THE OKLAHOMA ALCOHOLIC BEVERAGE INDUSTRY-
AN EVALUATION OF THE PERFORMANCE
AFTER $3\frac{1}{2}$ YEARS

By

CHARLES OWENS GIBSON, JR.

Bachelor of Arts

Oklahoma State University

Stillwater, Oklahoma

1962

Submitted To the faculty of The Graduate College
of the Oklahoma State University
in partial fulfillment of the requirements
for the degree of
MASTER OF SCIENCE
July, 1966

THE OKLAHOMA ALCOHOLIC BEVERAGE INDUSTRY-

AN EVALUATION OF THE PERFORMANCE

AFTER $3\frac{1}{2}$ YEARS

Thesis Approved:

Larkin Warner

Joseph J Klos

JH Boggs

Dean of the Graduate College

PREFACE

This paper examines the economic performance of the retail and wholesale firms comprising the Oklahoma alcoholic beverage industry after three and one-half years. Since its establishment September 1, 1959, the Oklahoma industry attained an important role in the state's economy. However, the controversial social aspects of alcohol consumption have led to the continued public demand that the trade be closely regulated. For example, during the period studied, the state legislature had introduced two major changes in the Oklahoma Alcoholic Beverage Control Act. Thus, it is important to develop a better understanding of the Oklahoma liquor industry to determine what changes in public policy will or will not lead to a more economic efficient industry. However, available data are limited and the author had to resort to personal interviews, questionnaires, and experience.

Indebtedness is acknowledged to Professor Larkin Warner for his guidance and advice in the preparation of the questionnaires, to respondents to the questionnaires, and to Mrs. Bob Stone who typed the paper.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

Within three years after the 1959 repeal of prohibition in Oklahoma, the state's 800 retail liquor stores were reporting annual sales of $55 million.[1] It is thus clear that the liquor industry has attained an important and legitimate place in the economy of Oklahoma. Nevertheless, the controversial aspects of alcohol consumption have led to continued public demand that the trade be closely regulated. The primary purpose of this thesis is to examine the economic performance of the wholesale and retail firms comprising the Oklahoma alcoholic beverage industry.

It is desirable not only to examine how the industry performs, but also to be able to explain why the industry performs as it does. For this reason, the thesis is concerned with environment, market structure, market conduct, performance, and their interrelationships. As is necessary to provide a complete analysis, conclusions drawn from an empirical study will be compared with the results that would be predicted if economic theory alone were considered. Before proceeding, some of the words employed in this paragraph need further explanation.

Environment is composed of those conditions forming the framework within which businessmen operate; for example, the dimensions of the legal atmosphere and demand conditions facing an industry. The framework thus established will tend to control the structure and conduct patterns of the industry.

Market structure refers to the existing interrelationships among firms, and the organization of the industry, such as the size and distribution of firms. Market structure tends to affect market conduct by directing the activities of businessmen.

Market conduct is defined as the behavior of businessmen in adjusting their prices and outputs to the market conditions. The structure and conduct patterns are important because they can be evaluated with regard to the industry's performance to which they lead. However, their primary importance is that they frequently appear to be associated with particular types of performance.

The performance of an industry refers to the final adjustments by sellers to the demands for their outputs, and to the buyer's adjustments to the supplies of output. Following Bain's suggestions, the author adopted efficiency and stability of prices as criteria for measuring the industry's performance.[2]

An Outline of the Study

A brief study of the structure and conduct patterns of the producing sector is presented in Chapter II. Because manufacturers trade directly with wholesale firms and indirectly with retail firms, such an analysis is particularly important to the liquor business. Attention will be concentrated on factors which clearly affect Oklahoma liquor commerce.

Chapter III deals with the legal regulations and demand conditions that help define the environment within which the individual firms operate in Oklahoma. Thus the environment establishes the framework for the structure and conduct patterns of the industry.

The liquor marketing structure in Oklahoma and the final adjustments that operators of wholesale and retail firms make to meet market conditions is taken up in Chapter IV. Results of these final adjustments will be examined to determine whether or not they measure up to selected criteria of economic performance.

Chapter V is devoted to some of the changes in the industry that could possibly lead to a more satisfactory performance. Although such changes are important, the detailed study each one calls for is not within the scope of this thesis. Therefore each change will be treated as a controversial issue deserving a more complete study.

Limitations of Scope

Although the total alcoholic beverage industry is composed of a legal and an illegal sector, only that sector operating according to procedures set forth in state and federal law will be considered here. The wholesale and retail firms regulated by the Oklahoma Alcoholic Beverage Control Act and the rules and regulations adopted by the Oklahoma Alcoholic Beverage Control Board will be of particular interest.[3]

Most of the analysis will be related to distilled spirits, as opposed to malt beverages and wines, since the former accounts for two thirds of the total volume of alcoholic beverage shipments to Oklahoma wholesale liquor companies.[4]

A lack of reported data necessitated the use of personal interviews, questionnaires, and the author's experience as a wholesaler's agent.[5] Available data are limited and although the results of the questionnaires were none too satisfactory, the author intends to review them for whatever they are worth.

Footnotes for Chapter I

[1]United States *Constitution*, Twenty-first Amendment (1933). Oklahoma, *Alcoholic Beverage Control Act*, (1959). Oklahoma Alcoholic Beverage Control Board, *Fourth Annual Report of the Oklahoma Alcoholic Beverage Control Board to the Governor and Members of the Oklahoma Legislature* (Oklahoma City: Alcoholic Beverage Control Board, 1963), pp. 8 and 11. The total sales were found by multiplying the sales tax collections on alcoholic beverages by fifty ($1,099,645.79 x 50).

[2]Bain, Joe S., *Industrial Organization* (New York: John Wiley and Sons, 1959), p. 16. This book served as a frequent reference and an invaluable guide while writing this thesis.

[3]A. B. C. will mean Alcoholic Beverage Control; further, the "Board" will represent the A. B. C. Board. The Oklahoma A. B. C. Act is also called the "control bill" in this paper.

[4]Oklahoma Alcoholic Beverage Control Board, *Report Concerning Shipments of Alcoholic Liquors by Classifications and Brands from Distillers to Oklahoma Distributors* (Oklahoma City: 1962) pp. 1-3; the total shipments of distilled spirits to Oklahoma was divided by the grand total spirits shipped into Oklahoma (823,003 Cases over 1,240,445 Cases).

[5]The author was employed in the capacity of wholesaler's agent for one year and eight months.

CHAPTER II

THE PRODUCING SEGMENT OF THE NATIONAL DISTILLED SPIRITS INDUSTRY

Some aspects of market structure and market conduct of distilled spirits manufacturers will be developed in this chapter. The survey of the market structure will be limited to the distribution of distilled spirits and the size of the firms as determined by the extent of vertical and horizontal integration, and the barriers faced by new firms entering the industry. In the last part of the chapter, production costs and the nature of the demand for distilled spirits will be examined as determinants of producers' pricing policies.

The Market Structure

Economic Concentration Among Manufacturers

The degree of economic concentration in an industry refers to the relative and absolute sizes of firms functioning within that industry. Concentration tends to indicate the relative extent of control of economic resources or activities exercised by individual units in the industry. The more consolidated the control of economic resources, the higher the degree of economic concentration.

Although there are 168 manufacturers, the distilled spirits business is largely concentrated in the "Big Four" companies: Seagrams, Schenley, National, and Hiram Walker.[1] The "Big Four" own approximately 85 per cent of the total assets of the producing industry and account for about 60 per cent of the output as measured by the value of shipments.[2] An inspection of the extent of vertical and horizontal integration will indicate how the industry is concentrated.

Vertical and Horizontal Integration. Vertical integration is prevalent in the industry, as exemplified by the fact that many firms engage in buying grain and in producing, bottling, storing, transporting, importing, and exporting distilled spirits.[3] In addition, the large manufacturers are often holding companies composed of several horizontally integrated producing concerns, Distillers Corporation-Seagrams, Limited, for example, consists of six individual producers of alcoholic beverages.[4] Most manufacturers, large and small, produce several brands and types of distilled spirits. The Federal Alcohol Administration prohibits manufacturers from owning and operating wholesale and/or retail outlets.[5] Interest now turns from how the industry is concentrated to why it is concentrated.

Barriers to Entry. Barriers to entry provide some protection to established firms by giving them certain advantages over potential entrants. The advantages may result from the fact that established firms have a cost advantage over small-scale entrants, that a considerable amount of capital is required to enter the industry, or that there is product differentiation.

Product Differentiation. That rival products are not perfect substitutes for each other, or that consumers have developed preferences for certain products of the manufacturers suggests product differentiation. Although the various types of distilled spirits are close substitutes for each other, they are not perfect substitutes;

that is, brandy is not a perfect substitute for vodka.[6] Moreover, through advertising and packaging techniques, manufacturers have been able to develop consumer preference for certain brands.

All alcoholic beverages have the common ingredient ethyl alcohol.[7] Further, the production of all distilled spirits involves the process of separating alcohol from a fermented substance by boiling and condensing the vapors. Fermentation converts to alcohol the sugar content of such ingredients as grapes, grain, or sugar cane. The amount of each congener, by-product of the distillation process, carried along with the vaporized alcohol depends on the composition and nature of the substance, the degree of heat applied, and the proof of the distillate. Many other factors are important in the creation of distinct products, such as the blending of two or more distilled spirits to obtain the best characteristics of each. Distilled spirits are frequently stored in oak barrels for various lengths of time. In addition to adding an amber color to the distillate, this aging contributes to the flavor by mellowing the final product.

Manufacturers take great care to see that each of the factors determining the properties of the final product is controlled. If they are successful, the consumer will not be able to detect any difference between one bottle and another bottle of the particular final product.

Product differentiation also arises from present conditions wherein consumers buy distilled spirits on the basis of brand loyalty.[8] Consequently, much of the product differentiation with brands of like quality is the result of heavy advertising of a brand name. In an attempt to develop consumer preference for his brands, the average manufacturer devotes about 5 per cent of his sales receipts to advertising.[9] Table I suggests the role and magnitude of advertising in the liquor industry. It will be recognized that the four largest manufacturers are also the industry's leading advertisers.

TABLE I

LEADING NATIONAL ADVERTISERS DURING 1958

Firms	Advertising Expenditures	Advertisement Costs Expressed as % of Sales
Distillers Corp.-Seagrams, Limited	$34,000,000	4.6
Schenley Industries	$29,832,300	6.0
National Distillers and Chemical	$20,170,158	3.8
Hiram Walker-Gooderham and Worts	$15,500,000	4.0
Hueblin, Inc.	$ 6,615,874	7.5

Source: "News Roundup," Oklahoma Beverage Analyst, November 1959, p. 26

Product Differentiation as a Barrier to Entry. If it is to secure a large enough share of the market to justify remaining in business, a new firm will face extra promotional costs and will need to sell its products at prices below those received by the "Big Four" for an indefinite period of time.[10] The extra promotional costs and the lower prices faced by potential entrants give established firms an absolute advantage. Bain suggests the effective barrier of consumer preference when he says that potential entrants are at a disadvantage to compete even with relatively weak independent producers.[11] The reader should realize that this is not the same as saying that economies of scale exist.

Economies of Scale. Bain suggests that economies of scale are not effective barriers to potential producers of distilled spirits.[12]

A firm supplying one-third of one per cent of the market and an optimum size firm supplying less than 2 per cent of the total market have approximately the same cost per product unit.[13] Therefore, the industry is not concentrated solely because the large firms are most efficient. However, Bain mentions that the capital requirements form barriers to new firms entering the industry.

Capital Requirements. Bain indicates that an investment of thirty to forty-two million dollars is required to support a firm supplying $1\frac{1}{2}$ per cent of the total market.[14] High capital requirements and product differentiation appear to be primary reasons for the high degree of economic concentration in the producing sector of the liquor industry.

The Distribution of Distilled Spirits

Section II of the Twenty-first Amendment to the Constitution of the United States granted individual states absolute power over alcoholic beverage commerce. Therefore, manufacturers have business relations in fifty-one separate and distinct markets. Many states have established trade barriers designed to protect their alcoholic beverage industry.[15] The trade barriers are in various forms, such as license fee differentials, excise tax differentials, and merchandising laws. An example of the effectiveness of these conditions is that Arkansas' tax for distilled spirits ($2.50/gallon) is more than twice that in Missouri ($1.20/gallon).[16] The general effectiveness of the obstacles to trade imposed by various states is evidenced by the fact that manufacturers are able to discriminate in price among wholesale firms located in different states.[17] The Joint Committee of the States to Study Alcoholic Beverage Laws reported that some of the obstructions to alcoholic beverage commerce have been established against public interest and should be canceled.[18]

Depending on the method used to distribute the product from the manufacturer to the retailer, all wet states can be labeled "monopoly states" or "open license states." In monopoly states, the state owns and operates agencies engaged in wholesale activities.[19] If privately-owned firms carry on the process of distributing alcoholic beverages from the supplier to the retail firm, the state is considered to be an open license state.[20] Since the regulations vary from state to state, the advantages and disadvantages for either system are very general and may not apply fully from one state to the next; for example, some open license states limit the number of package store licenses issued, while others allow an unlimited number of retailers.[21]

Monopoly States. In the seventeen states having a monopoly system, the alcoholic beverage control agency usually has a large role in determining the structure and conduct patterns of the industry.[22] Some of the advantages claimed for the system are: (1) more rigid control of the industry; (2) collections of large sums of state revenues; (3) fewer retail outlets; and (4) encouragement of temperance.[23] A few of the disadvantages asserted against the monopoly system are: (1) political patronage; (2) employment of fewer and often less qualified personnel; and (3) greater restrictions placed on new brands entering the market.[24] The possibility of adopting such a system in Oklahoma will be discussed briefly in the last chapter.

