



IDAHO STATE
LIQUOR
DIVISION

Executive Office of the Governor

STRATEGIC PLAN

Fiscal Years 2020 - 2023

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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

Internal Agency Assessment

The Idaho State Liquor Division (ISLD) continues to responsibly implement our on-going and evolving strategic initiatives for the benefit of the People of Idaho. In FY2019, the ISLD:

- Maintained Idaho's low consumption of distilled spirits of 1.6 gallons per capita, 20% less than the average for non-control states (adjusted for Washington impact).
- Sales, Net Income, and Distributions all grew faster than 9-Liter case equivalent shipments and per capita consumption.
- Intense focus continues to improve returns on asset utilization, enhance retail customer service, and optimize profitability with significant qualitative and quantitative benefits for our customers and stakeholders.
- The National Alcohol Beverage Control Association (NABCA), the ISLD's trade association, supports their member states each year with an education award to provide funding for prevention and education initiatives aimed at underage drinking. In FY2019, the competitive ISLD Mini-Grant Program was able to award 13 coalitions and organizations throughout the state with a total of \$60,000 to aid in their efforts.
- Verifying that a person is of legal age (over 21) is paramount to our organization. Every new retail employee is required to take a 3-hour certification course called TIPS[®] (Training for Intervention ProcedureS). Ongoing recertification is required for all associates. TIPS is an industry-recognized skills-based training program that is designed to prevent intemperate use, underage drinking, and drunk driving.
- ISLD associates have received zero citations for selling to underage people during the past three years. The ISLD utilizes a third party, The BARS Program, to monitor compliance on our ID verification process. Our protocol requires our associates to verify the age of anyone appearing younger than 35 years of age. As an organization, we continue to improve and are at 94% compliance for FY19, well above industry averages. License states' compliance is in the mid-70% range (source: NABCA).
- Provided another record distribution to our stakeholders of \$85,000,000.
- Upgraded or relocated various retail locations throughout the Gem State when leases expired, dramatically improving responsible service, the customer shopping experience, and enhancing net revenues. Also, an additional new store was opened in the Treasure Valley in June of 2019.

The ISLD executive team is committed to ensuring that strategic planning is an integral component to guide our associates' work. Our net revenues are a result of the fair and normal wholesale and retail mark-up plus applicable sales tax on the products we offer to the public. Most importantly, all the net revenues stay in Idaho.

The ISLD is *“Citizen-Owned for the Benefit of All.”*

Key Success Areas

- Focused analytics and evaluation have resulted in enhanced merchandising policies for optimal product display placement in retail outlets. All state retail outlets receive a structured display plan every 60 days, which is designed to enhance the customer shopping experience and optimize profitability.
- Continued development and improvement of the Rare Whiskey Release program on www.mixblendenjoy.com. During the last year, this program has increased website traffic flow by 31,000+ users; 90,000+ sessions, 404,000+ page views; and increased recipients of our newsletter by 6,300+. Moreover, other categories of interest to citizen consumers such as Rare Tequila Release are now being included. Highly allocated and rare items are now accessible to all who are interested.
- Launched a new small-size rack in large state retail outlets with high consumer foot traffic. The small-size segment is the fastest growing segment based on consumer trends. The small-size rack offers the opportunity for consumers to sample premium spirits at an affordable price.
- Partnered with the Division of Human Resources (DHR) to restructure and reclassify warehouse positions to improve career path opportunities for long term development of our staff. This reorganization added a new Supply Operations Manager position and created a new class of supervisors.
- Hosted our first Rare Whiskey and Barrel Select store event in the Treasure Valley in June of 2019. Nearly 300 bourbon whiskey enthusiasts registered for this 1-day event which included master distiller signed bottles, whiskey education, and an opportunity to purchase rare products for their collections. The event was very well received with many requests to conduct more events in the future.
- Continued to strengthen our on-premise relationships by engaging with our partners on scheduled “days of listening”. The feedback received has led to strategic changes in how we operate and has helped us to continue building productive working relationships.
- Rejuvenated its merchandising strategy on regional and local items by creating a special section in each store with specific signage that calls out these products to our customers.
- Was awarded a best practice industry award from State Ways Magazine in October 2018 for Best Consumer Education Program. This ‘sticker shock’ program is the result of a great partnership with the Idaho Office of Drug Policy to educate the public to “Think Twice or Pay the Price” before buying and/or providing liquor to minors. Coalitions, schools, and various other organizations alongside youth in their communities around the state participated in the program in November/December 2018.
- Implemented a safety team at our Central Office and Distribution Center, which meets monthly to address outstanding issues and needs. Their focus continues to improve employee awareness, education, and training on the importance of safety in our work environment.
- Net Income per 9-Liter case sold improved to \$69.77. That represents a +11.6% improvement since FY2015 and a +35.7% improvement since FY2010.

