of the 750ml

1.75ml products are estimated to go up 1 1/2 the increase in the bottle amount of the 750ml

Smirnoff Vodka 750ml

today: \$23.99

April 1: \$25.99

Difference: \$2.00/bottle \$24.00/case

Absolut Vodka 750ml

today: \$23.99

April 1: \$25.99

Difference: \$2.00/bottle \$24.00/case

Crown Royal Rye Whisky 750ml

today: \$29.99

April 1: \$32.99

Difference: \$3.00/bottle \$36.00/case

Wiser's Deluxe Rye Whisky 750ml

today: \$25.99

April 1: \$28.99

Difference: \$3.00/bottle \$36.00/case

Bailey's Irish Cream 750ml

today: \$29.99

April 1: \$32.99

Difference: \$3.00/bottle \$36.00/case

Bacardi White Rum 750ml

today: \$23.99

April 1: \$25.99

Difference: \$2.00/bottle \$24.00/case

Lambs Navy Rum 750ml

today: \$22.99

April 1: \$23.99

Difference: \$1.00/bottle \$12.00/case

If you have any questions or comments, please let me know at [askrod@liquorplus.ca](mailto:askrod@liquorplus.ca)

Cheers

Rod Phillips

Director of Buying & Marketing

Liquor Plus