Open License States. Thirty-two states and the District of Columbia employ the open license method of operation.[25] An excessive number of retail firms, high and unstable prices, and less tax collections are among the disadvantages attributed to this system.[26] Open license states declare the advantages of more persons employed in the industry, greater convenience for the consumer, and less restrictions on new brands entering the market.[27] Also, many people point out that the open license system is basically the traditional American free enterprise method.

Open license states can be subdivided into "franchise states" and "free wheeling states."[28] Under a franchise system, the wholesale firm has the exclusive right to merchandise a manufacturer's products in a certain geographical area. This is unlike the free wheeling operation, which has no binding agreement between the wholesale firm and the manufacturer. Kansas and Oklahoma, the latest two states to adopt a legal industry, are the only states classified as having a free wheeling system.[29] Under this setup, each wholesaler is free to choose the various sizes, types, kinds, and brands of alcoholic beverages his firm will handle. Some of the asserted advantages of the franchise system as compared with a free wheeling function are: (1) lower operating costs for wholesale firms; (2) more competition among wholesale firms; (3) lower prices; and (4) better law enforcement.[30] Some of the claimed disadvantages of the franchise system are higher operating costs for retail firms, less competition among wholesale firms, and higher prices.[31] In Chapter V it will be pointed out that Oklahomans rejected an amendment to the liquor control bill that would have allowed the adoption of a franchise system.

Market Conduct

This section will consider as determinants of market conduct:

(1) the prices of alcoholic beverages; (2) the cost of producing the final product; and (3) the nature of the demand for liquor. Economic theory establishes a relationship among these three factors in the following manner. Other things being equal, the quantity purchased is a function of price and the production costs of the product. The equilibrium price of the product is resolved by the supply and demand functions associated with the item.

Manufacturers' Prices of Distilled Spirits

There are no reliable data available on the behavior of distilled spirit prices. Oxenfeldt states that the lack of a reliable price series is because of the large number of brands, and because manufacturers can, by restricting the price change of a brand to a few states, differentiate in price among wholesale firms in the various states.[32] Costs of production and the demand for distilled spirits will be presented as factors a supplier considers when determining his price.

Costs of Production

The receipts of a firm must at least cover the costs incurred if the firm is to continue operating in the long run. This is the same as saying that the price of an item must be at least as large as the per unit cost of the item. By showing the distribution of the sales dollar for Hiram Walker-Gooderham and Worts, Limited, Table II suggests the relative importance of the various costs of production. Taxes, the largest single cost, are twice the sum of all other expenses.

Nature of Consumer Demand

Oxenfeldt suggests that the aggregate demand for alcoholic beverages is relatively price inelastic.[33] The consumer tends to buy a

TABLE II

DISTRIBUTION OF THE SALES DOLLAR FOR
HIRAM WALKER-GOODERHAM AND WORTS, LIMITED
(Fiscal Year Ended August 31, 1962)

Materials and Supplies	11.4¢
Wages and Salaries	8.0¢
Selling and Operating Expenses	8.1¢
Dividends Paid	3.5¢
Reinvested in the Business	2.4¢
Income and Other Taxes	7.3¢
Excise Taxes and Import Duties	59.3¢

Source: Annual Report Hiram Walker-Gooderham and Worts, Limited (Walkerville, Ontario, Canada, 1962) p. 6.

relatively fixed quantity of alcoholic beverages, and purchases what he feels are the best brands in the price range he can afford.[34] This implies that a general price decrease will result in the consumer buying superior brands rather than larger quantities. Similarly, the consumer will buy inferior brands if there is a general price increase.

Summary

Economic concentration of production and the distribution of distilled spirits were presented as determinants of the structure of the national industry. Economic concentration in the industry is primarily in the four largest producers. Vertical and horizontal integration are prevalent among large manufacturers and indicate how the industry is concentrated. Consumers brand preference and high capital requirements for entrants tend to encourage the high degree of concentration. Also, the structure of the industry is certainly influenced by the fact that manufacturers distribute their products to fifty-one separate and distinct markets in the United States.

Although there is little reliable information available concerning manufacturers' prices, data are acquirable on some of the determinants of pricing policies, such as production costs, nature of the demand, and distribution methods. After establishing a relationship among these factors, each was considered separately. Further, it was suggested that the consumer's demand for alcoholic beverages is price inelastic. Taxes were found to account for almost two thirds of the sales dollar for one company. The pricing policies of producers is affected by the fact that they maintain business relations in fifty-one different markets.

Footnotes for Chapter II

[1] A. R. Oxenfeldt, Industrial Pricing and Marketing Practices (New York: Prentice-Hall, Inc. 1959) p. 450; and United States Government, Alcohol and Tobacco Summary Statistics (Alcohol and Tobacco Tax Division, Internal Revenue Service, 1963) p. 10.

[2] V. A. Mund, Government and Business (New York: Harper and Brothers, 1960) pp. 84, 86.

[3] Oxenfeldt, p. 455.

[4] "Preview of 1961 Fall-Holiday Programs," Oklahoma Beverage Analyst, September 1961, p. 14. The six firms are: Seagrams Distillers Company, Four Roses Distillers Corporation, General Wine and Spirits Company, Calvert Distillers Company, and Leroux and Company.

[5] U. S. Government, Federal Alcohol Administration Act, August 29, 1935.

[6] A. R. Oxenfeldt, p. 482.

[7] For a more detailed description of physical product differentiation among alcoholic beverages, the reader is referred to (a) Phillip Gee, Scotch Whisky Questions and Answers (Edinburg: The Scotch Whisky Association, 1957); (b) Old Mr. Boston DeLux Official Bartenders Guide (Boston: Mr. Boston Distillers, Inc. 1961) pp. 126-136; (c) Practical Encyclopedia of Alcoholic Beverages (New York: Liquor Store Magazine, 1959); (d) "Whiskey," The Encyclopedia Americana, 1959, Volume 29.

[8] Bain, pp. 228-33; Oxenfeldt, pp. 454, 455 and "Brand Consciousness," chapter three of this thesis.

[9] Bain, pp. 228-231.

[10] Bain, p. 256.

[11] Ibid.

[12] Ibid.

[13] Ibid.

[14] Ibid.

[15] "Barriers to Interstate Liquor Trade," Harvard Law Review, July and August, 1959, pp. 1145- 1154. The Joint Committee of the States to Study Alcoholic Beverage Laws, Trade Barriers Affecting Interstate Commerce in Alcoholic Beverages (Cleveland, 1952). Distilled Spirits Institute, Summary of State Laws and Regulations Relating to Distilled Spirits (Washington, 1961).

[16]Distilled Spirits Institute, pp. 26, 44.

[17]Oxenfeldt, p. 458.

[18]Joint Committee of the States to Study Alcoholic Beverage Laws, pp. 19-23.

[19]Martin N. McGeary, Pennsylvania and the Liquor Industry (State College: Valley Publishing Company, 1948) pp. 24, 25, 68-72. The Liquor Handbook, pp. 33-35. Jacob B. Taylor, "The Monopoly System of Liquor Control--An Appraisement After Seven Years," (Unpub. Speech, 1941).

[20]Ibid.

[21]Distilled Spirits Institute, Summary of State Laws and Regulations Relating to Distilled Spirits.

[22]Distilled Spirits Institute, Annual Statistical Report, p. 46. The Liquor Handbook, pp. 33-35.

[23]McGeary, pp. 24, 25, 68-72. The Liquor Handbook, pp. 33-35. Taylor, 1941.

[24]Ibid.

[25]Distilled Spirits Institute, Annual Statistical Report, p. 46.

[26]McGeary, pp. 24, 25, 68-72. The Liquor Handbook, pp. 33-35. Taylor, 1941.

[27]Ibid.

[28]Allan Bell, "Has the Oklahoma System of Liquor Distribution Failed?" Oklahoma Beverage Analyst, August 1961, p. 6. "Voters to Decide Proposed Liquor Law Amendment," The Daily Oklahoman, October 30, 1962, p. 24. Personal interviews.

[29]Bell, p. 6.

[30]Ibid. "Voters to Decide Proposed Liquor Law Amendment,". "Liquor Franchise Backers Form," The Daily Oklahoman, October 6, 1962, p. 24. Citizens for State Question 406, "State Question 406-and What's it All About," 1962. Charles Walters, Jr. "The Question of Franchises," Oklahoma Beverage News, October 1961, pp. 18, 19. Walters, "We Want to Spike a Franchise Controversy," Oklahoma Beverage News, September 1961, pp. 18, 20.

[31]Ibid.

[32]Oxenfeldt, p. 458.

[33]Oxenfeldt, p. 461.

[34]Ibid.

CHAPTER III

THE ENVIRONMENT OF THE OKLAHOMA LIQUOR INDUSTRY

The legal atmosphere within which firms operate and the nature of the demand faced by firms partially determine the economic behavior of individual businessmen and provide guides for their activities in their pursuit for individual gain. The quantity of the product sold is based on the consumer's effective demand for the product and the lawful restrictions on entrepreneur's activities. Thus our legal system and the nature of the demand for alcoholic beverages influence the structure, conduct, and performance of the industry.

A Brief History of the Oklahoma Alcoholic Beverage Industry

A brief history will provide background material to assist the reader in understanding the environment of the industry. Public attitudes, past experiences, and observations in other states are causes of the present environment within which Oklahoma liquor firms operate.

Repeal of Prohibition

On Tuesday, April 7, 1959, the people of Oklahoma voted 396,442 to 314,874 for the adoption of a legal alcoholic beverage industry.[1] Although county option was on the ballot, it was not a major issue in the campaign.[2] The United Drys, an organization opposed to the sale of alcoholic beverages in Oklahoma, was apparently determined to prevent any sale of liquor in the state and more or less neglected county option.[3] Therefore, county option was defeated almost two to one.[4]

Oklahoma's Illegal Alcoholic Beverage Industry

Oklahoma had entered the union on November 16, 1907, as a "dry state," that is, one in which alcoholic beverages could not be sold legally. However, many Oklahomans found it more convenient to obtain alcoholic beverages during prohibition than they have since its repeal. For example, most consumers could telephone their favorite "bootlegger" and have products delivered promptly to their home. Remnants of the old "bootleg" and "moonshine" system can still be found in Oklahoma. For instance, from September 1, 1959, to June 30, 1962, Alcoholic Beverage Control Board agents made 448 arrests for unlicensed sales of liquor, demolished 180 stills, and destroyed over 6,319 gallons of nontax paid liquor.[5] These figures do not include related activities carried on by enforcement agencies without the aid of Board personnel. In addition, Licensed Beverage Industries, Inc., a trade association, reported that in 1961, Oklahoma was among those states having a heavy concentration of "moonshine" activities.[6]

Growth of the Oklahoma Liquor Industry

By the beginning of legal sales at 10:00 in the morning September 1, 1959, there were 458 package store licenses and 19 wholesaler licenses issued.[7] Every county had at least two retail package stores by June 30, 1960, and a total of 871 licenses had been issued.[8] During the same period, the number of employee's licenses increased from 732 to 3,025, and the increase in the total number of all licenses issued was from 1,771 to 5,123.[9] In Oklahoma's only experience with the legal manufacture of alcoholic beverages, an Oklahoma Winemaker's license was issued in July, 1960, but was not renewed the following year.[10] Undoubtedly some of the industry's problems have been aggravated by this rapid growth.

Oklahoma's Free Wheeling System

Kansas, an open license state, created the free wheeling system upon activation of its liquor industry in 1948; Oklahoma became the second state to adopt the system.[11] Writers attached the name "free wheeling" to the process because, instead of wholesalers having franchise agreements, they could choose to deal with all or any licensed manufacturers. Before Kansas adopted a legal liquor industry, the franchise system and the monopoly system were the two basic methods used to distribute alcoholic beverages at the state level. As a result, Oklahoma's liquor laws are closely patterned after those of Kansas.[12]

Oklahoma A. B. C. Board

The Oklahoma Alcoholic Beverage Control Board consists of five members who are appointed by the Governor and subject to confirmation by the state senate.[13] The members are appointed for seven year intervals and can be removed only for cause. They must be United States citizens and must have been residents of Oklahoma for the last ten years. No member can be related within the third degree to any person engaged in any phase of the Oklahoma liquor industry. Each Board member has to provide a $25,000 surety faithful performance bond. Their pay is set at fifteen dollars each day that they are in meetings plus actual and necessary travel expenses up to the limit set for all state officials.

