

An Evaluation of the Competitive State of Texas' Package Liquor Store Market



Spring 2015

Analysis performed by



Overview & Purpose

- Texas is the only state in the nation that allows private corporations to own liquor stores while prohibiting publicly traded companies from doing so. SB 609 and HB 1225 would allow publicly traded companies to own package liquor stores and compete alongside private companies in the retail sale of spirits.
- Benefits of allowing greater participation are associated with increased competition, and could include: 1) better consumer choice and convenience, both in terms of outlets and product mix; 2) potentially lower prices; and 3) possible innovations and/or enhancements in customer service.
- Concern has been expressed about the impact of increased competition on current (small/local) package store owners. TXP, Inc. was retained by Texans for Consumer Freedom to evaluate the competition that exists in the current Texas market, those of other states where publicly traded companies are allowed to compete, and the impact publicly traded companies would have on the Texas competitive landscape.

Determining Market Share

- The TABC discloses permit holders, the operating name of the stores those corporations own and operate, as well as the location of those stores. According to data collected in December, there were 2,491 active package stores permits in Texas.
- The most helpful information to determine the competitiveness of the current Texas package store market and the market share of companies that hold multiple permits would be sales data. The Office of the State Comptroller does not share this information in order to protect confidentiality.
- As an alternative, we collected the value of business personal property as reported to county appraisal districts. This data, which is publicly available, includes the estimated value of inventory, furniture, fixtures, and equipment. Most recent data is from Jan 1, 2014 appraisals.
- Data was collected for each package store permit ownership group by county, summed, and then used to calculate market share. Spec's values were reduced by 11% to reflect estimated food sales.

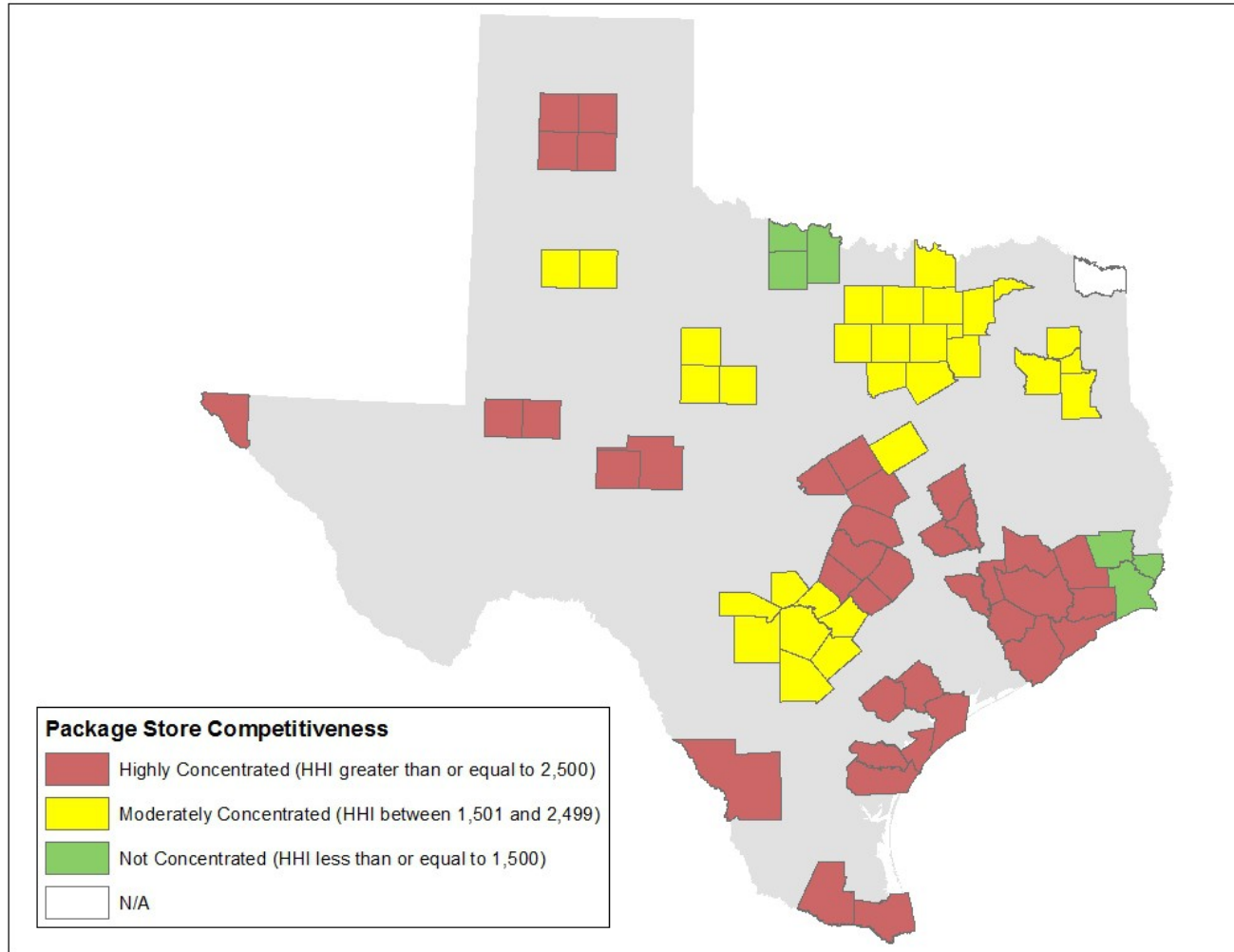
Applying the DOJ's Method for Determining Market Competitiveness

