

**Joint Hearing of the
Senate Law & Justice Committee and House Liquor Control Committee
April 30, 2021**

Testifying on behalf of the Pennsylvania Liquor Control Board (PLCB)

**Michael Demko, Executive Director
Deborah Rivera, Chief Merchandising Officer
Tom Bowman, Director of Product Selection
Rodrigo Diaz, Chief Counsel**

Good morning Chairmen Regan, Brewster, Metzgar, Deasy and members of the Senate Law & Justice and House Liquor Control Committees. Thank you for this opportunity to testify regarding the Pennsylvania Liquor Control Board's (PLCB) sales and distribution of ready-to-drink products. My name is Michael Demko and I am the PLCB's Executive Director. Testifying with me today is Deborah Rivera, our Chief Merchandising Officer, Tom Bowman, our Director of Product Selection, and Rodrigo Diaz, our Chief Counsel.

Ready-to-drink alcoholic beverages, commonly referred to as RTDs, is a broad category of drinks including an expansive variety of products. Generally, RTDs consist of an alcohol base plus one or more non-alcoholic components and can be consumed without the need to add any other ingredients.

RTDs include malt and brewed beverages like popular seltzers White Claw and Truly; wine-based products like Barefoot hard seltzers and spritzers and wine-based cocktails; and spirits-based drinks like High Noon, Sauza Spiked Sparkling Water and Jack Daniels canned cocktails. RTDs also include pre-mixed cocktails like margaritas, rum punches and pina coladas ready to pour over ice. Given the variety of alcohol bases and executions, RTDs can vary widely in alcohol content.

The PLCB sells both wine- and spirits-based products marketed as RTDs. Retail licensees with wine expanded permits, like many grocery and convenience stores, can sell limited quantities of both malt and brewed beverage-based RTDs and wine-based RTDs for off-premises consumption. Additionally, beer distributors can sell malt and brewed beverage-based RTDs for off-premises consumption. Licensed manufacturers in Pennsylvania may sell RTDs, produced with the alcohol they manufacture, for off-premises consumption to individual customers and licensees.

RTDs are a growing beverage alcohol category, and manufacturers continue to introduce new RTD products to respond to increasing customer demand. In fiscal

year 2019-20, PLCB sales of RTDs, not including special order sales, totaled 2 million units for \$23.8 million, while sales in the current fiscal year have already totaled 2.8 million units for \$31.7 million, with two months to go. Currently, the PLCB offers approximately 327 RTDs for sale, not including products in the special order portfolio.

Regarding advertising, the PLCB generally dedicates marketing dollars to support monthly special programs and flash sales proposed and funded by suppliers and approved by the PLCB. For special programs, we create in-store point-of-sale advertising and may also include radio and digital advertising, email marketing and organic social media promotion. Flash sales are primarily promoted via free-standing inserts and shared mail pieces.

Since RTDs have not been involved in special programs to date and have had limited flash sale participation, the PLCB's advertising expenditure on RTDs has been negligible, about \$6,400 dating back to 2019. For context, in fiscal year 2019-20, the PLCB spent about \$8 million on product marketing and advertising.

As the General Assembly considers potentially expanding where spirits-based RTDs can be sold for off-premises consumption, it should consider how Pennsylvania's beverage alcohol marketplace and the PLCB have transformed since Act 39 of 2016 authorized wine-to-go sales and private retailers.

In response to Act 39, the PLCB created an Office of Wholesale Operations that is dedicated to addressing the business needs of licensee customers, including holders of wine expanded permits (WEPs) that purchase and sell high volumes of wine-to-go. Through services like our Licensee Delivery Program, which delivers cases and pallets of wine directly from our warehouses to WEP holders, the PLCB has supported the licensee community with efficiencies and convenience to enable their wine sales. Today, 1,475 licensees hold WEPs, including more than 1,000 grocery and convenience stores.

The transformation of the PLCB into an organization with clear wholesale, retail and e-commerce lines of business continues. We're organizationally restructuring to better manage products from acquisition through retail or wholesale sales, consolidating distribution functions to achieve warehousing and distribution efficiencies, and designing and implementing a new cloud-based enterprise resource planning platform to standardize and optimize our business to industry leading best practices.

As the General Assembly contemplates the expansion of off-premises sales of spirits-based RTDs to other retailers, the PLCB is well positioned to continue its business partnerships with high-volume retailers and other licensees to meet their wholesale RTD product needs. It is also important to recognize that only alcohol sold through the PLCB is assessed the 18 percent liquor tax, which directly benefits the Commonwealth's General Fund.

Thank you for this opportunity to provide information regarding the PLCB's experience with RTDs, and we would be pleased to answer questions from members of the committees.