The Powers and Duties of the Board

The powers and duties of the Board include: (1) supervision, inspection, and regulation of every phase of the Oklahoma alcoholic beverage industry; (2) declaration of rules and regulations; (3) issuance, suspension, and revocation of licenses; (4) prescription of the form for license applications; (5) preparation of an annual report to the Governor and members of the state legislature; (6) inspection of the premises of all firms in the industry; (7) holding hearings; (8) prescription of the kind and size containers in which alcoholic beverages may be sold; (9) regulation of advertising; and (10) prescription of the manner of record keeping for firms in the industry.[14] Because the Board usually meets only once a month, many of its powers are delegated to the director.

The Director of the A. B. C. Act[15]

The director is a full time employee appointed by the Board and is subject to confirmation by the state senate.[16] A staff of inspectors, agents, secretaries, and other personnel are employed to assist the director in the performance of his duties.[17] Previous to fiscal year 1964, the director's staff consisted of 38 people; however, this staff was reduced to 25 persons after law-makers decreased the agency's appropriations to $202,900 from $322,500.[18] The director exercises powers delegated to him by the Board and those stated in the control bill, such as (1) hiring and fixing salaries of his assistants; (2) issuing and suspending licenses and permits; (3) conducting investigations and advising the Board of violations; (4) inspecting the premises of firms in the industry; (5) aiding in the prosecution of violators of the law.[19]

The Judicial System

If an individual does not want to abide by the decision of the director, he may appeal his case to the A. B. C. Board.[20] Within thirty days after the final order of the Board, a licensee or applicant may further appeal the order to the District or Superior Court of the county in which he is located.[21] The judge may affirm, reverse, or modify the order of the Board.

The Framework Established by the Control Bill

The framework for the structure of the Oklahoma liquor industry is established largely by the Oklahoma A. B. C. Act and the rules and regulations adopted by the Board. Consequently, the legal aspects form fairly definite boundaries and guides for the activities of businessmen.

Who Can Sell

A retailer is the holder of a package store license, which permits the sale of alcoholic beverages in approved containers for off-premises consumption only.[22] The retailer may sell wine, distilled spirits, and strong beer at room temperature to persons over twenty-one, sober, and sane.[23] In addition, a retailer is authorized to purchase these products from Class B wholesalers (strong beer wholesalers), brewers, and liquor wholesalers.[24]

A wholesaler is "any person doing any such acts or carrying on any such business...that would require a person to obtain a wholesaler's license..."[25] A wholesaler buys his products from nonresident manufacturers, resident manufacturers, and wholesalers; he sells distilled spirits and wines to retailers, wholesalers, and qualified out-of-state persons.

"Manufacturer means a...distiller, winemaker, rectifier, or bottler of any alcoholic beverage."[27] A holder of a manufacturer's license is authorized to sell alcoholic beverages to wholesalers, manufacturers, and qualified out-of-state persons; he is also permitted to purchase from those people.

A person receiving a package store license, wholesaler's license, or manufacturer's license must have met the following qualifications: (1) he must have been a continuous resident in Oklahoma for the ten preceding years and must be a United States citizen; (2) he must be over twenty-one years of age; (3) he, his partner, or his spouse must not have been convicted of a felony; (4) he must not have held a federal liquor stamp prior to repeal; (5) he must be of good moral character.[28]

Restrictions as to When and How Firms May Sell

Retailers may sell to consumers only between ten in the morning and ten in the evening on any days other than Sundays, holidays, and election days during voting hours.[29] Wholesalers are allowed to ship alcoholic beverages from their premises after six in the morning and before six in the evening, Monday through Friday, except holidays and election days.[30] However, this is a Board regulation and in certain instances wholesalers have been permitted to ship alcoholic beverages until ten in the evening.[31]

Numerous other restrictions are placed on the methods of sales promotion that may be adopted by sellers in the industry. All sellers are forbidden from extending credit or offering premiums to any of their customers.[32] Also, wholesalers, manufacturers, and nonresident sellers are barred from granting any discount, rebate, free goods, or other inducements to buyers or potential buyers of their products.[33] Further, retailers are prohibited from soliciting orders by telephone or mail, and from placing advertisements in newspapers, magazines, television, radio, or other public communication media.[34] Interior and exterior signs are restricted as to the type, size, location, and lettering that can be used.[35]

Location of Package Stores

An applicant for a package store license must own or have a one year lease on suitable premises.[36] To be considered suitable, the premises must meet the following requirements: (1) the firm must be located in a city or town with a population in excess of two hundred; (2) the premises must conform with building and zoning laws of the city or town wherein the firm is located; (3) the entrance to the building must be at least three hundred feet from any church or school property; (4) the store must be located at ground level.[37]

Control of the Type of Business Organization

The liquor control bill prohibits the development of horizontal and vertical integration within the marketing structure; as a result, the Oklahoma liquor industry is composed of single-business enterprises. A license is required for each firm selling alcoholic beverages in the Oklahoma market, and neither the applicant, a partner of the applicant, nor the spouse of the applicant can obtain a license or have financial interest in another firm in the industry.[38] Suppliers, wholesalers, and their employees are barred from having financial interest in, making loans to, or guaranteeing loans to retail businesses.[39] In addition, wholesalers can deliver only from a single principal place of business.[40]

Reports to the Oklahoma Tax Commission

By the tenth day of each month, wholesalers, non-resident sellers, and carriers must file with the Oklahoma Tax Commission a detailed breakdown of their business activities for the previous month.[41] The reports include such information as inventories, sales (when, what, to whom), total receipts, and an inventory of state liquor stamps.[42] All books, records, and other documents required by the control bill must be retained for three years and must be accessible to the Board and the Oklahoma Tax Commission.[43] However, these records are not available to the public.[44]

Transportation of Alcoholic Beverages

Transportation of alcoholic beverages into, within, or out of Oklahoma can be accomplished only by those for-hire carriers holding either a certificate of public convenience and necessity and/or a permit from either the Interstate Commerce Commission or the Oklahoma Corporation Commission, and an Alcoholic Beverage Carrier's Permit issued by the Board.[45] However, no such Carrier's Permit is required of licensed manufacturers and wholesalers to transport alcoholic beverages from the place of purchase to their premises or to the licensed premises of a purchaser.[46] Nevertheless, they will comply with Interstate Commerce Commission's and Oklahoma Corporation Commission's regulations, and furnish proof of compliance.[47]

Wholesalers' Price Lists

Prior to March 1963, Board regulations required wholesalers to submit a price list to the director every three months.[48] The Board declared that the lowest prices submitted be put into effect in the ensuing quarter of the year and gave other wholesalers five days to make any necessary adjustments in their prices. During the quarter the prices were effective, no change could be made by wholesalers in the price list except by written consent of the director. Additions to the list could be made when the wholesaler added new products. The prices were submitted to the director as a per cent markup above the delivered cost for each of the three categories: (1) spirits, (2) wines, and (3) cordials and specialties. The Board would then send those concerned an official price book listing the wholesale price for each brand, kind, type, and container size of alcoholic beverage offered for sale. The wholesaler was required to sell his products to any licensed retailer desiring to purchase the products at the effective price.

This system of price regulation was in effect prior to 1963. The present wholesale pricing system is explained in Chapter IV.

The Manufacturers' Price List

Each manufacturer and nonresident seller must file a quarterly price list with the director forty-five days before the prices are to be implemented.[49] One price is shown for each brand, kind, type, and container size of alcoholic beverage offered for sale. A copy of this price list must be mailed to each wholesale firm at the same time the list is filed with the director. A manufacturer or nonresident seller must sell any of his products on the price list to any licensed wholesaler desiring to purchase the products at the effective price.

State Taxes on Alcoholic Beverages

State revenues from the alcoholic beverage industry are primarily from three sources: (1) excise tax, (2) sales tax, and (3) occupational tax.

Excise Tax

The state's excise is assessed on all alcoholic beverages imported into or manufactured in Oklahoma.[50] From September 1, 1959, until June 30, 1963, about 75 per cent of the total state revenues collected from the industry were from excise taxes.[51] As shown by Table III, this excise tax varies with the type of alcoholic beverage imported or manufactured.

TABLE III

OKLAHOMA EXCISE TAX RATE ON ALCOHOLIC BEVERAGES IMPORTED INTO OR MANUFACTURED WITHIN THE STATE

Item	Excise Tax Rate
Distilled Spirits	$2.40 per gallon
Wine containing alcohol not more than 14% by volume	$ .36 per gallon
Wine containing alcohol over 14% by volume	$ .50 per gallon
Sparkling wine	$ .75 per gallon

Source: Oklahoma, Alcoholic Beverage Control Act, sec. 53.

To insure payment of the excise tax, wholesalers and manufacturers are responsible for securing and affixing the excise stamp to their products.[52] The stamp evidences that the state excise tax has been paid on any container bearing such stamp.[53]

Sales Tax

A state sales tax of two per cent is imposed on all sales made by retail package stores.[54] This tax accounted for about 12.5 per cent of the total state revenues collected from the alcoholic beverage industry between September 1, 1959 and June 30, 1963.[55]

Occupational Tax

An occupational tax, in the form of a license or permit, is paid by all persons engaged in the Oklahoma alcoholic beverage industry.[56] From September 1, 1959, to June 30, 1963, more than 11 per cent of the total state revenues collected from the industry resulted from this tax.[57] Cities and towns may levy an occupational tax not exceeding the state's occupational tax on retailers, wholesalers, and manufacturers.[58] Licenses and permits issued by the Board terminate annually on June 30, and must be renewed for continued operation.[59] Table IV shows the annual fee for licenses and permits issued by the Board.

A Summary of State Revenues from Alcoholic Beverages

As revealed by Table V, the revenues collected for the first fiscal year of the industry's operation do not appear to be consistent with the second, third, and fourth fiscal years. During the first year, excise tax collections were higher because all firms had to start with a zero stock level and build up and maintain their inventory. Sales tax and occupational tax collections were less because the industry was in existence for only ten months.

Oklahoma Demand Characteristics

The demand faced by wholesalers and manufacturers is a derived demand. They have no direct business relations with the consumer, but the quantity of each brand, kind, type, and container size they sell depends on the desires of the ultimate consumers. This thesis is interested primarily in the demand faced by retailers because they deal directly with the consumer.

TABLE IV

LICENSES AND PERMITS ISSUED BY THE OKLAHOMA A. B. C. BOARD AND THEIR ANNUAL FEES

License or Permit	Annual Fee
(1) Distiller's License	$2,500.00
(2) Winemaker's License	$ 500.00
(3) Oklahoma Winemaker's License	$ 50.00
(4) Rectifier's License	$2,500.00
(5) Wholesaler's License	$2,000.00
(6) a. Package Store License for cities and towns from 200 to 2,500 population.	$ 200.00
b. Package Store License for cities and towns from 2,501 to 5,000 population.	$ 400.00
c. Package Store License for cities and towns greater than 5,000 population.	$ 600.00
(7) Agent's License	$ 25.00
(8) Employee's License	$ 5.00
(9) Industrial License	$ 10.00
(10) Carrier's License	$ 5.00
(11) Private Carrier's License	$ 5.00
(12) Bonded Warehouse License	$ 100.00
(13) Manufacturers Agent's License	$ 25.00
(14) Nonresident's License	$ 250.00

Source: Oklahoma, Alcoholic Beverage Control Act, sec. 18.

TABLE V

A SUMMARY OF OKLAHOMA REVENUES
FROM LIQUOR COMMERCE
(Last Three Digits Omitted)

Tax	Tax Year*			
	1959-1960	1960-1961	1961-1962	1962-1963
Excise Tax				
Distilled Spirits	$7,311	$4,714	$5,159	$5,357
Wines	734	428	522	535
Total	8,045	5,142	5,681	5,992
Sales Tax	810	1,049	1,064	1,100
Occupational Tax				
State	486	513	525	492
Local	349	531	395	396
Total	835	1,045	920	888
Total	$9,690	$7,236	$7,665	$7,982

*Tax Year ends June 30 for purpose of table.

Source: Oklahoma Alcoholic Beverage Control Board, First Annual Report, 1960, pp. 7-9, 12, 15. Second Annual Report, 1961, pp. 7-9, 12, 16. Third Annual Report, 1962, pp. 7-9, 12, 16. Fourth Annual Report, 1963, pp. 6, 8, 9, 12.

Price Consciousness

The Oklahoma consumer has demonstrated some price consciousness. During the author's experience as a wholesaler's agent, retailers frequently mentioned how prices were considerably different in another town or city. Also, the retailers in a small town near Oklahoma City estimated that their total receipts would increase by about twenty-five hundred dollars per month if the population in that town made all their purchases of alcoholic beverages at home.[67] They said that most of this business was going to Oklahoma City because prices were lower there.