GOALS

- (1) First and foremost, operate in a manner that prioritizes safety. Maintain Idaho’s position of low per capita consumption of distilled spirits in comparison to other control states and maintain at least a 15% advantage in consumption rate vs. non-control states.**
- (2) Responsibly provide for the availability of distilled spirits to Idaho citizens without stimulating the normal demands of responsible temperate consumers of legal drinking age and to achieve a 100% success rate on age compliance checks.**
- (3) Optimize financial returns that result from responsible operation of the wholesale and retail enterprise. Specifically, the Division strives for the following: Distributions to stakeholders grow faster than sales; sales grow faster than 9-Liter case equivalent sales; 9-Liter case equivalent sales grow faster than consumption per capita. (Note: All key performance indicators were achieved in FY2019.)**
- (4) Operate in a manner that facilitates trust and respect with our stakeholders, beneficiaries, business partners, associates, the prevention community, and the public.**

STRATEGIES & OBJECTIVES

- (1) Prioritize Safety and Maintain Idaho’s position of low per capita consumption of distilled spirits** by:
 - a. Providing limited but convenient locations and hours of operation in state-run stores.
 - b. Rejecting products designed for quick consumption and irresponsible use.
 - c. Maintaining minimum (floor) pricing on all categories of liquor including the “bottom shelf”, which are the products most likely to be abused.
 - d. Responsibly nurturing relationships with our suppliers to leverage their expertise and means to promote responsible use.
 - e. Building synergistic partnerships with coalitions and law enforcement agents throughout the state to optimize prevention efforts.
 - f. Maintaining an environment that maximizes associate and customer safety.
 - g. Furnishing ongoing social responsibility training for retail associates.
- (2) Responsibly provide for the availability of distilled spirits to Idaho citizens without stimulating the normal demands of temperate consumers and achieve a 100% success rate on age compliance checks** by:
 - a. Sensibly offering uniformly priced products in state and contract liquor stores.
 - b. Meeting community and consumer market needs for access to convenient but limited retail locations.
 - c. Pricing product at manufacturer suggested retail price or lower, where applicable.
 - d. Avoiding ISLD discounting of products except in the case of close-outs. Providing responsible service suggestions through our consumer website.

- e. Anticipating product trends and attending to consumer interest in new products.
- f. Executing internal ID checks to ensure high compliance rates.
- g. Not advertising to stimulate demand.

(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. Continuously evaluating retail store performance and store siting criteria.
- f. Implementing upgrades to our Enterprise Resource Planning (ERP), Warehouse Management System (WMS), and Point-of-Sale (POS) systems that will deliver efficiencies and cost savings well into the future.

(4) Build Trust and Respect by:

- a. Maintaining transparency by communicating operational results to all Idahoans via routine releases of annual reports and in-store informational brochures.
- b. Modernizing rules; reducing barriers to commerce.
- c. Partnering with NABCA to provide monetary awards to help fund drug and alcohol prevention efforts throughout the State.
- d. Engaging our customers and providing innovative and educational shopping experiences.
- e. Actively engaging with stakeholders in government, business, and the communities we serve to promote social responsibility in the use of beverage alcohol.
- f. Highlighting the myriad of benefits ISLD distributions provide to Idaho communities. For example, community college tuition assistance to counties, community colleges and public education in general, substance abuse and treatment, drug and family courts, law enforcement, public safety, parks and recreation, and more.

Performance Trends and Benchmark Measures

The best measures of the ISLD's operational effectiveness 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 and delivering on our mission. 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: adjusted per capita consumption; total revenue growth; 9-Liter case equivalent sales; distributions to stakeholders; net margin; and profit per 9-Liter case.

