



IDAHO STATE
LIQUOR
DIVISION

Executive Office of the Governor

STRATEGIC PLAN
Fiscal Years 2012-2015

Submitted: July 1, 2011

Jeffrey R. Anderson
Director



MISSION

The mission of the Idaho State Liquor Division is to provide control over the importation, distribution, sale, and consumption of distilled spirits; curtail intemperate use of beverage alcohol; and responsibly optimize the net revenues to the citizens of Idaho.

VISION

The vision of the Idaho State Liquor Division is to be the most respected and highest performing purveyor of distilled spirits in the USA.

VALUES

We operate the Idaho State Liquor Division in accordance with the spirit and letter of the law that established its purpose

We conduct business in an ethical manner at all times

We work to continuously exceed the expectations of our customers, each other, and our community

We are personally responsible for our individual performance

We work diligently toward continuous process improvement

We commit to operational excellence in all disciplines

We cooperate with each other to create an environment that is conducive to great work

We treat each other with mutual respect and cooperation

Strategic Infrastructure Assessment

In September 2010, the Idaho State Liquor Division (ISLD) conducted a formal strategic planning conference to discover new ideas for improving our operations. Nineteen ISLD associates from all departments, the executive team, and store operations participated in comprehensive training, team building, and planning exercises designed to identify opportunities for improvement and to elicit input from others in all functional areas in order to establish major strategic initiatives. Over 200 initiatives were identified, cross-functional strategic planning teams were assembled, and initiatives were assigned to each team for in-depth assessment and implementation. The initiatives are specific, measurable, attainable, result-oriented, and time-limited.

The teams meet at least quarterly, each is held accountable for their deliverables, and all must keep the planning coordinator and executive team apprised of progress. ISLD management is committed to ensuring strategic planning is an integral component to guide our associates' focus on their work for the people of Idaho.

Some examples of recent accomplishments resulting from associate ideas to-date:

- Enhanced customer service and convenience with augmented store hours.
- Improved gross profit margin on value-priced items.
- Created and distributed a pocket guide for elected officials to improve awareness of the ISLD's role, responsibilities, and effectiveness in delivering on our mission.
- Positively modified the product listing and close-out process.
- Established a revised special order process to recover costs of acquiring special order items requested by customers and to expedite those orders to stores.
- Restated our Mission and Vision.
- Established regular meetings in each district with contractors, retail, and central office personnel to improve communication and share best practices.
- Development of a revised Employee Manual.

Works in progress include:

- Assortment optimization and SKU rationalization to ensure the right products are being carried at the right stores.
- Create a standardized merchandising policy to ensure consistency in store offerings.
- Establish store service centers to offer social responsibility and product information to consumers.
- Development of an Online Ordering System for on-premise customers.
- Improved employee training and education programs.
- Improved work place safety and drug testing.

Additionally, in January 2011 the Idaho Legislature Joint Legislative Oversight Committee's Office of Performance Evaluation (OPE) submitted a report on the performance of the ISLD. Our strategic planning teams had already begun work on several of their recommendations. Other recommendations relating to specific metrics for evaluating individual store performance and store siting criteria are being developed and will be explained in greater detail in the formal ISLD response to OPE in July 2011.

GOALS

- (1) Responsibly provide for the availability of distilled spirits to Idaho citizens without stimulating the normal demands of temperate consumers.**
- (2) Maintain Idaho's position of low per capita consumption of distilled spirits.**
- (3) Optimize financial returns to the citizens that result from responsible operations of the wholesale and retail enterprise.**

STRATEGIES

(1) Responsibly provide for the availability of distilled spirits to Idaho citizens without stimulating the normal demands of temperate consumers by:

- a. Sensibly offering uniformly priced products in state-operated and contract liquor stores.
- b. Meeting community and consumer market needs for access to retail locations.
- c. Pricing product at manufacturer suggested retail price (where applicable).
- d. Avoiding ISLD discounting except in the case of close-outs.
- e. Anticipating product trends and attending to consumer interest in new products.

