

Policy Analysis: Pennsylvania Ready-to-Drink Cocktails



Summary: Spirits based ready-to-drink (RTD) products are an emerging category gaining popularity because they fulfill consumers' demand for beverages that are high in quality, offer endless variety and are convenient to serve. Adult Pennsylvanians could have easier access to more affordable spirits-based ready to drink products by allowing these RTDs to move through private beer distribution channels and be sold at Wine Expanded Permits (WEPs) and Home Distributors. By applying the 18% liquor tax to the wholesale price of RTDs containing up to 14% alcohol, it is projected that the combined excise and sales taxes would allow Pennsylvania to net between \$153.3 and \$184.5 million in new tax revenue.

Expanding the distribution channels of spirits-based RTDs will be a win for consumers, for the state, and for spirits, wine and beer suppliers and their wholesalers that now produce and distribute spirits RTDs.

What are ready-to-drink spirits products?

Today's consumer demands quality ingredients, variety and convenience. Spirits-based canned cocktails, also known as ready-to-drink spirits products, meet all three demands.

- Using real spirits provides the quality products consumers want.
- Since spirits are infinitely mixable, a wide variety of fruit juices, tonics, seltzers, colas, bitters and other mixers are being combined to provide endless variety.
- Finally, since canned cocktails are already prepared and in single serving containers, they are convenient.

What impact will allowing private sales of spirits-based RTDs have?

Currently, spirits-based RTDs must be sold through Pennsylvania Liquor Control Board (PLCB) stores and priced according to the PLCB's mark-up formula. Allowing private wholesalers to distribute spirits-based products having an ABV equal to or less than 14% and price them according to market conditions would benefit consumers. The excise tax rate would be set at 18% (Johnstown Flood Tax or JFT) of the wholesale price. Updating the distribution and taxation laws will increase convenience for adult consumers, allow consumers to enjoy these spirits-based RTDs at affordable prices and generate the greatest return for the Commonwealth.

What is the fiscal impact?

With spirit-based RTDs sold at PLCB stores, WEPs and Home Distributors, which includes roughly 2,600 retail outlets, Pennsylvania is projected to sell more than 11.7 million cases worth nearly \$1 billion at retail. Including the JFT, applied at wholesale,

and Pennsylvania's sales tax, spirits-based RTD sales would generate an estimated \$153.3 to \$184.1 million for the state treasury after a period of market adjustment projected to be within 3 years.

Who will benefit?

Expanding the distribution channels of spirits-based RTDs will be a win for adult consumers that will have access to products that they desire, for the state when it collects new revenue, and for beer, wine and spirits suppliers. Beer and wine companies are increasingly offering spirits-based products. Traditional beer companies, in particular, are experienced when it comes to developing and marketing RTD-type products.

Spirits RTDs often sell at two to three times the price of traditional flavored malt beverages (FMBs)/beers. As a result, development of the spirits RTD market will grow revenues for spirits, wine and beer suppliers as well as their wholesalers.