Specifically, the Division has established a benchmark philosophy that is the basis for its strategic and operational planning. The benchmarks aim to ensure that the Division responsibly optimizes net revenues without implementing strategies that encourage irresponsible consumption:

Distributions to stakeholders should grow faster than dollar sales; dollar sales should grow faster than 9-Liter case equivalent sales; 9-Liter case equivalent sales should grow faster than adjusted consumption per capita.

Idaho State Liquor Division Performance Trends:

	actual FY15	actual FY16	actual FY17	actual FY18	est. FY19
Sales \$ (benchmark)	\$179,028,100	\$191,047,500	\$203,381,700	\$215,157,580	\$230,003,500
<i>chg. vs. PY</i>	5.9%	6.7%	6.5%	5.8%	6.9%
Total OPEX	\$16,347,100	\$17,537,700	\$18,600,900	\$18,896,700	\$19,180,000
<i>% of Sales</i>	9.1%	9.2%	9.1%	8.8%	8.3%
<i>chg. vs. PY</i>	1.1%	7.3%	6.1%	1.6%	1.5%
Net Income	\$65,657,100	\$70,274,500	\$75,571,900	\$79,839,840	\$86,021,300
<i>% of Sales</i>	36.7%	36.8%	37.2%	37.1%	37.4%
<i>chg. vs. PY</i>	6.5%	7.0%	7.5%	5.6%	7.7%
Cap Ex	\$442,100	\$789,600	\$830,500	\$553,900	\$855,000
<i>% of Sales</i>	0.2%	0.4%	0.4%	0.3%	0.4%
<i>chg. vs. PY</i>	10.1%	78.6%	5.2%	-33.3%	54.4%
Distributions (benchmark)	\$64,412,700	\$68,702,200	\$73,297,000	\$78,512,000	\$84,641,300
<i>% of Sales</i>	36.0%	36.0%	36.0%	36.5%	36.8%
<i>chg. vs. PY</i>	2.2%	6.7%	6.7%	7.1%	7.8%
9-Liter Case Sales (benchmark)	1,050,000	1,094,000	1,138,000	1,181,000	1,233,000
<i>chg. vs. PY</i>	2.8%	4.0%	4.2%	3.8%	4.4%
Performance Measures:					
Consumption					
9-Liter Cases/adult * (benchmark)	0.87	0.90	0.92	0.94	0.97
<i>chg. vs. PY</i>	1.2%	3.4%	2.2%	2.2%	3.2%
Net Income/9-Liter Case	\$62.53	\$64.24	\$66.41	\$67.60	\$69.77
<i>chg. vs. PY</i>	3.4%	2.7%	3.4%	1.8%	3.2%
OPEX/9-Liter Case	\$15.57	\$16.03	\$16.35	\$16.00	\$15.56
<i>chg. vs. PY</i>	-1.9%	3.0%	2.0%	-2.1%	-2.8%

* Idaho residents age 21 and over, per U.S. Census data. Note that Idaho consumption metrics are skewed by significant cross-border Sales along the Washington border. It is estimated that non-resident consumption adds approximately 7.0% to ISLD Sales and related consumption statistics.

Idaho State Liquor Division Performance Measures:

Idaho Statute 23-203 specifies the powers and duties of the Idaho State Liquor Division. Furthermore, the statute directs the Division to “exercise its powers as to curtail the intemperate use of alcoholic beverages. It shall not attempt to stimulate the normal demands of temperate consumers thereof, irrespective of the effect on the revenue...” To this end, the Division has established a benchmark philosophy that is the basis for its strategic and operational planning. The benchmarks aim to ensure that the Division responsibly optimizes net revenues without implementing strategies that encourage consumption. Specifically, the Division strives for the following: **Distributions to stakeholders should grow faster than dollar sales; dollar sales should grow faster than 9-Liter case equivalent sales; 9-Liter case equivalent sales should grow faster than consumption per capita.**