- As part of evaluating mergers, the Justice Department uses the Herfindahl–Hirschman Index (HHI), a commonly accepted measure of market concentration and competitiveness.
- The HHI takes into account the relative size distribution of the firms in a market. It approaches zero when a market is occupied by a large number of firms of relatively equal size and reaches its maximum of 10,000 points when a market is controlled by a single firm. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.
- The HHI is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers.
 - Results between 1,000 and 1,500 = Not Concentrated/Relatively Competitive
 - Results between 1,500 and 2,500 = Moderately Concentrated/Slightly Competitive
 - Results in excess of 2,500 = Highly Concentrated/NOT Competitive

Overall Findings

- Texas does not allow publicly traded companies to own package liquor stores. Of the state's 2,491 package liquor store permits, at least 452 (18.1%) are held by private chains. These chains collectively account for almost 70% of liquor store personal property reported in TX MSAs.
- The situation varies to some degree among major metro areas, but all are concentrated markets. For example, the two largest private chains in the Austin area account for more than 70 percent of local market share. In Houston MSA, one chain represents more than half the market; that same group accounts for just under 80 percent of the Rio Grande Valley. This pattern is repeated to vary degrees across all metropolitan areas of the state.”
- There is an understandable concern that local “mom and pops” would not be able to compete if the legislature were to eliminate the law prohibiting public companies from owning liquor stores. These numbers clearly demonstrate that mom and pops have faced this kind of competition for many years, and have had to adjust their business model accordingly. There is no reason to restrict additional market entrants.”

Package Store Competitiveness



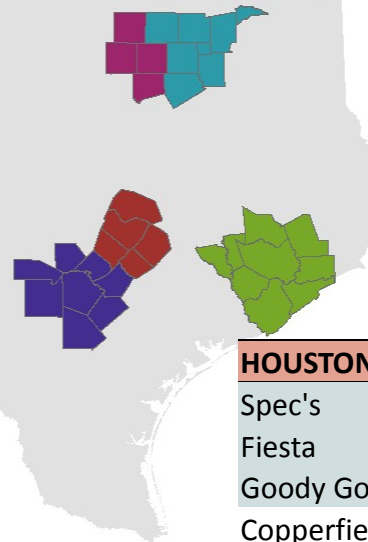
Major Metros:

Private Chains Dominate Market Share

| FORT WORTH | 2014 Value | Share | HHI |
|------------------|---------------------|-------|----------------|
| Spec's | \$11,711,454 | 32.9% | 1,080.9 |
| Goody Goody | \$6,128,216 | 17.2% | 296.0 |
| Total Wine | \$3,685,341 | 10.3% | 107.0 |
| Fossil Creek | \$2,260,091 | 6.3% | 40.3 |
| King | \$1,774,417 | 5.0% | 24.8 |
| Total MSA | \$35,621,854 | | 1,549.0 |

| DALLAS | 2014 Value | Share | HHI |
|------------------|---------------------|-------|----------------|
| Goody Goody | \$17,301,194 | 25.0% | 624.0 |
| Spec's | \$13,718,437 | 19.8% | 392.3 |
| Sigel's | \$12,578,502 | 18.2% | 329.8 |
| Total Wine | \$8,897,350 | 12.8% | 165.0 |
| Beverage Depot | \$2,468,620 | 3.6% | 12.7 |
| Total MSA | \$69,262,599 | | 1,523.8 |

| AUSTIN MSA | 2014 Value | Share | HHI |
|------------------|---------------------|-------|----------------|
| Twin | \$17,196,097 | 40.4% | 1,634.1 |
| Spec's | \$13,408,770 | 31.5% | 993.5 |
| Western Bev. | \$753,322 | 1.8% | 3.1 |
| Wiggy's | \$539,839 | 1.3% | 1.6 |
| King | \$508,246 | 1.2% | 1.4 |
| Total MSA | \$42,539,848 | | 2,633.8 |



| SAN ANTONIO | 2014 Value | Share | HHI |
|------------------|---------------------|-------|----------------|
| Gabriel's | \$10,015,806 | 33.6% | 1,131.3 |
| Spec's | \$6,683,508 | 22.4% | 503.8 |
| Twin | \$4,387,435 | 14.7% | 217.1 |
| Total | \$2,845,320 | 9.6% | 91.3 |
| Western Bev. | \$858,930 | 2.9% | 8.3 |
| Total MSA | \$29,777,623 | | 1,951.8 |

| HOUSTON | 2014 Value | Share | HHI |
|------------------|----------------------|-------|----------------|
| Spec's | \$52,557,765 | 51.7% | 2,671.5 |
| Fiesta | \$5,095,024 | 5.0% | 25.1 |
| Goody Goody | \$3,091,590 | 3.0% | 9.2 |
| Copperfield | \$2,035,745 | 2.0% | 4.0 |
| JoeBlow | \$1,621,544 | 1.6% | 2.5 |
| Total MSA | \$101,684,807 | | 2,720.3 |