Brand Consciousness

Joe S. Bain suggested that with products of like type and quality the brands of the "Big Four" seem to be able to command premium prices.[60] Bain compared the retail prices of Grandad, Taylor, and Harper, products of the "Big Four," with those of Forrester, Kentucky Tavern, and Fitzgerald, of comparable quality but products of smaller distilleries. All Six brands are leading quality bottled-in-bond whiskeys. Bain stated that the brands of the big distillers were priced 75 cents higher than those of the smaller producers in the New York area during 1950. From February through April 1963, the difference in the retail price of the six brands in Oklahoma was 3 cents, and unlike Bain's suggestion, Forrester was 3 cents higher than the other five brands.[61] From this study one might conclude that the Oklahoma consumer is not as brand conscious as the consumers Bain studied, at least with respect to these brands.

The author feels, however, that the Oklahoma consumer is brand conscious and will contend that Bain's hypothesis is correct, but his procedure is not applicable to Oklahoma. To indicate the Oklahoma consumer's brand consciousness, the author examined shipments of alcoholic beverages by class and brand to state distributors during the fiscal year 1962.[62] Of the one hundred thirteen brands of straight whiskey shipped to Oklahoma, the leading seven by volume accounted for 51.9 per cent of the total shipments of straights. Of the forty-two brands of vodka, the four leading vodkas yielded 75.9 per cent of the total volume shipped into the state. The leading gin accounted for 52.2 per cent of the total gin shipment; 46.5 per cent of the total distilled spirits by volume was rendered by the fifteen leading brands.[63] Since so few brands account for such a large per cent of the total distilled spirits and classes of distilled spirits shipped into Oklahoma, one would conclude that the Oklahoma consumer is brand conscious. Therefore, by taking into account various brands and types of liquors, a procedure is obtained that does prove Bain's hypothesis valid and also gives evidence that his procedure was not applicable to Oklahoma.

Consumption per Capita in Oklahoma and Nationally

In 1961, the Oklahoma consumer ranked twenty-ninth in total alcoholic beverages consumed and forty-first among the states in consumption per capita.[64] The per capita consumption in Oklahoma was .85 gallons as compared with 1.06 gallons for the average U. S. consumer.[65] Table VI shows that the Oklahoma consumer also varies with the national consumer as to the class of distilled spirits consumed.

Although the Oklahoma consumer differs from the U. S. consumer in all classes, the first three classes provide the largest differences in class consumption. The Oklahoma consumer differs from the national consumer in that straights seem to be most popular and blends considerably less popular in Oklahoma. Blends accounted for almost 50 per cent of the total whiskey output by type in 1961; however, in 1961 blends were less than 25 per cent of the total whiskeys by type shipped into Oklahoma.[66]

Summary

The Oklahoma A. B. C. Act, combined with the rules and regulations adopted by the Board, prescribe many limitations on the structure and conduct patterns of the alcoholic industry. The control bill limits

TABLE VI

OUTPUT OF DISTILLED SPIRITS IN THE UNITED STATES AS COMPARED TO SHIPMENTS INTO OKLAHOMA
(By Class of Distilled Spirit for 1961)

Distilled Spirits Class	Per cent of Total Spirit output in the U. S.	Per Cent of Total Spirits Shipments into Oklahoma
Whiskey	69.7	75.0
Vodka	10.0	15.0
Gin	11.2	4.8
Cordials	4.8	2.1
Brandy	2.7	.7
Rum	.4	1.0
Other	1.2	1.0

Source: Distilled Spirits Institute, _Annual Review of the Distilled Spirits Industry_ (Washington: Distilled Spirits Institute, 1961) p. 26. Oklahoma Alcoholic Beverage Control Board, _Report Concerning Shipments of Alcoholic Liquors by Classifications and Brands from Distillers to Oklahoma Distributors_ (Oklahoma City: A. B. C. Board, 1961) pp. 1, 2.

economic concentration in the Oklahoma liquor industry by restricting advertising, entry of new firms in the industry, development of vertical integration, and chain store operations. In a large town or city, a retailer may pay thirteen hundred dollars for licenses and bonds before he can open his doors for business. Thus, overhead costs tend to increase the prices of distilled spirits. The state excise tax apparently increases by $2.40 the distillers' price of a gallon of distilled spirits to wholesalers. The price to the consumer is therefore increased more than $2.40 per gallon since wholesalers and retailers compute their prices as a per cent markup above cost figures which include the excise tax.[68] Also, the procedure of requiring wholesalers and manufacturers to file price lists with the director has placed severe limitations on the pricing policies.

The nature of the demand a firm faces influences the structure and conduct patterns of the industry. For example, the brand consciousness of consumers is a determinant of the inventory maintained by firms in the industry and therefore of their operating costs. Because the consumer is price conscious, the managers of alcoholic beverage firms must consider the consumer when they are determining their prices. Consumer sovereignty seems to be an important factor in determining the actions of firms in the Oklahoma liquor industry.

Footnotes for Chapter III

[1]Licensed Beverage Industries, Inc. Some Aspects of the Economic Contributions of the Alcoholic Beverage Industry a State by State Analysis (New York, 1962), "Oklahoma". The Licensed Beverage Industries, Inc. is an organization of firms in the industry devoted primarily to establishing better public relations.

[2]The Daily Oklahoman, "Here's State Tally," April 9, 1959, p. 4. ____. "Odds Favor Repeal if Vote Turnout is Big," April 4, 1959, p. 4. ____. "Sooners Vote on Repeal Question for Sixth Time," April 5, 1959, p. A27. Oklahomans voted on repeal of prohibition in 1908, 1910, 1936, 1940, 1949, and 1959.

[3]The Daily Oklahoman, "The State Goes Wet," April 8, 1959, pp. 1, 2.

[4]Ibid. ____. "Repeal Heads for Victory," April 8, 1959, pp. 1, 2.

[5]Oklahoma Alcoholic Beverage Control Board, First Annual Report of the Oklahoma Alcoholic Beverage Control Board, 1960, pp. 22, 23. Second Annual Report, 1961, pp. 24, 25. Third Annual Report, 1962, pp.24,25. A "moonshiner" is defined as a person that intentionally manufactures alcoholic beverages illegally; while a "bootlegger" sells alcoholic beverages illegally.

[6]Licensed Beverage Industries, Inc. Facts About the Licensed Beverage Industries/1962 (New York: Licensed Beverages Industries, Inc., 1962) p. 46.

[7]Oklahoma Alcoholic Beverage Control Board, First Annual Report, p. 14.

[8]Ibid.

[9]Ibid.

[10]Oklahoma Alcoholic Beverage Control Board, Second Annual Report, p. 14.

[11]Licensed Beverage Industries, Inc., Some Aspects of the Economic Contributions of the Alcoholic Beverage Industry a State by State Analysis, "Kansas and Oklahoma".

[12]Personal interviews with persons throughout the industry and various literature.

[13]Oklahoma, Alcoholic Beverage Control Act, sec. 7.

[14]Ibid. sec. 14.

[15]Ibid. sec. 6.

[16]Ibid. sec. 8.

[17]Ibid. sec. 10.

[18]The Guthrie Daily Leader, "Legal Whisky's 5th Birthday Near," August 25, 1963, p. 9.

[19]Oklahoma, Alcoholic Beverage Control Act, sec. 9.

[20]Ibid. sec. 31.

[21]Ibid.

[22]Ibid. secs. 26, 21.

[23]Ibid.

[24]Ibid.

[25]Ibid. sec. 6.

[26]Ibid.

[27]Ibid. secs. 21, 26.

[28]Ibid. secs. 26, 27.

[29]Ibid. sec. 37.

[30]Oklahoma Alcoholic Beverage Control Board, Rules and Regulations Adopted by Oklahoma Alcoholic Beverage Control Board (A. B. C. Board: Oklahoma City, 1963), art. 1, sec. 8. Ibid.

[31]On the last Friday before Christmas in 1960 and on the last Friday before New Year's in 1960, the Board allowed wholesale firms to make deliveries until ten in the evening. Author's experience.

[32]Oklahoma, Alcoholic Beverage Control Act, 1959, secs. 35, 37.

[33]Ibid. sec. 35.

[34]Ibid. sec. 16. Rules and Regulations Adopted by the Board, art. 6.

[35]Oklahoma, Alcoholic Beverage Control Act, 1959, sec. 35.

[36]Ibid. sec. 37.

[37]Ibid. secs. 27, 34.

[38]Ibid. secs. 27, 35.

[40]Ibid. sec. 21.

[41]Ibid. secs. 43, 55, 56.

[42]Ibid. secs. 55, 56, 57.

[43]Ibid. sec. 52.

[44]The author attempted to use these reports in writing this thesis. Therefore, the questionnaires in the appendix (end of Chapter IV) were adopted and used.

[45]<u>Rules and Regulations Adopted by the Board</u>, art. 4, sec. 1, 2.

[46]Oklahoma, <u>Alcoholic Beverage Control Act</u>, sec. 21.

[47]Ibid. sec. 57.

[48]<u>Rules and Regulations Adopted by the Board</u>, art. 3, sec. 5. In Oklahoma District Court Judge Brett ruled that the Board was fixing prices and this section became void. Central Liquor Company <u>vs</u> Oklahoma A. B. C. Board, Oklahoma County Court 158688, (1963).

[49]<u>Rules and Regulations Adopted by the Board</u>, art. 3, sec. 4.

[50]Oklahoma, <u>Alcoholic Beverage Control Act</u>, sec. 53.

[51]See Table V. .75=$24,860,000 over $32,573,000.

[52]Oklahoma, <u>Alcoholic Beverage Control Act</u>, sec. 40.

[53]Ibid. sec. 40.

[54]Oklahoma, <u>Constitution</u>, art. 27, sec. 7.

[55]See Table V. .125 equals $4,023,000 over $32,573,000.

[56]Oklahoma, <u>Alcoholic Beverage Control Act</u>, sec. 18, 21.

[57]See Table V. .115 equals $3,688,000 over $32,573,000.

[58]Oklahoma, <u>Alcoholic Beverage Control Board</u>, sec. 18.

[59]Ibid. sec. 20.

[60]Bain, pp. 230, 231.

[61]The retail prices were obtained by taking the wholesale prices from the <u>Official Price Book</u> issued by the Board and applying a 28 per cent markup which was the average per cent markup used by the sample retail firms. (See the appendix at the end of Chapter IV).

[62] A. B. C. Board, Shipments of Alcoholic Liquors by Classification and Brands from Distillers to Oklahoma Distributors, pp. 1-15. .519 equals 213,505 cases into 409,764 cases; .759 equals 81,136 cases into 105,632 cases; .522 equals 20,550 cases into 39,366 cases; .465 equals 382,424 cases into 823,003 cases.

[63] Ibid.

[64] Distilled Spirits Institute, Annual Statistical Review, p. 41.

[65] Ibid.

[66] A. B. C. Board, Shipments of Alcoholic Liquors by Classification and Brands from Distillers to Oklahoma Distributors, pp. 1. .244 equals 151,296 cases into 621,004 cases.

[67] Personal interviews with retailers in the town.

[68] Oklahoma, Alcoholic Beverage Control Act, Sec. 62. "The excise tax levied by this Act is hereby declared and intended to be a direct tax upon the ultimate consumer of alcoholic beverages in this state,... and such tax shall thereafter be added to the price of such alcoholic beverages and recovered from the ultimate retail consumer thereof."

CHAPTER IV

THE OKLAHOMA LIQUOR INDUSTRY

The main purpose of this chapter is to examine the performance of the Oklahoma liquor industry with respect to standards derived from economic theory. The performance of an industry can be partially explained by the structure and conduct patterns of the industry presented in the first part of this chapter.

Market Structure

Economic Concentration Among Retail Firms

The gross receipts of a firm, the number of vehicles and persons employed, and the amount of inventory maintained supply partial means for comparing the relative size of firms. Thus, by using data obtained from responses to questionnaires sent to operators of wholesale and retail firms, the degree of economic concentration will be suggested.

The lack of accessible data necessitated utilization of the questionnaires in the appendix at the end of this chapter. However, the importance of the questionnaires would have been greatly reduced if the reports submitted by individual firms to the A. B. C. Board and the Oklahoma Tax Commission were available to the public. The questionnaires used in connection with this thesis were designed to determine industry and firm efficiency, relative sizes of firms, price stability, and barriers to entry in the Oklahoma liquor industry. Questionnaires were sent to a random sample of one hundred package stores and to all sixteen Oklahoma wholesale liquor firms. The Oklahoma Alcoholic Beverage Control Board's mailing list of eight hundred package stores effective June 1, 1963, and their mailing list of sixteen wholesale firms effective June 1, 1963, were used as populations of firms in the industry. Returns were received from fifteen retail firms (15 per cent of the sample) and nine wholesale firms (56 per cent of the population). However, all respondents did not answer all questions.

Respondents mailed their replies directly to the author in an envelope provided for that purpose. To preserve the confidential nature of the survey, respondents did not have their names or addresses on the replies, so that not even the author knew who returned the questionnaires.

Table VII suggests that the largest sample package stores, measurable by gross receipts, did tend to maintain a bigger inventory, measurable by the number of brands kept in stock and the stock value.