	est. FY19	est. FY20	est. FY21	est. FY22	est. FY23
Sales \$ (benchmark)	\$230,003,500	\$241,503,700	\$252,371,400	\$263,728,100	\$275,595,900
<i>chg. vs. PY</i>	6.9%	5.0%	4.5%	4.5%	4.5%
Total OPEX	\$19,180,000	\$21,468,600	\$23,470,500	\$24,526,700	\$25,630,400
<i>% of Sales</i>	8.3%	8.9%	9.3%	9.3%	9.3%
<i>chg. vs. PY</i>	1.5%	11.9%	9.3%	4.5%	4.5%
Net Income	\$86,021,300	\$89,356,400	\$92,872,700	\$97,051,900	\$101,419,300
<i>% of Sales</i>	37.4%	37.0%	36.8%	36.8%	36.8%
<i>chg. vs. PY</i>	7.7%	3.9%	3.9%	4.5%	4.5%
Cap Ex	\$855,000	\$908,800	\$850,000	\$860,000	\$875,000
<i>% of Sales</i>	0.4%	0.4%	0.3%	0.3%	0.3%
<i>chg. vs. PY</i>	54.4%	6.3%	-6.5%	1.2%	1.7%
Distributions (benchmark)	\$84,641,300	\$89,114,900	\$92,620,300	\$97,051,900	\$101,694,900
<i>% of Sales</i>	36.8%	36.9%	36.7%	36.8%	36.9%
<i>chg. vs. PY</i>	7.8%	5.3%	3.9%	4.8%	4.8%
9-Liter Case Sales (benchmark)	1,233,000	1,277,000	1,317,000	1,357,000	1,398,000
<i>chg. vs. PY</i>	4.4%	3.6%	3.1%	3.0%	3.0%

Performance Measures:

Consumption (benchmark)

9-Liter Cases/adult *	0.97	0.99	1.01	1.02	1.04
<i>chg. vs. PY</i>	3.2%	2.1%	2.0%	1.0%	2.0%
Net Income/9-Liter Case	\$69.77	\$69.97	\$70.52	\$71.52	\$72.55
<i>chg. vs. PY</i>	3.2%	0.3%	0.8%	1.4%	1.4%
OPEX/9-Liter Case	\$15.56	\$16.81	\$17.82	\$18.07	\$18.33
<i>chg. vs. PY</i>	-2.8%	8.1%	6.0%	1.4%	1.4%

* Idaho residents age 21 and over, per U.S. Census data. Note that Idaho consumption metrics are skewed by significant cross-border Sales along the Washington border. It is estimated that non-resident consumption adds approximately 7.0% to ISLD Sales and related consumption statistics.

External Factors

Changes in Washington State

Sales increases from Washington State consumers (as a consequence of Idaho's lower and uniform state-wide pricing vs. Washington's high prices caused by increased taxes when liberalizing the availability of liquor) have stabilized but continue to grow naturally, providing positive results on a larger base. However, Washington State policymakers continue to debate lower taxes and fees imposed on Evergreen State spirits consumers that, if implemented, could impact the velocity of cross-border sales in the future.

Health of the Overall Economy

General economic conditions affect the liquor industry and the ISLD. Recent improvements in economic market conditions have impacted the ISLD through rising wages, increased retail associate turnover, and rising prices for cost-of-goods-sold and operating expenses. Fortunately, our business plan has addressed these and other issues with continuous process improvement in responsible service, operational efficiencies, and sound business principles which have led to another record year of performance in FY2019. However, any general economic declines may have a negative effect on Division results.

Other

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to: unpredictable increases in commodities prices and fuel for delivery services that affects our cost of goods sold; tariffs imposed on imported premium and super-premium products that alter consumer preferences for higher margin items; our ability to be nimble in responding to rapidly changing retail market conditions from unpredictable shifts in consumer preferences; the technological changes that have an enormous impact on how retail businesses operate; unintended adverse changes to our business model as a result of legislative action or inaction; and Acts of God.

Addendum #1 to Strategic Plan

ISLD Cybersecurity Compliance Plans

Following the recommendations of Executive Order 2017-02, the Idaho State Liquor Division (ISLD) has officially adopted the NIST Cybersecurity Framework. The ISLD Information Technology department has read the Framework for Improving Critical Infrastructure Cybersecurity and has signed an acknowledgement that we will adopt the standards to better align with practices of all state agencies.

ISLD has used existing or new technology to meet the requirements for the Center of Internet Security Critical Security Controls (CSC) #1 – 6.

CSC#1: Inventory of Authorized and Unauthorized Devices

With the help of IT Services, ISLD has implemented an instance of the Tenable vulnerability scanner that reports back to the main console. Ivanti/LANDesk will also be using to monitor devices on the network with new features from the Ivanti ELA.

