



CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT



# LET'S TALK BUSINESS

*IDEAS FOR COMMUNITY DEVELOPMENT PROFESSIONALS WORKING TO EXPAND LOCAL BUSINESS ACTIVITY*

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## Wisconsin's Tavern Industry *Challenges Facing a Main Street Institution*

by Bill Ryan\*

Taverns have historically been an important part of community life throughout Wisconsin. They are located throughout the state in rural and urban areas, on "Main Street" and in our neighborhoods. In Wisconsin, there is one drinking establishment per 419 residents. The density is even higher in many of our rural and tourism communities. In some communities, the only businesses left downtown are taverns.

However, sales tax data since 1985 indicates that Wisconsin tavern receipts have been stagnant. If inflation is considered, real sales have actually decreased. This downward trend has occurred while other sectors such as restaurants have seen significant increases.

The stagnant sales receipts of taverns is related to a 17% decline in the number of licensed drinking establishments in Wisconsin since 1986. There were approximately 12,200 licensed drinking places in Wisconsin in 1996, down 2,500 since 1986.

### Changing Consumers

The decline in tavern establishments may be due to changing beverage consumption preferences. Alcoholic beverage consumption has declined in recent years due in part to changes in demographics and lifestyles. According to an article in Marketing Tools magazine, demographic shifts in the country are changing

the way people spend money on alcoholic beverages.<sup>1</sup>

- Annual average household spending on alcoholic beverages has declined by \$31 or 10% since 1985. The drop is larger if the effects of inflation are considered.
- Spending has dropped for all but the oldest age group; those above 65. However, older people tend to spend less on alcoholic beverages than other age groups.
- The biggest spenders on alcoholic beverages are households under the age of 25. However, the trend among young people is away from alcohol spending. Their spending has declined over 15% in the past ten years, even before inflation.
- The fastest growing age group, those households between 45 and 54, spend about 10% less than those aged 35-44. Accordingly, as "baby-boomers" age, their alcoholic beverage spending will decrease.

In addition, more Americans are abstaining from alcohol. Approximately 37% of the population abstained from alcohol in 1995 compared to 33% in 1985. Sixty-percent of Americans aged 50 and over don't drink.<sup>2</sup>

According to a report by the International Foodservice Manufacturers Association, U.S. beverage consumption has shifted away from alcoholic beverages. Instead, significant

\*Drawn from "Trends in Wisconsin's Tavern Industry," April, 1997, Bill Ryan, UWEX Center for Community Economic Development

<sup>1</sup> Marketing Tools/American Demographics, "Sobering News" by Peter Francese, November/December 1995

<sup>2</sup> American Demographics, "Self-Imposed Prohibition", October 1996

increases have occurred in soft drinks and bottled water. Beer consumption in Wisconsin mirror national consumer trends. Over the past ten years, the number of barrels of beer consumed in the state have declined 7%.

### **Changing Competition**

While there has been a decline in the number of taverns in the state, there has also been an increase in competition from other eating, drinking and entertainment businesses.

The restaurant industry has expanded in recent years due to an increase in food dollars spent away from home. New restaurant concepts such as Applebees Neighborhood Grill and Bar, Chile's and TGI Fridays have capitalized on this trend by developing new exciting facilities that offer appealing food and beverage service. Industry experts believe that as these pub-type restaurant chains grow, they will further penetrate the market and continue to dilute the customer base of the local tavern.

Some tavern operators believe that Native American gaming imposes unfair competition on their businesses. They argue that they cannot compete with casinos that offer entertainment and low priced drinks that are subsidized by gaming revenues. While conclusive data on the impact of casino on taverns is not available, the decline in number of licensed drinking establishments has not been limited to casino counties. In fact, tavern receipts between 1992 and 1995 have actually increased in counties with casinos, while decreasing statewide.

### **Changing Laws**

Laws have also changed in recent years placing additional pressures on the industry. The drinking age was increased in 1986 from 19 to 21 years. This had a significant impact on taverns, particularly those in college towns. In addition, stiffer penalties for driving while intoxicated have been imposed during the last ten years. These laws coupled with the efforts of tavern owners and industry leaders have contributed to a 44% decline in alcohol related motor vehicle crashes since 1985.

Many tavern owners argue that video gaming would help their businesses compete more effectively with the casinos. However, this is not an option as an amendment was added to the state constitution in 1993 that specifically prohibits video gaming.

The Wisconsin Joint Legislative Council's special committee studying the economics and health of the tavern industry is currently drafting recommendations for changes to current state laws governing the tavern industry. Proposed changes might include:

- prohibit the sale and shipment of alcoholic beverages by out-of-state sellers directly to Wisconsin consumers
- increase the penalties on underage persons who attempt to procure alcoholic beverages
- standardize application procedures for obtaining and transferring a operator's licenses to serve alcoholic beverages
- establish an exception to the right of a municipality or the Department of Revenue to revoke, suspend or refuse to renew an operator's permit for a first violation.
- Increase penalties for patrons carrying false identification.
- change the current quota system (1 license per 500 people) to limit the number of licenses, thereby increasing the value of existing licenses.

### **Summary**

Trends in Wisconsin's tavern industry suggest continued market difficulties for many drinking establishments in years to come. Beverage consumption habits are changing and the competition continues to intensify.

Entrepreneurs drawn to the idea of owning their own tavern should understand these trends and recognize that the business value of a tavern is driven by cash flow. In many situations, beer and liquor sales are not enough to generate adequate cash flow. Operators need to continue to identify other components including food, entertainment, legal games, packaged goods and gifts/novelties as a way to compliment their core product and generate additional cash flow.