How the Government's Plan to Expand Alcohol Sales Will Boost Brewers' Bottom Lines

Description

Last week a bill that received royal assent will see the Ontario government liberalize its policies surrounding the sale of alcohol through non-regulated outlets, including convenience outlets and corner stores.

During last spring's election, part of the Progressive Conservative's platform was to make the sale of wine and beer available through grocery chains, convenience outlets and corner stores in an effort to not only to make life easier for his constituents, but also to create new economic opportunities for those in the private sector, including business owners and job seekers.

How will the new law impact brewers?

To begin with, the Ford government is moving away from a deal that the Kathleen Wynne Liberal government had inked with "The Beer Store," a tightly held conglomerate jointly owned by three major brewing companies, **Molson Coors Canada Inc.** (TSX:TPX.B)(NYSE:TAP), Labatt [owned by **Anheuser Busch Inbev NV** and Sleeman [owned by Japan-based **Sapporo Holdings Ltd).**

That change is significant because as things stood previously, The Beer Store was operating under a policy whereby if a beer that it was making available for sale didn't meet certain sales thresholds, it could remove that beer from its menu.

For smaller craft brewers still fighting to gain market awareness, that restriction has at times has proved onerous, preventing them from sitting on stock shelves where customers could buy their soapy suds.

Last year the Ford government announced yet another beer initiative whereby the province would be reintroducing its buck-a-beer program, essentially lowering the floor on minimum beer prices that retailers were allowed to charge.

While that move was criticized for being overly punitive to smaller breweries, who claimed they wouldn't be able to compete with bigger breweries at such low prices, last week's announcement clearly seems to be an appeal to take power away from a concentrated group of large multinationals.

In the short term it at least feels like a win for the province's craft brewers, who will be able to get their feet on the ground and in the doors of small grocery chains and convenience outlets to compete for valuable shelving space.

That's likely to come at the expense of larger, arguably more bureaucratic organizations like Molson Coors.

Molson has struggled as of late in rejuvenating interest among North American beer drinkers in its product line-up, as the company continues to face headwinds from not only craft brewing upstarts, but also the legalization of recreational cannabis.

To be fair, Molson has done its best to adapt by expanding its product line-up, most notably a deal with **Hexo Corp** that will see the two companies work together on coming up with a new line of cannabis-infused adult beverages.

Foolish bottom line

In almost every market, there's always going to be room for the lowest cost producer. In this respect, the latest bill passage, while it certainly presents an opportunity for some of the smaller beer brewers operating within the Canada's largest province, it also probably won't do a lot to disrupt Molson Coors long-term vision.

That vision could include the reinstatement of the company's previous dividend policy as early as later this year.

If that if it were to happen, it would certainly be worth toasting to.

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