(2) Maintain Idaho's position of low per capita consumption of distilled spirits by:

- a. Providing limited but convenient hours of operation in state-run stores.
- b. Rejecting products designed for quick consumption and irresponsible use.
- c. Actively engaging with stakeholders in government, business, and the communities we serve to promote social responsibility on the use of beverage alcohol.
- d. Responsibly nurturing relationships with our suppliers to leverage their expertise and means to promote responsible use.
- e. Furnishing on-going social responsibility training for retail associates.

(3) Optimize financial returns to the citizens by:

- a. Applying sound business management principles and practices to operate an efficient wholesale and retail business operation.
- b. Rigorously managing operating expenses and cost of goods sold.
- c. Offering uniform, fair, and market-based pricing for all categories of products.
- d. Employing best practices in customer service and merchandising in retail stores.
- e. Implementing processes for evaluating retail store performance and store siting criteria.

Performance Trend and Benchmark Measures

The most effective measures of an enterprise operation such as the ISLD are its performance to plan as reported in the statement of revenues, expenditures, net income, and internal benchmark criteria.

Internal benchmarks indicate how the ISLD performs in attaining our vision. We compare our performance to other Control States and to the industry in general, where applicable. The criteria include, but may not be limited to, our performance in: per capita consumption; total revenue growth; 9-liter case sales; distributions; net margin; and sales per employee.

Idaho State Liquor Division Performance Trend:

	actual FY07	actual FY08	actual FY09	actual FY10	est. FY11
Sales \$	\$121,623,148	\$130,815,006	\$135,082,238	\$137,608,916	\$143,663,708
<i>chg. vs. PY</i>		7.6%	3.3%	1.9%	4.4%
Total OPEX	\$12,123,700	\$13,746,000	\$14,691,800	\$14,764,009	\$14,773,200
<i>% of Sales</i>	10.0%	10.5%	10.9%	10.7%	10.3%
<i>chg. vs. PY</i>		13.4%	6.9%	0.5%	0.1%
Net Income	\$42,357,974	\$45,090,209	\$46,150,007	\$46,287,337	\$49,563,979
<i>% of Sales</i>	34.8%	34.5%	34.2%	33.6%	34.5%
<i>chg. vs. PY</i>		6.5%	2.4%	0.3%	7.1%
Cap Ex	\$2,720,600	\$2,589,800	\$3,909,100	\$381,415	\$415,800
<i>% of Sales</i>	2.2%	2.0%	2.9%	0.3%	0.3%
<i>chg. vs. PY</i>		-4.8%	50.9%	-90.2%	9.0%
Distributions	\$39,152,572	\$40,164,193	\$45,193,000	\$47,199,481	\$48,414,670
<i>% of Sales</i>	32.2%	30.7%	33.5%	34.3%	33.7%
<i>chg. vs. PY</i>		2.6%	12.5%	4.4%	2.6%
Sales (cases)	757,898	796,801	822,445	844,370	874,767
<i>chg. vs. PY</i>		5.1%	3.2%	2.7%	3.6%
Performance Measures:					
<u>Consumption</u>					
Cases/adult *	0.72	0.74	0.75	0.76	0.78
<i>chg. vs. PY</i>		2.8%	1.4%	1.3%	2.6%
Net Income/Case	\$55.89	\$56.59	\$56.11	\$54.82	\$56.66
<i>chg. vs. PY</i>		1.3%	-0.8%	-2.3%	3.4%
OPEX/Case	\$16.00	\$17.25	\$17.86	\$17.49	\$16.89
<i>chg. vs. PY</i>		7.8%	3.5%	-2.1%	-3.4%

* Idaho residents age 21 and over, per 2010 U.S. Census data projections and Nielsen Media Research