Major Chain Data by MSA

| | Total Values | Spec's | Goody Goody | Twin | Total W&L | Gabriel's | Sigel's | Pinkie's | Fiesta | Western Bev. |
|------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|--------------------|--------------------|
| Abilene MSA | \$1,515,398 | | | | | | | \$549,976 | | |
| Amarillo MSA | \$4,601,040 | | | | | | | \$1,116,518 | | |
| Austin MSA | \$42,539,848 | \$13,408,770 | | \$17,196,097 | | | | | | |
| Beaumont MSA | \$5,538,753 | \$955,985 | | | | | | | | |
| College Station MSA | \$3,090,058 | \$1,821,198 | | | | | | | | \$212,450 |
| Corpus MSA | \$6,919,669 | \$3,223,651 | | | | | | | | |
| Dallas MSA | \$69,262,599 | \$23,960,314 | \$23,429,410 | | \$12,582,691 | | \$11,292,780 | | | |
| El Paso MSA | \$8,300,778 | \$3,158,412 | | | | | | | | \$2,957,997 |
| Fort Worth MSA | \$35,621,854 | \$11,711,454 | \$6,128,216 | | \$3,685,341 | | | | | |
| Houston MSA | \$101,684,807 | \$52,557,765 | \$3,091,590 | | | | | | \$5,095,024 | |
| Killeen MSA | \$5,229,067 | \$2,322,870 | | \$1,102,444 | | | | | | |
| Laredo MSA | \$2,361,606 | \$1,284,466 | | | | | | | | |
| Lubbock MSA | \$6,187,055 | \$2,536,776 | | | | | | \$1,466,851 | | |
| Permian MSAs | \$3,490,864 | | | | | | | \$1,578,672 | | |
| Rio Grande Valley MSAs | \$10,535,248 | \$8,397,640 | | | | | | | | |
| San Angelo MSA | \$1,958,610 | | | | | | | \$1,769,340 | | |
| San Antonio MSA | \$29,777,623 | \$6,683,508 | | \$4,387,435 | \$2,845,320 | \$10,015,806 | | | | \$858,930 |
| Sherman MSA | \$1,332,158 | | | | | | | | | |
| Tyler/Longview MSAs | \$6,344,155 | \$477,485 | | | | | | | | |
| Victoria MSA | \$1,852,340 | \$858,076 | | \$470,560 | | | | | | |
| Waco MSA | \$2,065,294 | \$419,404 | | \$366,840 | | | | | | |
| Wichita Falls MSA | \$1,983,114 | | | | | | | | | |
| | \$352,191,938 | \$133,777,774 | \$32,649,216 | \$23,523,376 | \$19,113,352 | \$10,015,806 | \$11,292,780 | \$6,481,357 | \$5,095,024 | \$4,029,377 |
| <i>Share</i> | | 38.0% | 9.3% | 6.7% | 5.4% | 2.8% | 3.2% | 1.8% | 1.4% | 1.1% |

Smaller Markets: Private Chains Dominate Market Share

| LUBBOCK | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Spec's | \$2,536,776 | 41.0% | 1,681.1 |
| Pinkie's | \$1,466,851 | 23.7% | 562.1 |
| Harlan's | \$252,626 | 4.1% | 16.7 |
| H&H | \$242,029 | 3.9% | 15.3 |
| KP | \$226,032 | 3.7% | 13.3 |
| Total MSA | \$6,187,055 | | 2,288.5 |

| EL PASO | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Spec's | \$3,158,412 | 38.0% | 1,447.8 |
| Western Bev. | \$2,957,997 | 35.6% | 1,269.9 |
| Buddy's | \$431,442 | 5.2% | 27.0 |
| All American | \$361,362 | 4.4% | 19.0 |
| Zaragosa | \$253,145 | 3.0% | 9.3 |
| Total MSA | \$8,300,778 | | 2,772.9 |

| AMARILLO | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| M&R | \$2,083,928 | 45.3% | 2,051.4 |
| Pinkie's | \$1,116,518 | 24.3% | 588.9 |
| Party-Stop | \$682,785 | 14.8% | 220.2 |
| Bierman | \$101,500 | 2.2% | 4.9 |
| Spirit Emp. | \$96,402 | 2.1% | 4.4 |
| Total MSA | \$4,601,040 | | 2,869.8 |

| Rio Grande Valley | 2014 Value | Share | HHI |
|-------------------|---------------------|-------|----------------|
| Spec's | \$8,397,640 | 79.7% | 6,353.7 |
| Holiday | \$742,831 | 7.1% | 49.7 |
| Jones | \$223,287 | 2.1% | 4.5 |
| Ben's | \$132,738 | 1.3% | 1.6 |
| RGV Liquor | \$92,784 | 0.9% | 0.8 |
| Total MSA | \$10,535,248 | | 6,410.2 |

| PERMIAN | 2014 Value | Share | HHI |
|---------------------|--------------------|-------|----------------|
| Pinkie's | \$1,578,672 | 45.2% | 2,045.1 |
| Western Bev. | \$814,145 | 23.3% | 543.9 |
| Hops | \$111,290 | 3.2% | 10.2 |
| Triple R | \$82,804 | 2.4% | 5.6 |
| Cellar | \$70,319 | 2.0% | 4.1 |
| Total Region | \$3,490,864 | | 2,608.9 |

| CORPUS CHRISTI | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Spec's | \$3,223,651 | 46.6% | 2,170.3 |
| Spanky's | \$1,106,418 | 16.0% | 255.7 |
| Liquid Town | \$480,163 | 6.9% | 48.2 |
| Oasis | \$479,061 | 6.9% | 47.9 |
| Western Bev. | \$377,277 | 5.5% | 29.7 |
| Total MSA | \$6,919,669 | | 2,551.8 |