Using the figures in Table VII, the mode and median of the sample retail firms reporting gross receipts were $50,000; the average gross receipts per firm were $70,600, and the standard error was $38,049.[1] Since the average retail liquor firm in Oklahoma during fiscal year 1963, had gross receipts of $66,400, one would expect most sample retailers to indicate gross receipts of $75,000 which falls within the class boundaries of $62,500 and $87,499.[2] However, the mode is probably a more meaningful measure of central tendency than the mean, because the sample distribution is heavily skewed to the right.[3] Thus the sample distribution tends to support the reports that there are a few

TABLE VII

INDICATORS OF THE DEGREE OF CONCENTRATION
AMONG PACKAGE STORES IN OKLAHOMA
1963

Item	Annual Gross Receipts (in thousands of dollars)					
	30 or less	50	75	100	150	Total
Total Sample Package Stores Reporting	2	7	2	2	2	15
Per Cent of Total Sample Package Stores	13	47	13	13	13	99*
Per Cent of the Total Receipts of all Sample Package Stores	2	34	15	20	29	100
Value of Stock per Store						
$3,000 or less	1	1				2
$5,000	1	3	1			5
$7,000		2	1			3
$10,000		1		1	1	3
$15,000 or more				1	1	2
Totals	2	7	2	2	2	15
Number of Brands in Stock						
100 or less	2	2				4
101 to 200		3	2	2		7
201 or more		2			1	3
Total	2	7	2	2	1	14

*Does not total to 100 because of rounding error.

Source: Questionnaires sent to package store owners in connection with this thesis. See the appendix at the end of this chapter.

retail firms with large annual gross receipts.[4] Since the Oklahoma retail liquor industry is composed essentially of a series of local markets, the above data provide only a rough indication of economic concentration of the industry. Therefore, it may be more important to consider the distribution of Oklahoma package stores than to ineffectively measure the degree of economic concentration.

<u>The Distribution of Oklahoma Package Stores</u>

The ideal location of a firm is one that maximizes profits, that is one having the greatest spread between total revenues and total costs. Thus the industry problem is one of aligning firms in a combination which attains the most profitable sales volume and efficient production.[5]

As expected, package stores tend to locate in the most populous counties, which also have the largest potential local markets. Table VIII indicates that almost one third of the seven hundred seventy package stores, July 1, 1963, were located in the state's two most populous counties, Oklahoma and Tulsa. All counties had at least two retail firms. Furthermore, for the state as a whole there was one package store per 3,023 people.[6] Approximately 60 per cent of the counties had more population per retail store than the state average.[7] The questionnaire used in connection with this thesis was not designed to show the relative sizes of firms within a series of local markets which would permit more accurate evaluation of economic concentration.

The data obtained from the questionnaire and other sources do not indicate a significant degree of economic concentration in the Oklahoma retail liquor industry, and therefore imply that the determinants of economic concentration are unimportant. However, it is possible that the causes of economic concentration have not had sufficient time for their effects to be realized. Therefore, it would be enlightening to study some of the determinants of economic concentration in Oklahoma package stores.

Economies of Plant. Economies of plant are reductions of expenses realized because of an increase in a firm's size. Examples of this include specialization of personnel, more efficient use of management, specialized equipment, and other possible means of lowering costs per unit of output. Economies of plant would thereby result in a greater degree of economic concentration. More specifically, the smaller package stores would not be able to compete successfully with the larger stores.

The questionnaire used in connection with this thesis provided an indication as to whether or not economies of plant exist. As mentioned previously, economies of plant suggest that there is a relationship between the size and efficiency of a firm. The per cent markup above laid-in-costs a retail firm needs to offset its total costs provided means of comparing the relative efficiency of package stores, and gross receipts can be used as a measure of the relative size of firms.[8] Less efficient firms may be assumed to need a higher per cent markup above laid-in-costs just to cover their total costs. Table IX using the foregoing concept, will aid in determining whether or not economies of plant exist.

Only one sample package store with gross receipts of $75,000 or more needed a markup of over 10 per cent above laid-in-costs (delivered costs) to compensate for its total expenses, while eight sample package stores having gross receipts of fifty thousand dollars or less

TABLE VIII

THE NUMBER OF PACKAGE STORES LOCATED IN SELECTED OKLAHOMA COUNTIES

County	Number of Package Stores 1 July 1963	Population 1960	Population per Package Store
Oklahoma	142	439,506	3,095
Tulsa	94	346,038	3,064
Comanche	30	90,803	3,027
Garfield	18	52,975	2,943
Kay	13	51,042	3,926
Cleveland	13	47,600	3,662
Muskogee	26	61,866	2,379
Carter	15	39,044	2,603
Pottawatomie	13	41,486	3,191
Payne	13	44,231	3,402
Caddo	13	28,621	2,202
Cimarron	2	4,496	2,248
Cotton	2	8,031	4,016
Harper	2	5,956	2,978
Johnston	2	8,517	4,258
Love	2	5,862	2,931
Nowata	2	10,848	5,424
Roger Mills	2	5,090	2,545
State Total	770	2,328,284	3,023

Source: The World Almanac 1963 and Book of Facts, Ed. by Harry Hansen (New York World-Telegram and the Sun: 1963) p. 292. Fourth Annual Report of the Oklahoma Alcoholic Beverage Control Board to the Governor and Members of the Oklahoma Legislature (Oklahoma A. B. C. Board, Oklahoma City: 1963) p. 15.

reported that they needed a markup greater than 10 per cent. Since the larger package stores tend to need a lower per cent markup above laid-in-costs just to cover their total costs, the existence of economies of plant are implied.[9] The effectiveness of economies of plant, as a determinant of economic concentration, will be discussed in a later section, "Firm Size and Efficiency of the Industry."

TABLE IX

ECONOMIES OF PLANT IN SAMPLE
OKLAHOMA PACKAGE STORES

Gross Receipts of Sample Package Stores	Per Cent Markup Above Laid-in-Costs				
	10 or less	15	20	25 or more	Total Firms
$30,000 or less		2			2
$50,000	1	2		4	7
$75,000	2				2
$100,000	1		1		2
$150,000 or more	2				2
Total	6	4	1	4	15

Source: Questionnaire used in connection with this thesis. (Stillwater: 1963). See the appendix at the end of this chapter.

Barriers to Entry. Table X shows that almost as many package stores open for operation each year as there are stores that leave the industry. The fact that so many new firms enter the industry each year suggests easy entry and, thus, that barriers to entry are not significant determinants of economic concentration. However, this does not explain why so many new firms enter the industry when the industry experiences such a high failure rate.

The average gross receipts of package stores has increased from 64.8 thousand dollars in fiscal year 1959-1960 to 65.4 thousand dollars in fiscal year 1962-63, indicating that the industry per se is growing. Also, the average net income per retail liquor store was $7,155 for fiscal year 1963.[10] During the same fiscal year, the median net income per sample retail firms was $6,139. However, it is not within the scope of this thesis to determine the extent to which the change in gross income per package store induces new firms to enter the industry; but certainly a net income of over $6,100 would allow a family to live comfortably.

Economic Concentration Among Sample Wholesale Firms

As with retail firms, the gross receipts and the facilities maintained by a wholesale firm suggests the relative size of firms in the industry. Table XI shows that the larger sample wholesale firms, as measured by gross receipts, tend to employ more vehicles and persons, and maintain larger inventories as measured by the number of brands kept in stock and the value of the stock.

The three sample firms with two million dollars or less in gross receipts accounted for 19 per cent of the total receipts of all sample firms; 32 per cent of the total receipts of all sample firms was rendered by sample firms with gross receipts greater than two million dollars but less than four million dollars. The firms with gross receipts of more than four million dollars yielded 49 per cent of the total receipts of all sample firms, while the gross receipts of the average sample wholesale firm were three million dollars. The median sales volume of the 270 wholesale firms studied in the Wine and Spirit Wholesalers of America report was between four and five million dollars.[11] Thus the difference in the relative sizes of the sample wholesale firms appears insignificant. However, there may be forces working to increase the degree of concentration, such as economies of plant and barriers to entry.

TABLE X

THE NUMBER OF ACTIVE PACKAGE STORES IN OKLAHOMA FOR SELECTED DATES

Date*	Total Annual Receipts (millions of dollars)	Renewals	New Entrants	Exits	Active Package Stores	Average Annual Receipts (thousands of dollars)
6-30-60	52.9				821	64.8
7-1-60		766	47	55		
6-30-60	52.4				813	61.8
7-1-61		776	45	37		
6-30-62	53.2				821	64.8
7-1-62		773	55	48		
6-15-63	54.9				828	66.3
7-1-63		770		58		

*Notes: Permits must be renewed each July 1st.

Source: Oklahoma Alcoholic Beverage Control Board, First Annual Report of the Oklahoma Alcoholic Beverage Control Board to the Governor and Members of the Oklahoma Legislature (Oklahoma City: 1960), p. 20. A. B. C. Board, Second Annual Report, 1961, p. 22. A. B. C. Board, Third Annual Report, 1962, p. 22. The figures for 1963 were obtained directly from the Board.

TABLE XI

INDICATORS OF THE DEGREE OF CONCENTRATION
AMONG WHOLESALE LIQUOR FIRMS IN OKLAHOMA

Item	Gross Receipts (millions of dollars) 2.24 or less	2.25 to 3.74	3.75 or more	Total
Number of Sample Wholesale Firms Reporting	3	3	3	9
Number of Vehicles by Firms				
10 or less	3	2		5
11 or more		1	3	4
Number of Employees by Firms				
30 or less	3	2		5
31 or more		1	3	4
Amount of Inventory by Brands				
800 or less	1	2	1	4
801 to 1399	2			2
1400 or more			2	2
Amount of Inventory by Firms Value				
$1,000,000 or less	3	1	1	5
more than $1,000,000		1	1	2

Source: Questionnaires sent to wholesale liquor firms in connection with this thesis. (Stillwater: 1963). See appendix at the end of this chapter.

Economies of Plant. The questionnaire sent to wholesale liquor firms in connection with this thesis supplies adequate data to suggest whether or not economies of plant exist. The gross receipts of wholesale firms will be used as a measure of the relative size of firms, and the per cent markup above delivered costs a firm needs to offset its total expenses will be employed to determine whether or not economies of plant exist. Economies of plant will be implied if the larger wholesale firms require a lower per cent markup than small firms. The data in the following table weakly suggests that economies of plant can be found in the Oklahoma wholesale liquor industry.

TABLE XII

ECONOMIES OF PLANT FOR SAMPLE WHOLESALE LIQUOR FIRMS

Gross Receipts (millions of dollars)	Per Cent Markup 9.5 or less	9.6 to 10.5	over 10.5
2.24 or less	0	1	2
2.25 to 3.75	0	1	1
over 3.75	1	1	1

Source: Questionnaires used in connection with this thesis. (Stillwater: 1963). See the appendix at the end of this chapter.

One wholesale firm with gross receipts of over 3.75 million dollars reported that it needed a 9.5 per cent or less markup just to cover its total costs, while four wholesale firms of equal and smaller size indicated that they needed a markup of over 10.5 per cent. Certainly, this evidence is not solid enough to conclude that economies of plant exist in the Oklahoma wholesale market. Further, the report compiled by Wines and Spirit Wholesalers of America for 1962, indicates that Oklahoma wholesale firms are as efficient as the average open license state's wholesale firms of comparable size.[12] The average sample firm in Oklahoma required a 10 per cent markup, as did the average wholesale firm in the same range of annual gross receipts in other states. Further, the report showed that wholesale firms with gross receipts of less than one million dollars required a per cent markup of 1.14 more than the indicated optimum size firm having gross receipts of fifteen million dollars.[13] Also, diseconomies of plant were indicated for those firms attaining gross receipts in excess of fifteen million dollars.[14] Thus the available data suggest that economies of plant are important determinants of economic concentration, but that they are insignificant in Oklahoma because none of the wholesale firms are large enough to realize them.

Barriers to Entry. The historical record of new firms entering the wholesale liquor industry indicates that barriers to potential entrants are insignificant. For example, Oklahoma had nineteen wholesale firms in September 1959; since then, five firms have opened their doors for operations and eight wholesale firms have failed.[15] Only one of the five wholesale firms entering the industry since April 1961, has failed. Although this is a 20 per cent failure rate, it is only about one half the failure rate of the first nineteen firms. This indicates that the buying habits of retailers are not effective barriers to potential firms entering the industry.

Market Conduct

Retailers' Determination of Output and Prices

Retailers determine prices by using a per cent markup above the delivered cost for each of the three categories: (1) spirits, (2) wines, and (3) cordials and specialties.[16] After determining their prices, retailers attempt to sell as many items as possible at those prices.[17]

Retail prices are computed by using a per cent markup above laid-in-costs, where laid-in-costs are defined as the total costs of procuring an item in stock. Thus the final price of an item is computed by adding the laid-in-cost, and the per cent markup times the laid-in-costs. For example, the average markup on spirits was 24 per cent.[18] The average retail price paid by the consumer on an item having a $4.00 delivered cost would be $4.00 plus .24($4.00), or $4.96 plus sales tax.