CSC#2: Inventory of Authorized and Unauthorized Software

Ivanti/LANDesk can report software installed on scanned devices on the network. ISLD restricts privileges to install software to IT personnel only, helping prevent unwanted software to be used on the network. With the Ivanti ELA contract, ISLD will have more options available for monitoring and better ability to prevent the use of unauthorized software.

Improvement Plan: Replacement of our current firewall cluster with a virtual firewall on the Palo Alto firewall, operated by the Office of IT Services. The features available through the new virtual firewall will give us greater control over applications and network communications.

CSC#3: Secure Configurations for Hardware and Software on Mobile Devices, Laptops, Workstations, and Servers

ISLD implemented Varonis software five years ago to monitor Active Directory and critical servers such as Email and File Shares, providing read only logs of access and changes to users and configurations. Changes are reported in our Track IT helpdesk software ticketing system, and documentation for the configuration process is approved by IT administration. Our workstations, laptops, and servers are configured with least privileges, and servers have restricted physical and remote control access. Mobile devices owned by the state have limited access and capability, with a vendor agreement to wipe 4G devices when reported lost or stolen. Implementation of Office 365 is occurring and includes Mobile Device Management capability for controlling state data (documents/email) on the device.

CSC#4: Continuous Vulnerability Assessment and Remediation

ISLD currently uses Ivanti/LANDesk to scan and install vulnerability patches on our domain workstations. LANDesk also provides endpoint security anti-virus and pushes updates daily. The Tenable scanner will assist in uncovering vulnerabilities to be quickly patched or remediated.

CSC#5: Controlled Use of Administrative Privileges

ISLD has used the practice of least privilege (ITA Policy P4501) for over a decade. The basic users do not have administrative rights, only trained helpdesk and IT administrators. True domain administration is done from a separate account entirely. ISLD has been using Varonis to track and log changes to Active Directory users and computers, including all administrator activity. The software also allows

viewing permissions to better check inheritance and group membership to prevent accidental rights being granted. Group policy is used in Active Directory to limit access to network resources and systems. Two factor authentication is being considered for users but are not currently part of our protocol.

CSC#6: Maintenance, Monitoring and Analysis of Audit Logs

ISLD uses Varonis to create central, read-only logs for access to critical systems. Our Firewall also logs traffic to a syslog server for investigation if needed. ISLD had attempted to purchase a SIEM, but deferred to the State of Idaho requirements and are using Tenable for vulnerability scanning. A future upgrade to a full-fledged SIEM would be a next step.

ISLD Cybersecurity Training Requirements

The Idaho Division of Human Resources (DHR) requires four modules for cyber security training to all government employees. ISLD participates in this DHR mandated training. Additionally, the ISLD uses our learning management system from Cornerstone OnDemand to add the training on each associate's transcript. All new employees are required to take the training before receiving full access to ISLD systems. Advanced users with higher privileges will be required to take the basic cybersecurity training but also have required training videos for specific IT subjects on Lynda/LinkedIn.com pertaining to their job requirements.

Addendum #2 to Strategic Plan

Plans for Red Tape Reduction

As instructed in Governor Brad Little's Red Tape Reduction Action (Executive Order 2019-02), the Idaho State Liquor Division (ISLD) has outlined a plan and begun efforts to revise and reduce our agency's administrative rules.

The Liquor Division has appointed Chief Deputy Director, Tony Faraca, as its Rules Review Officer. Mr. Faraca will lead a team comprised of the Division's other deputies and key personnel to review all of the agency's rules and identify those that may be obsolete or unnecessary.

The Division has begun this endeavor utilizing a zero-based approach, which will require a legitimate and contemporary rationale for each rule in order to justify its retention. The following steps will be employed in this process:

- 1) Each member of the review team is to familiarize themselves with all of the ISLD administrative rules and to solicit members of their respective functional areas for suggested edits to existing rules.
- 2) Initial suggestions for modification or deletion are discussed amongst the team and recommendations for revision are compiled and submitted to director for approval.

- 3) Remaining rules are reviewed one-by-one, and the need/importance of their retention is justified.

Results: Through this process, the Division aims to reduce its IDAPA word count by at least 20%. As of June 30, 2019, the Division has reduced its word count from 5,387 to 5,203 or 3.5%.



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