How one small city is helping save its restaurants from COVID-19

By ALICIA PLEMMONS

Twenty minutes across the bridge from St. Louis is the peaceful, nature-filled city of Edwardsville. Home of Southern Illinois University Edwardsville, the city of 26,000 is well-accustomed to a busy main street filled with students during the semester. Much like the rest of the country, COVID-19 has struck Edwardsville hard. With their nearly 14,000 students sent home and a "Stay-at-Home" order in place, businesses are struggling to stay afloat under economic uncertainty and loss of revenue. This uncertainty has been particularly hard on the restaurant and bar industry. Edwardsville is home to more than 70 local restaurants that employ upward of 1,100 people from the community. The state of Illinois has attempted to mitigate this by easing liquor laws and regulations, but the implementation of change largely is determined by the individual municipalities.

Plemmons

Edwardsville, in concern for their fantastic local restaurants and bars, reacted with a unique policy. The City of Edwardsville has allowed, without any fees, all Class B liquor license holders to operate under the rules of Class C licenses. Class B licenses authorize the sale of alcoholic beverages on the specific premises of a business for on-site consumption. The legal change that Edwardsville enacted allows every bar and restaurant in town with a Class B license to now sell packaged or sealed liquor or beer containers as a carry-out item for off-premises consumption. This means that Edwardsville residents, when leaving their house to pick-up food, can expect to find to-go margaritas, manhattans, and martinis a-plenty. Currently, this provision is set to extend through April 30, 2020, and all license holders will have to notify the State of Illinois Liquor Commission that they are choosing to operate under the Class C rules.

As most cities are seeing their restaurants and bars close their doors, not only temporarily but in many cases permanently, Edwardsville is seeing a boom in curbside pick-up orders that are supporting many local businesses. This is crucial for the health of this industry because alcohol sales are often the highest profit margin items for restaurants and typically account for a fourth of overall sales revenue. Typical profit margins for liquor are between 80 percent and 85 percent, while beer and wine are slightly lower at 75 percent to 80 percent and 60 percent to 70 percent, respectively. This is far above the profit margins on meals and appetizers, which generally range between 0 percent and 15 percent. With the addition of these alcohol items to their curbside pickup menus, restaurants have more cash in the register to keep the lights on and pay employees.

The ability to maintain alcohol sales is lucrative for these bars and restaurants for many reasons. First and foremost, alcohol can have large markups in prices of up to four times their wholesale costs. Let's say that a bar was going to offer to-go margaritas. The cost of a bottle holding around 25 shots of low- to moderate-end tequila can cost a restaurant approximately $30. If each to-go margarita costs around $10, the restaurant is quickly able to not only recoup the cost of that bottle but also pay for the worker who is making the drink. Labor cost for behind-the-bar activities (such as mixing and packaging drinks and cleaning drink stations) are much lower on average for each dollar in sales relative to kitchen activities. A $10 drink is, in many cases, more time and labor efficient to make than a $10 burger and fries.

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In addition, alcohol has a longer shelf life so these restaurants are able to purchase inventory that will be useful for months or even years beyond the timeline of the COVID-19 pandemic. This means that their product should outlast this period of uncertain demand, unlike meat and produce which have shelf-lives of a few days or weeks. At this point in time, restaurants and bars are unsure how many customers they will bring in or if they will still be allowed to operate days or weeks in the future. Therefore, they may be reluctant to purchase the ingredients for their entire menu, especially since they only make small profit margins on food-based items. Alcohol sales circumvent this problem with their extended shelf life that maintain their usefulness through potential closures and shutdowns.

My advice, as an economist, is that towns or cities that are concerned over their local restaurant industry during COVID-19 be open to considering similar regulatory strategies. Not only is this an interesting way to encourage people to stay home (after retrieving their curbside pickup order), it promotes high-profit sales for restaurants and bars that are struggling to make their overhead costs and maintain payroll. This is an interesting and unique way that Edwardsville, has gone above and beyond to maintain their local economy through a simple regulatory action. Through this change they have potentially saved dozens of businesses and hundreds of jobs both during and after the crisis.

These regulatory changes may help keep restaurants afloat, but the widespread economic effects on small businesses will have sizable footprints well beyond overhead and payroll. The U.S. Small Business Administration has also developed additional guidance and resources to maintain safety, security, and health of small business employees, owners, and customers. The Economic Injury Disaster Loan Program provides low-interest loans of up to $2 million to small businesses in the U.S. and territories that are affected by the COVID-19 pandemic. Additional resources for small businesses and employees who have become temporarily furloughed or laid off due to the COVID-19 pandemic are contained in the federal stimulus package passed by Congress.

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