TABLE XIII

THE PER CENT MARKUP USED BY SAMPLE PACKAGE STORES

Annual Gross Receipts (thousands of dollars)	Per Cent Markup Above Delivered Costs 0-10%	10.1-20%	20.1-25%	25.1 or more
0-40			1	1
40-62.5	1	1		5
62.5-87.5				1
87.5-125			1	
125-175		1	1	

Source: Questionnaires sent to retailers in connection with this thesis. (Stillwater: 1963). See appendix at the end of this chapter.

Of course, some retailers use more sophisticated pricing policies than presented here. For example, two sample retail firms reported that they used a variable per cent markup.[19] Thus the per cent markup used on one product would be different from that used on another product. Generally, a retailer attempts to sell as much of an item as possible at the computed price. This is the same as saying that the retailer's supply curve is relatively elastic in the short run. However, in the long run, prices tend to fluctuate (see "Price Flexibility"), and the supply curve is less elastic.

Wholesalers' Determination of Output and Prices

Wholesalers, like retailers, determine their prices by using different gross margins for each of the three categories: (1) spirits, (2) wines, and (3) cordials and specialties. After determining their prices, wholesalers sell as much as possible in a geographical area. Because each wholesale firm controls a significant share of the market, there seems to be interdependent action among them, meaning that the pricing and output of one wholesaler influences the market shares of the other wholesale firms. Such interdependent action indicates an oligopolistic industry.

Prior to February 1963, Board regulations required wholesalers to post a price list quarterly with the director thirty days before the effective date of the prices.[20] The Board declared the lowest prices submitted for each of the spirits, wines, and cordials and specialties categories. However, in January 1963, Central Liquor Company filed prices of 6 per cent markup on spirits, 10 per cent markup on wines, and 18 per cent on cordials and specialties. Rather than declare the lowest prices as those filed by Central Liquor Company, the Board changed its policy by adopting the average per cent markup filed by fifteen wholesalers. The resulting per cent markups promulgated by the Board were 13.1 per cent on spirits, 24 per cent on wines, and 18 per cent on cordials and specialties. Central Liquor Company than filed a writ of prohibition seeking to prevent the Board from enforcing the higher prices. Later, the Oklahoma County District Court, Judge John

Brett ruled that the Board did not have the right to establish minimum prices, and nullified Section V of the _Rules and Regulations Adopted by the Oklahoma Alcoholic Beverage Control Board_.[21] Soon after Judge Brett declared his ruling, a price war broke out among the wholesalers in which some wholesale firms were reported to be using a one per cent markup for spirits and a 6 per cent markup for wines.[22]

A new method of computing wholesale liquor prices developed after the outbreak of this price war. Since the new gross margin method and the per cent markup above delivered costs are essentially the same, the new method of computing final price is significant only because it emphasizes the wholesalers break from the Board. The gross margin on an item is equal to the selling price of the item, minus the laid-in-costs over the selling price of the item. The relationship between gross margin and the per cent markup is as follows: gross margin is equal to the per cent markup, divided by one plus the per cent markup (G. M. equals P/(1 plus P). Thus the present gross margin of $10\frac{1}{4}$ per cent is equivalent to about 11.1 per cent markup above laid-in-costs. Although the gross margin is generally less than the per cent markup above delivered cost, the change in price is not significantly different. This is because a price differential between items ordered in case lots and items ordered by the bottle has been established.[23] This price differential reflects the higher wholesale operating cost of filling retailers' orders of this miscellaneous makeup. Most wholesale firms are presently using $8\frac{1}{4}$ per cent gross margin for spirits ordered by the case.[24]

Cross Hauling

Cross hauling occurs when distant competitive firms ship products to customers in the vicinity of a rival's plant which manufactures identical products. Substantial waste and inefficiency may result from increased freight costs. For example, a Tulsa wholesaler may ship goods to an Oklahoma City retailer and an Oklahoma City wholesaler may ship identical goods to a Tulsa retailer. Undoubtedly, it would be cheaper for the Tulsa wholesaler to deliver to the Tulsa retailer and the Oklahoma City wholesaler to convey goods to the Oklahoma City retailer. However, previous to the spring of 1963, cross hauling was a common practice among Oklahoma wholesale liquor firms. For example, one wholesale firm located in Oklahoma City served package stores in the northeastern and southwestern corners of the state, when established firms were located in Tulsa and Lawton. This implies that earnings were high enough that wholesalers were content to absorb excessive transportation costs. However, the price war during the spring of 1963, forced wholesalers to reconsider their costs and, as a result, the practice of cross hauling was effectively reduced.

Market Performance

Excess Capacity

Excess capacity, the ability of an industry or firm to produce greater output without expanding plant, will be interpreted as a measure of the industry's economic efficiency. Generally, excess capacity suggests a malallocation of economic resources. Further, Bain states that excess capacity is most likely to occur in industries having low barriers to entry. Thus it is not surprising to find excess capacity in the Oklahoma liquor industry.[25] However, excess capacity does not necessarily suggest inefficiency if it is required to meet peak periods in a widely fluctuating demand.

Excess Capacity in Package Stores. The sample retail firms indicated that the Oklahoma retail liquor industry does have an excess capacity. All of the sample package stores reported that they could serve more customers on a busy day without employing more personnel or facilities, implying excess capacity within these firms and in the industry.[26] Since part of the excess capacity may be necessary to meet peak demand periods, the phrase "on a busy day," used in the questionnaire, was intended to eliminate excess capacity needed to meet a normal fluctuating demand for alcoholic beverages.[27] Even if the phrase did not fulfill its purpose, it would be enlightening within itself to study the fluctuations in the demand for liquor in Oklahoma.

A weekly and seasonal fluctuation in the demand for alcoholic beverages was reported by the sample retail firms. The average sample retail firm incurs about half of its weekly business on Fridays and Saturdays; furthermore, the establishment receives approximately 25, 20, 15, and 40 per cent of its annual gross receipts during the first, second, third, and fourth annual quarters respectively.[28] Therefore, it seems as though much of the industry's capacity could result from the weekly and seasonal fluctuations in the demand for alcoholic beverages.

Excess Capacity in Wholesale Liquor Firms. The sample wholesale firms indicated that the Oklahoma wholesale liquor industry has excess capacity. All but one of the sample wholesale firms reported that they could serve more retailers on a busy day without employing more persons or facilities.[29]

Some of the excess capacity in the industry results from weekly and annual fluctuations in the wholesaler's demand. As one would expect from the existing relationship between the wholesale and retail sectors, the cyclical nature of the two demands are quite similar.

Firm Size and Efficiency of the Industry

The data collected from the respondents to the questionnaires used in connection with this thesis indicated that economies of plant exist in the Oklahoma liquor industry. This section will consider the implications of the economies of plant.

Retail Firms. The data did not show what size firm is the most efficient, but it did indicate that economies of plant were attained as a firm's gross receipts approached $150,000. This is about two and one-half times as large as the average Oklahoma package store. In fact, most sample firms with gross receipts of less than $50,000 needed a markup 5 to 15 per cent higher than larger firms just to cover their total costs.[30] Thus the Oklahoma retail liquor industry would become more efficient if the average size of the firm increased considerably and the smaller, less efficient firms "weeded out."

Wholesale Firms. The available data suggested that Oklahoma wholesale liquor firms are now as efficient as the average wholesale firms of comparable size. If it is assumed that Oklahoma wholesale firms continue to follow the pattern of the average wholesale operations, diseconomies of plant will be realized by firms having gross receipts greater than fifteen million dollars and less than one million dollars.[31] The largest Oklahoma wholesale firms are only about one-third the optimum size of 12 to 15 million dollars gross receipts, suggesting that three or four wholesale firms would be adequate to meet the needs of the present Oklahoma liquor industry.[32]

Price Flexibility

Bain mentions that we have no theoretical standards indicating what amplitude or frequency of short term price flexibility is most satisfactory socially.[33] However, economic theory does suggest that pricing policies should cause the industry and firms in the industry to adjust to their most efficient production. Based on the preceding statements, this thesis will consider the instability of liquor prices and whether or not it has led to greater efficiency.

Package Stores. The instability of retail liquor prices in Oklahoma has received considerable publicity. In the spring of 1963, for example, Norman, Oklahoma retailers were reported to be selling alcoholic beverages below costs, and several Stillwater retailers were selling alcoholic beverages for their costs.[34] However, unstable prices have not been common to all retail firms, and it is unlikely that a general price war would develop in the Oklahoma retail liquor industry since the industry is composed of many small local markets. Approximately 37 per cent of the sample retail firms indicated that they had never had a general price change.[35] About 55 per cent of the sample retail firms located in cities and towns of less than ten thousand population reported that they had never had a general price change, while all retailers in cities greater than ten thousand population indicated that they had experienced a general price change since opening their stores.[36] Therefore, the data collected from the questionnaire sent to retailers suggest that prices are more stable in smaller cities.

In view of the fact that the average annual gross receipts per package store are increasing, the average retail firm should become more efficient as it approaches the optimum output. Certainly, price flexibility cannot be given all the credit for the trend to optimum output for the retail firms, nor is it within the scope of this thesis to determine the role that price flexibility plays in this matter.

Wholesale Firms. Since repeal of prohibition in Oklahoma, wholesale liquor prices of spirits have varied mostly between 10 and 14 per cent markup. They have never been stable for more than nine consecutive months.[37] Further, the per cent markup on spirits has been less than 10 per cent on two occasions. During the first eight months and during the spring of 1963, the wholesale markup on spirits was 1 to 3 per cent.[38] Although the two preceding sentences show the instability of Oklahoma wholesale liquor prices, they do not show whether firms are, or are not, adjusting to their optimum level production.

The available data indicate that wholesale firms should be, and are increasing the output per firm. However, this increase seems to be the result of a growing industry rather than a reduction in the number of firms. Again, it is not within the scope of this thesis to determine how much credit should be given to each of the factors contributing to the trend to optimum average output per firm.

There is evidence that price discrimination among retailers has been practiced by some wholesale firms.[39] While it is evident that some wholesalers did violate the control bill, it is not so clear that the price concessions granted retailers constituted economic price discrimination. Economists define price discrimination as the making of different prices for goods of like grade and quality without a cost difference, or the charging of same price for goods of like grade and quality when there is a cost difference. The control bill does not allow wholesalers to charge each retailer according to the cost of serving that retailer; instead, the wholesaler must strike a medium and charge all retailers the same price.[40] Therefore, the wholesaler's price can not reflect the higher cost of shipping a small order seventy-five miles as compared with the cost of delivering a large order a few blocks. The fact that price discrimination was practiced by wholesalers suggests that prices were too high and/or that fallacies exist in the pricing procedures, such as the inability to accurately reflect transportation costs.

An Evaluation of the Performance of the Oklahoma Alcoholic Beverage Industry

A greater degree of economic concentration seems desirable for the Oklahoma wholesale and retail liquor industries. It would reduce excess capacity by decreasing the amount of economic resources devoted to the industries, and economies of plant would be achieved by individual firms. Thus the industries would employ fewer economic resources to produce approximately the same output. Society would benefit from the resulting lower prices, and more economic resources would be allocated to other industries. However, monopoly power would increase and prices to the consumer might stay high, leaving only the benefit of more resources being allocated to other industries.

Although it does not appear to some people to be the case, economic theory tells us that price flexibility is one method of impelling an inefficient industry closer to its most efficient form. Thus the unstable prices experienced by the Oklahoma liquor industry may be desirable since they tend to discourage potential entrants and eliminate inefficient firms. If so, Governor Bellmon was justified in vetoing House Bill 737, 1963, which would have given the A. B. C. Board the power to fix minimum prices.[41]

Summary

This paper is an empirical study of the economic performance of the Oklahoma liquor industry and is based on concepts and hypotheses developed from economic theory. First, it was found that the environment is formed largely by the legal atmosphere in which firms operate and the nature of the demand faced by the firms. The _Oklahoma Alcoholic Beverage Control Act_ and the _Rules and Regulations Adopted by the A. B. C. Board_ are the primary constituents of the legal atmosphere. The nature of the demand faced by firms indicates the importance of consumer sovereignty to the industry, which seems to be of consequence to the Oklahoma liquor industry. Thus the framework established by the environment tends to control the structure and conduct patterns of the industry.

The main purpose of Chapter IV was to inspect the Oklahoma liquor industry's performance with respect to efficiency and price flexibility. Price fluctuations are a method of impelling an industry to its most efficient form. Furthermore, both the Oklahoma retail and wholesale liquor industries were inefficient, as evidenced by the need to eliminate excess capacity and by the existence of unrealized economies of plant. Increased economic concentration for both industries would improve their efficiency. However, neither industry will readily approach greater concentration due to the ease of entry into the industries. Nevertheless, the fact that both industries are characterized by price flexibility provides a basis for hope that the industries will attain a more efficient form.