Smaller Markets:

Private Chains Dominate Market Share

| BRYAN/CS | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Spec's | \$1,821,198 | 58.9% | 3,473.6 |
| Western Bev. | \$212,450 | 6.9% | 47.3 |
| Whiskey Charlie | \$196,160 | 6.3% | 40.3 |
| Libations | \$127,360 | 4.1% | 17.0 |
| Liquor Sales | \$112,500 | 3.6% | 13.3 |
| Total MSA | \$3,090,058 | | 3,591.4 |

| LAREDO | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Spec's | \$1,284,466 | 54.4% | 2,958.2 |
| Mario's | \$313,340 | 13.3% | 176.0 |
| Sam's | \$296,200 | 12.5% | 157.3 |
| Big Jim's | \$254,870 | 10.8% | 116.5 |
| Lone Star | \$112,620 | 4.8% | 22.7 |
| Total MSA | \$2,361,606 | | 3,430.8 |

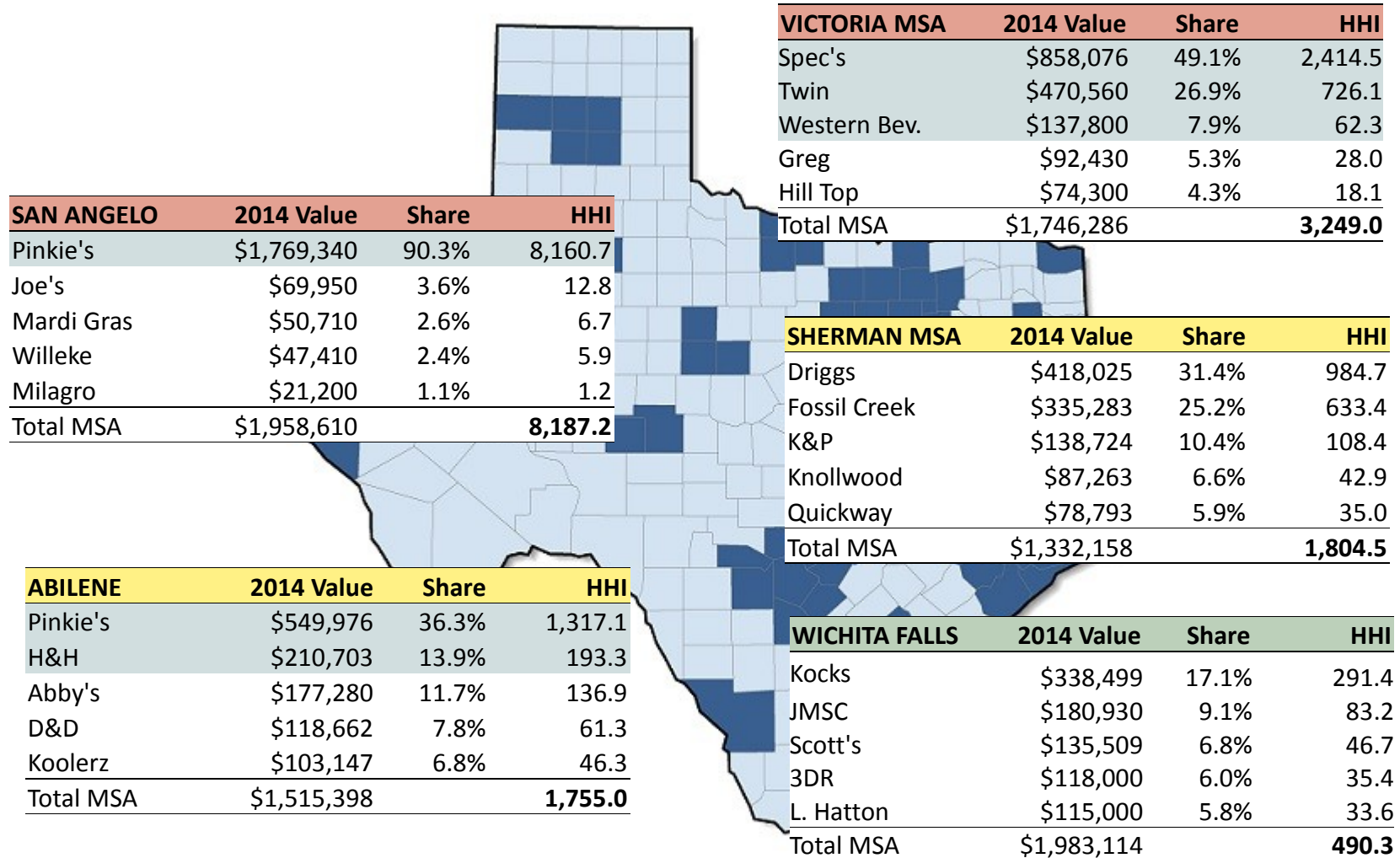
| KILLEEN | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Spec's | \$2,322,870 | 44.4% | 1,973.3 |
| Twin | \$1,102,444 | 21.1% | 444.5 |
| BLRL | \$536,780 | 10.3% | 105.4 |
| JTB | \$536,780 | 10.3% | 105.4 |
| The Barn | \$128,300 | 2.5% | 6.0 |
| Total MSA | \$5,229,067 | | 2,634.6 |

