

The Privatization/Modernization of Pennsylvania Alcohol Sales

Senate Law and Justice Committee

Pennsylvania Senate

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Testimony of Redner's Warehouse Markets
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Good Afternoon Chairman McIlhinney, Chairman Ferlo, and members of the committee. Thank you for having Redner's here today to testify on the issue of privatizing and/or modernizing the way alcohol is currently sold in Pennsylvania. My name is Jason Hopp and as Vice President and General Counsel of Redner's Warehouse Markets, I am pleased to be here to discuss how the various proposed changes to the current system could affect Redner's.

First, I would like to give everyone some background on Redner's. Redner's Warehouse Markets is a Pennsylvania based, employee-owned supermarket chain founded in 1970 by Mary and Earl Redner. Today, Redner's is in its 3rd generation with Richard Redner serving as its President and CEO. We operate 43 Warehouse Markets, 18 Redner's Quick Shoppe convenience stores and gas kiosks, and 2 distribution centers, all located in Pennsylvania, Delaware, and Maryland. Thirty-six Warehouses and sixteen Quick Shoppes are operated in Pennsylvania and we employ a total of 4,500 employees, 4,022 are Pennsylvanians. Last fiscal year Redner's served 29,796,134 customers.

One unique aspect to Redner's is that we offer an Employee Stock Ownership Plan or ESOP. We were the second grocery ESOP in the nation and first in Pennsylvania. Employees who are a part of this plan have an interest in making Redner's a great place to work and shop, and in turn, have stock/ownership for the great work that they do. We have had thirty year employees retire with an ESOP balance approaching \$1,000,000. Our employee owners live in the communities they work and we have provided a list of where our Redner's markets are located. We have a vested interest as owners to ensure that Redner's is a top shelf, socially responsible community grocery store. In return, our customers enjoy low prices and outstanding customer service. Our business philosophy is simple. We are able to offer our customers every-day low prices because we are willing and able to accept lower profit margins than our competitors. Our goal is to turn fast nickels instead of slow quarters. Therefore, our operating costs need to be lower, which leads to smaller, less extravagant stores. No sushi bars or internet cafes will be found in a Redner's.

I am also very proud of the community involvement of Redner's. Redner's gives back to the communities it serves in numerous ways. Our 1% Save-A-Tape has returned over \$4.9 million to local non-profits since 1999; our U.S.M.C. Toys for Tots has donated over \$1 million just over the last fifteen years; and Redner's also actively supports the American Cancer Society's Relay for Life, local and U.S. food banks, and numerous other community support programs, including Crime Alert Berks County, and the Greater Reading Fair.

Thanks to our hardworking employees, our low prices with a wide degree of selection, and our community involvement Redner's has been able to compete with the big box stores that have crept into our neighborhoods.

However, with a change in the system of how we sell alcohol in the Commonwealth, as with any change, there are undoubtedly unintended consequences to those changes. I am here today to bring to light one of those unintended consequences.

First, I would like to say that the Wegmans the world have a great operation and provide first class products that meet the needs of their customers. In contrast to my fellow grocers on this panel, Redner's meets the needs of the more cost conscious customer and is significantly smaller in actual shelf space, floor space, number of employees, and capital. At Redner's we are competing for the same customer who may shop at big box stores for their groceries. If a regular Redner's customer is able to purchase their beer, wine, and spirits with their groceries at a different store that also offers low prices, we will lose a significant customer base particularly if these types of stores are able to sell cases of beer in the aisle, which we would strongly oppose. It's all about that one less errand for the busy family. Therefore, changing the current system of selling beer, wine, and spirits in the Commonwealth will be detrimental to small to medium size Pennsylvania based grocery stores like Redner's if a concerted effort is not made to allow us to compete within the system.

What will make a small to medium size Pennsylvania based grocery store uncompetitive will be the ability of big box stores and even larger grocery store chains to afford to create separate space to accommodate seating for 30, to house their alcohol, to add a divider, and to add additional employees over 18 to run a separate cash register in the new space. These larger stores have the capital, shelf space, and staffing to accommodate the increase in convenience provided by privatization or modernization and will attract the Redner's shopper purely on the fact that the customer can purchase their groceries and alcohol in one place. Redner's simply does not have the space and capital to accommodate the requirements of an "R" or "E" license as it is currently defined. If big box stores can become the one-stop-shop for beer, wine, spirits, and groceries, without changes or modernization to the "R" or "E" license, Redner's will not be able to keep up.

The main theme I keep reading and hearing about with regards to privatization of the state spirits stores all goes back to the idea of convenience. While the initial philosophical argument is that government should not be in the business of selling alcohol, when it boils down to what the taxpayers want, it is convenience. And what could be more convenient than being able to get your beer, wine, and spirits where you purchase your groceries? So, grocery stores are the logical first step to convenience and current proposals exist to get to that goal in some shape or form.

Under HB 790, a separate Grocery or "G" license was created to allow grocery stores of a certain size to sell up to 12 bottles of wine for consumption off the premises. The owner of a G license could also own a Retail/Restaurant or "R" license. Translated into the real world, a grocery store with both a "G" license and an "R" license could sell both wine and beer, but the beer would have to be housed within a separate space, with seating arrangements for 30, and a separate cash register operated by someone 18 years or older.

Under Senate Bill 100, the current PLCB stores are left intact and a new Wine and Spirits Retail License is created to sell wine and spirits. Grocery stores that have an "R" license could sell beer under that "R" license and also obtain a newly created Wine and Spirits Retail License to sell wine and spirits.

Under Senate Bill 800, the current wine and spirits stores are left intact and provides for modernization of the Pennsylvania Liquor Control Board. This bill would impact grocery stores by encouraging additional stores to be located within or near grocery stores. This still empowers the PLCB to control the monopoly on locations. Grocery stores could still purchase an “R” license and sell beer.

Under each plan, there is at least wine and beer either inside the premises or an effort to get them both in the same vicinity of each other. However, each plan still requires that beer be sold within the confines of the “R” license. **Within the debate of privatization and/or modernization, we feel that stores the size and composition of Redner’s have not been taken into consideration. When and if a proposal to allow the sale of wine and spirits outside of the PLCB becomes law, we would like to know that a store like ours can still thrive and serve our communities at the level that we do.**

What makes the most sense for Redner’s is to allow for a modified or modernized version of the “R” license for Pennsylvania Based Grocery Stores. Allow 20,000 – 55,000 sq. ft. Pennsylvania based grocery stores that primarily sell food for off premise consumption to obtain a license to sell beer, wine, and spirits by licensing the whole premise. This will allow us to compete with larger grocery chains and big box stores on a level playing field due to our lack of additional space for the sales, 30 person seating, and cash register area within the required divider. For Redner’s the more money spent to build a restaurant area, cash register etc. is more money taken away from each employee’s retirement, the communities we give back to, and the low prices we offer to our customers.

We do not feel this would place us at any advantage over any other entity and certainly are not looking to put anyone out of business. We realize there are many livelihoods at stake here and many components to this complicated endeavor you have taken on, and we have added yet another piece of the puzzle. We are simply looking to continue to serve our communities and continue doing what we do best.

Again, thank you for the opportunity to speak and I welcome any questions or comments you might have.