Footnotes for Chapter IV

[1]A. B. C. Board, Third Annual Report, 1963, pp. 8, 11. Sales tax collections for fiscal year 1963 were $1,099,646, and there were 828 active package stores on June 15, 1963. Thus, the average gross receipts for retail stores was $66,400 equals 50 x $1,099,646 over 828. The standard error was found by applying the following formula: standard error equals the square root of the sum of X minus $\bar{X}$ squared divided by N, where X is the gross annual receipts of the sample firm and $\bar{X}$ is the average gross receipts of the sample firms, N is the number of sample firms. The average annual gross receipts of the sample firms was found by summing the annual gross receipts of the sample firms and dividing the sum by the number of sample firms (15).

[2]The class boundaries were found by adding the classes and dividing by 2. For example, $50,000 plus $75,000 divided by 2 equals $62,500.

[3]The chi square test was applied to the sample distribution to determine whether or not the sample could be treated as a normal distribution. The application of the chi square test and its results were as follows.

Class	Class Boundaries	Class Frequencies	$Z = \frac{X-\bar{X}}{S}$	Area Under Normal Curve
	0	0	-1.86	.4686
0-10	10	2	-1.75	.4599
10-40	40	7	-.80	.2881
40-62.5	62.5	2	-.21	.0832
62.5-87.5	87.5	2	.44	.1700
87.5-125	125	2	1.43	.4236
125-175	175	0	2.74	.4969
175 or more	greater			.5000
Total		15		

[3]continued

Area Class	Expected Frequency	Observed Frequency	$\frac{(\text{Observed-Expected})^2}{\text{Expected}}$
.0087	.09 or 1	0	$\frac{(0-0)^2}{0} = 0$
.1718	1.72 or 2	2	$\frac{(2-2)^2}{2} = 0$
.2049	2.05 or 2	7	$\frac{(7-2)^2}{2} = 12.5$
.2532	2.53 or 3	2	$\frac{(2-3)^2}{3} = .3$
.2536	2.54 or 3	2	$\frac{(2-3)^2}{3} = .3$
.0733	.73 or 1	2	$\frac{(2-1)^2}{1} = 1$
.0031	.03 or 0	0	
Total	11	15	14.1

The degrees of freedom were 1 and 4. Thus, V = 2, chi square .95 = 9.49 which is less than 14.1 and V - 2, chi square .05 = .711 which is less than 14.1. Therefore, a normal distribution should not be applied to the sample distribution.

[4]Personal interviews with various persons in the industry.

[5]John A. Shubin, Managerial and Industrial Economics (New York: The Ronald Press Company, 1961) p. 85.

[6]3,023 people - 2,328,284 people over 770 stores.

[7]47 of 77 counties had more package stores per capita than the state average.

[8]Laid-in-costs are the same as delivered costs.

[9]See Table IX.

[10]If the average annual gross receipts are $66,400 per Table X and the average costs per sample retail firm were 10 per cent of the delivered costs plus the delivered costs, and the average markup above delivered costs was 24 per cent for the sample firms, then the average net income per sample firm was 14 per cent. Thus, the average delivered costs per sample retail firm was $58,250 equals $66,400 plus 1.14. Therefore, average net income per retail firm was $7,155 per year equals ($58,250 X .14) retail firms. If the median annual gross receipts of $50,000 is used in the above formulas, an annual net income of $6,139 is computed. $43,900 equals $50,000 divided by 1.14. $6,139 equals $43,900 X .14.

[11]Wine and Spirits Wholesalers of America, Annual Survey of Operations (New York: Wine and Spirits Wholesalers of America, 1962) p. 9.

[12]Wine and Spirits Wholesalers of America, Annual Survey of Operations (New York: Wine and Spirits Wholesalers of America, 1962) p. 10,11.

[13]Ibid.

[14]Ibid. p. 11.

[15]Oklahoma Alcoholic Beverage Control Board's records. Oklahoma City, 1963.

[16]Personal interviews with package store operators and other people in the industry.

[17]Ibid.

[18]The total of each column in Table XIII times the annual gross receipts divided by the sum of the total in all rows times annual gross receipts times 100 yields the expected gross receipts to be accounted for by firms using the per cent markup heading that column.

$$\frac{(\text{sum of column X annual gross receipts})}{(\text{sum of rows X annual gross receipts})} \text{ X } 100 = \text{expected gross receipts accounted for by all firms using that per cent markup.}$$

$$\frac{50}{860} = .06 \qquad \frac{200}{860} = .23 \qquad \frac{255}{860} = .30 \qquad \frac{355}{860} = .41$$

The class mark of the per cent markup used by sample retail firms times the expected gross receipts all summed equals the average per cent markup used by sample firms weighted by the per cent of the market they account for.
.06 (.05) plus .23(.15) plus .30(.225) plus .41(.335) equals .24

[19]See the questionnaire in the appendix sent to package stores.

[20]Rules and Regulations Adopted by the Board, art. 3, sec. 5, 6.

[21]Oklahoma County District Court, 158688 (1963).

[22]"Liquor Firms Trim Prices," The Daily Oklahoman, February 15, 1963, p. 2.

[23]Personal interviews with various people in the industry.

[24]Ibid.

[25]Bain, pp. 410, 411.

[26]See the questionnaire in the appendix sent to package store operators.

[27]Ibid.

[28]Ibid.

[29]Ibid.

[30]See "Economies of Plant in Oklahoma Wholesale Liquor Firms," this paper.

[31]Wine and Spirits Wholesalers of America, Annual Survey of Operation, pp. 10, 11. Also, Table X.

[32]Ibid. Personal interviews with Board personnel indicate that gross receipts for all Oklahoma wholesale firms are about forty million dollars.

[33]Bain, p. 403.

[34]Personal interviews and various newspaper articles; for example, "Liquor Prices Fall," and "Liquor Price War Booms Business at Stillwater," The Daily Oklahoman (1963).

[35]See the questionnaire in the appendix sent to package store operators.

[36]Ibid.

[37]Records of the Oklahoma A. B. C. Board.

[38]Ibid. "Liquor Firms Trim Prices," The Daily Oklahoman, February 15, 1963, p. 1.

[39]See in the matter of William Thomas Milam and Cleveland Hall, and in the matter of William Thomas Milam and M. L. Rear, (in the Board's files); Oklahoma Beverage Analyst, "Famous 'Not Guilty,' April, 1962, p. 10. ____. "Suppliers Show Packages at Jobber's Meeting; Parham, Link Warn on Discounts," November 1960, p. 94. ____. "Tulsa Retailers Admit Rebates," June 1961, p. 5. "Liquor Kickbacks Linked to McAlester Councilman," The Daily Oklahoman, May 10, 1961, p. 10. Plus numerous other articles.

[40]Oklahoma, Alcoholic Beverage Control Act, (1959).

[41]"Governor Vetoes Liquor Price Bill," The Daily Oklahoman, June 18, 1963, p. 1.

QUESTIONNAIRES

Dear Sir:

In meeting the requirements for a masters degree at Oklahoma State University, it is required that I write a thesis. I chose the Oklahoma liquor industry for my topic. Because of the lack of information on the industry, it is necessary that I send a questionnaire to persons in the industry. The information will be compiled in such a manner as to reveal nothing about an individual firm. The information will be only for use in my thesis and will not be accessible to anyone else. Your co-operation is appreciated.

Sincerely yours,

Charles O. Gibson, Jr.

I.

A. During a busy day, could you serve more customers than you do without employing more people or facilities?

______ yes

______ no

B. What per cent of your weekly business is on Fridays and Saturdays?

______

C. What per cent of your annual business is during the months of

______ January, February, March?

______ April, May, June?

______ July, August, September?

______ October, November, December?

II.

A. How large an inventory do you maintain?

______ $3,000 or less

______ $5,000

______ $7,000

______ $10,000

______ $15,000 or more

B. How many different brands do you keep in stock? ______

C. How many different items do you keep in stock? ______

D. How many employees do you have working full time? ______

part time? ______

III.

A. What are your gross annual receipts?

______ $10,000 or less

______ $30,000

______ $50,000

______ $75,000

______ $100,000

______ $150,000

______ $200,000

______ $500,000 or more

B. What per cent above laid-in-costs are you using? ______

C. What per cent above laid-in-costs do you need to just cover your total costs?

______ 5% or less

______ 10%

______ 15%

______ 20%

______ 25% or more

D. How long has it been since you had a general change in your prices?

______ six months or less

______ one year

______ two years

______ three years

______ Have never had a general price change.

IV.

A. How many wholesalers do you usually deal with during a six month period? ______

B. Approximately how long have you dealt with these wholesalers?

______

Dear Sir:

In meeting the requirements for a masters degree at Oklahoma State University, it is required that I write a thesis. I chose the Oklahoma liquor industry for my topic. Because of the lack of information on the industry, it is necessary that I send a questionnaire to persons in the industry. The information will be compiled in such a manner as to reveal nothing about an individual firm. The information will be only for use in my thesis and will not be accessible to anyone else. Your co-operation is appreciated.

Sincerely yours,

Charles O. Gibson, Jr.

I.

A. What per cent of your weekly business is done on Friday? ______

B. What per cent of your annual business is during the following months?

______ January, February, March

______ April, May, June

______ July, August, September

______ October, November, December

C. On a busy day could you serve more retailers than you do without having to employ more people or facilities? ______ yes

______ no

II.

A. How many employees does your firm have? ______

B. How many vehicles does your firm have? ______

III.

A. What are your approximate annual receipts?

______ $1,000,000 or less

______ $1,500,000

______ $2,000,000

______ $2,500,000

______ $3,000,000

______ $3,500,000

______ $4,000,000

B. Approximately how much inventory do you maintain?

______ $500,000 or less

______ $1,000,000

______ $1,500,000

______ $2,000,000

______ $2,500,000 or more

C. How many different items do you keep in stock? ______

D. How many different brands do you keep in stock? ______

E. What per cent markup above laid-in-cost do you need to just cover your total costs?

______ 8% or less	______ 10%
______ 8.5%	______ 10.5%
______ 9%	______ 11%
______ 9.5%	______ 11.5% or more

F. What is the value of the total assets of your firm? ______

V.

A. Have you found that retailers tend to buy from the same few wholesalers for long periods at a time?

______ yes ______ no

CHAPTER V

POSSIBLE CHANGES IN THE OKLAHOMA LIQUOR INDUSTRY

Since this thesis is a study of the performance of the Oklahoma liquor industry, it is proper to present some of the possible changes in the structure and conduct patterns of the industry that may lead to a more satisfactory performance. The possible changes that will be presented are the adoption of a franchise system or a monopoly system, the establishment of minimum prices, the use of other channels of distribution, and the allowance of horizontal and vertical integration. The changes will be presented as controversial modifications deserving a more complete study than is provided here.

The adoption of State Question 406, which appeared on the ballot in the 1962 General Election, would have permitted the Oklahoma liquor industry to adopt a franchise system.[1] None of the wholesalers actively campaigned against the question; retailers were divided with respect to the question.[2] The data with respect to the issue are so insufficient that no definite conclusions can be drawn. In personal interviews, wholesalers suggested that a franchise system would be more efficient than Oklahoma's free wheeling system. However, many retailers felt that it would increase the prices to the consumer. Thus, the final effects of a franchise system in Oklahoma are still debated.

There has not been an organized movement in Oklahoma to adopt a monopoly system. Since alcoholic beverages can lead to addiction, a social cost is associated with the industry, providing justification of public ownership of the industry. However, through selected legislation, an open license state can gain many of the advantages asserted for the monopoly system and decrease the disadvantages declared for the open license method. Also, it is contended that a monopoly system shows a lack of confidence in free enterprise. Since the type of system adopted for the distribution of alcoholic beverages is somewhat a moral issue, the author feels that the people in each state should decide what method of distribution to adopt.

Bain suggests that more desirable results are attained if government regulations modify the structure and conduct patterns of an industry rather than the performance directly.[3] Direct interference of performance, such as establishing minimum prices, impedes an industry's efforts to produce at its most efficient output. If the established price minimum is lower than the market price, it will not achieve its purpose in that prices would not fall to this level any way. A minimum price that is higher than the market price would be inefficient in that economic resources would be misallocated, and the market could not adjust to its optimum output.

The adoption of House Bill 737, 1963, would have given the Board the power to set minimum prices for both wholesale and retail firms.[4] Wholesalers were in favor of adoption of the bill, while distillers fought the bill.[5] Again, retailers were divided with respect to the issue.[6] On June 17, 1963, Governor Bellmon, rightfully in the author's opinion, vetoed HB 737.[7]

It is plausible to allow alcoholic beverages to be distributed through other channels, such as drugstores, grocery stores, gas stations, and so forth. Twenty-five of the thirty-two open license states permit outlets other than stores restricted to the sale of alcoholic beverages.[8] Other channels of distribution would provide greater convenience for the consumer, and as a result of more efficient use of resources, might provide a decrease in the average cost per unit of output. For example, a cyclical demand accounted for part of the excess capacity in the industry; another product sold in conjunction with alcoholic beverages, and having a different fluctuating demand might result in more efficient overall use of resources.

Economies of plant and a reduction of excess capacity may be realized if vertical and horizontal integration of firms is permitted. The author knows of no data related to the Oklahoma liquor industry concerning this matter. However, there are numerous examples in other businesses where multiple firm operations have resulted in greater efficiency than single independent firms. This is apparently true of grocery stores, department stores, and so forth.