Idaho State Liquor Division Benchmark Measures:

	est. FY12	est. FY13	est. FY14	est. FY15
Sales \$	\$150,128,575	\$153,881,790	\$157,882,716	\$162,303,432
<i>chg. vs. PY</i>	4.5%	2.5%	2.6%	2.8%
Total OPEX	\$15,358,810	\$15,408,810	\$15,483,810	\$15,558,810
<i>% of Sales</i>	10.2%	10.2%	10.1%	10.1%
<i>chg. vs. PY</i>	4.0%	0.3%	0.5%	0.5%
Net Income	\$51,944,487	\$53,396,981	\$54,785,302	\$56,481,594
<i>% of Sales</i>	34.6%	34.7%	34.7%	34.8%
<i>chg. vs. PY</i>	4.8%	2.8%	2.6%	3.1%
Cap Ex	\$610,100	\$650,000	\$655,000	\$665,000
<i>% of Sales</i>	0.4%	0.4%	0.4%	0.4%
<i>chg. vs. PY</i>	46.7%	6.5%	0.8%	1.5%
Distributions	\$58,893,600	\$52,319,808	\$53,995,889	\$55,670,077
<i>% of Sales</i>	39.2%	34.0%	34.2%	34.3%
<i>chg. vs. PY</i>	21.6%	-11.2%	3.2%	3.1%
Sales (cases)	908,883	928,879	950,243	973,999
<i>chg. vs. PY</i>	3.9%	2.2%	2.3%	2.5%

Performance Measures:

Consumption

Cases/adult *	0.79	0.80	0.80	0.81
<i>chg. vs. PY</i>	1.3%	1.3%	0.0%	1.3%
Net Income/Case	\$57.15	\$57.49	\$57.65	\$57.99
<i>chg. vs. PY</i>	0.9%	0.6%	0.3%	0.6%
OPEX/Case	\$16.90	\$16.59	16.29	15.97
<i>chg. vs. PY</i>	0.1%	-1.8%	-1.8%	-2.0%

* Idaho residents age 21 and over, per 2010 U.S. Census data projections and Nielsen Media Research

** FY12 Distributions are enhanced by a one-time \$8,000,000 distribution to the General Fund, reducing the ISLD daily cash balance to a manageable and responsible level

External Factors:

Health of the Overall Economy

The ISLD is not immune to the overall health of the economy in Idaho. While we forecast a 4.4% increase in top-line revenue on a 3.6% increase in case volume in FY11, we face stiff headwinds going forward due to continued high unemployment, low consumer confidence, and stress on our customers' finances from higher fuel and food prices. Per capita consumption for adults of legal drinking age increased 2.6% in FY11. However, we note roughly 2%-3% of our sales increase comes from Washington State cross-border sales as a result of our uniform state-wide pricing and Washington's high taxes and fees on distilled spirits.

The Division of Financial Management (DFM) recently presented a report, "*Idaho's Road to Recovery*", to groups across the state. In the June 2011 report, DFM cited personal income of Idahoans in our major trading areas has been negatively impacted by the recession. In virtually all areas where our sales are generated, DFM estimates personal incomes are predominantly in the < 5% to > 10% negative categories.

Reports from Gallup, Inc. in June 2011 confirm the fragile economic environment we exist in today. Regarding unemployment (June 17, 2011): "*Unemployment is at 8.9% (nationally)...The percentage of part-time workers who want full-time work is at 9.7% in mid-June.*" On consumer confidence (June 14, 2011): "*The sharp drop in economic confidence in early June is consistent with the deterioration in the jobs situation...overall pump prices remain over a \$1 a gallon more than they were a year ago.*" On consumer spending (June 9, 2011): "*The significant majority of Americans consistently report they are cutting back on the amount they are spending each week. This may represent the "new normal" in which Americans are adjusting to a less robust economy...*".

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to, unpredictable increases in commodities prices as well as fuel that is beginning to affect our cost of goods sold, further loss of on-premise licensees, our ability to be nimble in responding to rapidly changing retail market conditions, unintended adverse changes to our business model as a result of legislative action, and Acts of God.