| BEAUMONT | 2014 Value | Share | HHI |
|------------------|--------------------|-------|--------------|
| Spec's | \$955,985 | 17.3% | 297.9 |
| Lucky | \$662,570 | 12.0% | 143.1 |
| Messina | \$376,930 | 6.8% | 46.3 |
| Sam's | \$332,260 | 6.0% | 36.0 |
| Falls | \$308,475 | 5.6% | 31.0 |
| Total MSA | \$5,538,753 | | 554.3 |

| WACO | 2014 Value | Share | HHI |
|------------------|--------------------|-------|----------------|
| Ward's | \$469,900 | 22.8% | 517.7 |
| Spec's | \$419,404 | 20.3% | 412.4 |
| Twin | \$366,840 | 17.8% | 315.5 |
| Waco Bar | \$384,320 | 18.6% | 346.3 |
| Chapman's | \$87,310 | 4.2% | 17.9 |
| Total MSA | \$2,065,294 | | 1,609.7 |

| TYLER/LONGVIEW | 2014 Value | Share | HHI |
|---------------------|--------------------|-------|-----------------|
| Harley | \$3,035,590 | 47.8% | 2,289.5 |
| Spec's | \$477,485 | 7.5% | 56.6 |
| Oasis | \$285,831 | 4.5% | 20.3 |
| Big Papa | \$262,790 | 4.1% | 17.2 |
| Michael's | \$225,800 | 3.6% | 12.7 |
| Total Region | \$6,344,155 | | 2,396.26 |

Smaller Markets: Private Chains Dominate Market Share



About TXP/Jon Hockenyos

TXP, Inc. is an economic analysis and public policy consulting firm founded in 1987 by Jon Hockenyos in Austin, TX. TXP works with a wide range of public jurisdictions, not-for-profits and private sector clients to provide analytical support on public policy issues . In his role as President of the firm, Mr. Hockenyos is involved in managing the day-to-day operations of the organization, performing technical analysis, and developing strategies for clients. In addition, he makes numerous public presentations and speeches. Mr. Hockenyos has served as a resource witness on a variety of issues in front of city councils, commissioner's courts, state legislatures, and the U.S. Congress.

Mr. Hockenyos received a Bachelor of Arts in Philosophy from the University of Illinois and Masters of Public Affairs from the LBJ School of Public Affairs, where he has taught as an Adjunct Professor.

(512) 328-8300

www.txp.com

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