The possible changes to Oklahoma liquor commerce, as presented in this section, merit further study because their implementation would be likely to influence the efficiency of the industry. They are not fully explored in the present investigation since emphasis has been concentrated on the actual performance of the industry operating within its present atmosphere.

Footnotes Chapter V

[1]Oklahoma, House Resolution 543, (1963).

[2]Personal interviews with various people in the industry.

[3]Bain, p. 13.

[4]"Governor Vetoes Liquor Price Bill," The Daily Oklahoman, June 18, 1963, p. 1.

[5]Ibid.

[6]Ibid.

[7]Ibid.

[8]Distilled Spirits Institute, "Commodities Other Than Wine and Liquor Sold in Package Stores," (Unpub. Table, 1962).

BIBLIOGRAPHY

"A B C Threatens Revocation for Refusal to Testify," Oklahoma Beverage Analyst, June 1961, p. 6.

Anderson, Theodore, "The economics of Controlled Liquor Distribution," (Unpub. Speech), 1962.

Annual Report Hiram Walker-Gooderham and Worts, Limited (Walkerville, Ontario, Canada, 1962).

Bain, Joe S., Industrial Organization (New York: John Wiley and Sons, 1959).

Barr, Stanley, "Private Enterprise in the Liquor Industry," (Unpub. Speech), 1941.

"Barriers to Interstate Trade," Harvard Law Review, July-August 1959, pp. 1145-1154.

Bell, Allan, "Has the Oklahoma System of Liquor Distribution Failed?" Oklahoma Beverage Analyst, August 1961, p. 6.

______. "The Oklahoma Liquor Mess," Oklahoma Beverage Analyst, October 1962, p. 24.

"The Big Controversy," Oklahoma Beverage News, April 1963, pp. 8-10.

Central Liquor Company vs. Alcoholic Beverage Control Board, Oklahoma County District Court, (1963).

Citizens for 406, "State Question 406-and What's It All About," (Handout), 1962.

______. "Facts About State Question 406," (Handout), 1962.

The Daily Oklahoman, "A B C Board Fights Ruling," February 21, 1963, p. 1.

______. "Board Claims Liquor Outlets Made Rebates," May 15, 1961, p. 1.

______. "Governor Vetoes Liquor Price Bill," June 18, 1963, p. 1.

______. "Here's State Tally," April 9, 1959, p. 4.

______. "Liquor Firms Trim Prices," February 15, 1963, pp. 1, 2.

______. "Liquor Franchise Backers Form," October 6, 1962, p. 9.

______. "Liquor Kickbacks Linked to McAlester Councilman," May 10, 1961, p. 5.

______. "Odds Favoring Repeal If Vote Turnout Is Big," April 4, 1959, p. 12.

______. "Repeal Heads For Victory," April 8, 1959, pp. 1, 2.

______. "Sooners Vote on Repeal Question For Sixth Time," April 5, 1959, p. A27.

______. "The State Goes Wet," April 8, 1959, pp. 1, 2.

______. "$10,000-Month Liquor Kickback Setup Reported," April 20, 1961, pp. 1, 2.

______. "Three Liquor Officials Face Secrecy Count," June 22, 1963, pp. 1, 2.

______. "Tulsa Whiskey Retailer Tells of Kickbacks," April 19, 1961, pp. 1, 2.

______. "Voters to Decide Proposed Liquor Law Amendment," October 30, 1962, p. 24.

______. "Wholesale Liquor Markup Boosted," January 10, 1963, p. 17.

Distilled Spirits Institute, Annual Statistical Review of the Distilled Spirits (Washington: Distilled Spirits Institute, 1961).

______. "Commodities Other Than Wine and Liquor Sold in Package Stores," (Unpub. Table, 1962).

______. Summary of the State Laws and Regulations Relating to Distilled Spirits (Washington: Distilled Spirits Institute, 1961).

"Distillery Man Accused of Rebating," Oklahoma Beverage Analyst, March 1960, p. 14.

"Famous Brands 'Not Guilty,' Oklahoma Beverage Analyst, April 1962, p. 10.

"Franchise System Proposed by Oklahoma," Oklahoma Beverage Analyst, August 1961, p. 14.

Gee, Philip, Scotch Whisky Questions and Answers (Washington: The Scotch Whisky Association, 1957).

The Guthrie Daily Leader, "Legal Whiskey's 5th Birthday Near," August 25, 1963, p. 9.

Haring, Frank, ed. Practical Encyclopedia of Alcoholic Beverages (New York: Liquor Store Magazine, 1959).

"Here Are the A B C's of Industry Purpose," Oklahoma Beverage Analyst, June 1961, p. 8.

Hiram Walker-Gooderham and Worts, Annual Report Hiram Walker-Gooderham and Worts, Limited (Walkerville, Ontario, Canada: Hiram Walker-Gooderham and Worts, 1962).

Interview with Mr. Cowden, Oklahoma Tax Commission, May 27, 1963.

Interview with Mr. Dick Fogarty, Oklahoma state legislature, July 11, 1963.

Interview with Mr. Don Franks, general manager of Byrd Wholesale Liquor Company, January 22, 1963 and June 13, 1963.

Interview with Mr. Ralph Hood, Chief Inspector of the Alcoholic Beverage Control Board, July 1, 1963.

Interview with Mr. Jack Howard, assistant director of the Alcoholic Beverage Control Board, January 22, 1963.

Interview with Mr. Jerry Kremer, general manager of United Beverage Company in Oklahoma City, January 22, 1963.

Interview with Mr. K. E. Naifeh, owner of Western Distributing Company, August 24, 1963.

Interview with Mr. Barney Oman, inspector for the Alcoholic Beverage Control Board, June 13, 1963.

Interview with Mr. Claud Thompson, executive secretary for Oklahoma Wholesale Liquor Association, July 20, 1963.

Interview with Mr. Jim Wilcox, Oklahoma City retailer, secretary-treasurer of Oklahoma Retail Liquor Association, and Writer for Oklahoma Beverage Analyst, June 6, 1963.

The Joint Committee of the States to Study Alcoholic Beverage Laws, Trade Barriers Affecting Interstate Commerce in Alcoholic Beverages (Cleveland, 1952).

"Late News Clippings," Oklahoma Beverage News, October, 1959, pp. 10, 11.

Leftwich, Richard H., The Price System and Resource Allocation (New York: Holt, Rinehart, and Winston, 1960), rev. ed., p. 197.

Licensed Beverage Industries, Inc., Some Aspects of the Economic Contributions of the Alcoholic Beverage Industry a State by State Analysis (New York, 1962).

The Liquor Handbook (Duluth, Minnesota: Davidson Publishing Company, 1958).

"Liquor Pricing," Oklahoma Beverage News, July 1963, pp. 12, 13, 16.

McGeary, Martin N., Pennsylvania and the Liquor Industry (State College: Valley Publishing Company).

Mailing list of firms in the industry, Alcoholic Beverage Control Board (in the files of the Board).

Minutes of the meetings of the Alcoholic Beverage Control Board for March 21, 1960, October 3, 1960, October 17, 1960, December 23, 1960, and November 6 and 7, 1961 (in the files of the Board).

Mund, Vernon A., Government and Business (New York: Harper and Brothers, 1960).

"News Roundup," Oklahoma Beverage Analyst, November 1959, p. 26.

Oklahoma, Alcoholic Beverage Control Act, (1959).

Oklahoma Alcoholic Beverage Control Board, First Annual Report of the Oklahoma Alcoholic Beverage Control Board to the Governor and Members of the Oklahoma Legislature (Oklahoma City: Oklahoma Alcoholic Beverage Control Board, 1960).

______. Second Annual Report of the Oklahoma Alcoholic Beverage Control Board to the Governor and Members of the Oklahoma Legislature (Oklahoma City: Oklahoma Alcoholic Beverage Control Board, 1961).

______. Third Annual Report of the Oklahoma Alcoholic Beverage Control Board to the Governor and Members of the Oklahoma Legislature (Oklahoma City: Oklahoma Alcoholic Beverage Control Board, 1962).

______. The Official Price Book (Oklahoma City: Oklahoma Alcoholic Beverage Control Board, 1963).

______. Report Concerning Shipments of Alcoholic Liquors by Classification and Brands from Distillers to Oklahoma Distributors (Oklahoma City: Oklahoma Alcoholic Beverage Control Board, 1962).

______. Rules and Regulations Adopted by the Oklahoma Alcoholic Beverage Control Board (Oklahoma City: Oklahoma Alcoholic Beverage Control Board, 1963).

"Oklahoma City Trade Offers Reward for Tips on Discount Violations," Oklahoma Beverage Analyst, September 1960, p. 18.

Oklahoma, Constitution, art. 27, sec. 7.

Oklahoma, House Bill 737 (1963).

Oklahoma, House Resolution 543 (1962).

Old Mr. Boston Delux Official Bartenders Guide (Boston: Mr. Boston Distillers, Inc., 1961) pp. 126-136.

Oxenfeldt, A. R., Industrial Pricing and Marketing Practices (New York: Prentice Hall, 1951).

Parr, Roy, "State Observes Fourth Anniversary of Liquor Repeal," The Sunday Oklahoman, September 1, 1963, p. 6A.

Practical Encyclopedia of Alcoholic Beverages (New York: Liquor Store Magazine, 1959).

"The Pricing Picture," Oklahoma Beverage Analyst, June 1960, pp. 11, 23.

"Preview of 1961 Fall-Holiday Programs," September 1961, p. 4.

"The Pricing Trouble," Oklahoma Beverage Analyst, March 1963, pp. 24, 25, 28.

Records of suspensions and notices to appear before the Oklahoma Alcoholic Beverage Control Board (in the files of the Board).

State of Oklahoma Alcoholic Beverage Price Posting for Period 2/1/63 to 4/30/63 by Distiller (Tulsa: 1963) (in the files of the Board).

Stewart, Charles, "Mandatory Resale Price Maintenance of Distilled Spirits in California," Journal of Marketing, vol. 18, April 1954, pp. 370-379.

Taylor, Jacob B., "The Monopoly System of Liquor Control-An Appraisement After Seven Years," (Unpub. Speech, 1941).

Tulsa Sunday World, "Liquor Sales Law Change Up to Voters," October 28, 1962, pp. 1, 20.

Tulsa Tribune, "A B C Officials To Be Arraigned Wednesday," July 2, 1963, p. 3.

______. "A B C Chief Denies Count," July 3, 1963, p. 3.

______. "A B C Trial To Be Slated In September," July 23, 1963, p. 5.

United States Constitution, Twenty-first Amendment (1933).

United States Government, Alcohol and Tobacco Summary Statistics (Alcohol and Tobacco Tax Division, Internal Revenue Service, 1963).

Walters, Charles, Jr. "Fact Finding On Franchise Industry," Oklahoma Beverage News, November 1961, pp. 11, 56.

______. "The Question of Franchises," Oklahoma Beverage News, October 1961, pp. 18, 19.

______. "We Want to Spike a Franchise Controversy," Oklahoma Beverage News, September 1961, pp. 18, 20.

"Whiskey," The Encyclopedia Americana, 1959 Volume 29.

Wilcox, Jim, "Trade Talk," Oklahoma Beverage Analyst, March 1962, pp. 4, 11.

______. "Trade Talk," Oklahoma Beverage Analyst, May 1963, pp. 10-12.

______. "Trade Talk," Oklahoma Beverage Analyst, June 1963, pp. 24-27.

______. "Trade Talk," Oklahoma Beverage Analyst, March 1963, pp. 10-11.

Wine and Spirits Wholesalers of America, Annual Survey of Operations (New York: Wine and Spirit Wholesalers of America, 1962).

Wine Institute, Interstate Wine Trade Barriers Summary (San Francisco: Wine Institute, 1960).

______. Comparison: Control State vs. Open State Operations (San Francisco: Wine Institute, 1963).

The World Almanac 1963 and Book of Facts, Ed. by Harry Hansen (New York World-Telegram and the Sun; 1963).

VITA

Charles Owen Gibson, Jr.

Candidate for the Degree of

Master of Science

Thesis: THE OKLAHOMA ALCOHOLIC BEVERAGE INDUSTRY - AN EVALUATION OF THE PERFORMANCE AFTER $3\frac{1}{2}$ YEARS

Major Field: Economics

Biographical:

Personal Data: Born in Oklahoma City, Oklahoma, November 7, 1939, the son of Charles O. Gibson and LaVon Gibson Young.

Education: Attended grade school in Guthrie, Oklahoma; graduated from Guthrie High School, in 1958; received the Bachelor of Arts degree from Oklahoma State University, with a major in Economics, in May, 1962; completed requirements for the Master of Science degree in July, 1966.

Professional experience: Graduate Assistant in the Department of Economics, Oklahoma State University, for the academic year 1962-63. Served two years as a Signal Corps officer in the United States Army, 1963-65. Presently employed as a market analyst by Sunray DX Oil Company, Tulsa, Oklahoma.