



IDAHO STATE  
**LIQUOR**  
DIVISION

*Executive Office of the Governor*

# **STRATEGIC PLAN**

*Fiscal Years 2021 - 2024*

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## **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 ongoing and evolving strategic initiatives for the benefit of the People of Idaho. In FY2020, the ISLD:

- Continued Idaho's low consumption of distilled spirits at 1.6 gallons per capita, 15% less than the average for non-control states (adjusted for Washington impact).
- Focused intensely on continuing to improve returns on asset utilization, enhancing retail customer service, and optimizing profitability with significant qualitative and quantitative benefits for our customers and stakeholders.
- Received support from the National Alcohol Beverage Control Association (NABCA), the ISLD's trade association, through an education award to provide funding for prevention and education initiatives aimed at underage drinking. In FY2020, the competitive ISLD Mini-Grant Program was able to award 16 coalitions and organizations throughout the state with a total of \$60,000 to aid in their efforts.
- Continued to emphasize stringent verification that patrons are of legal drinking age when purchasing distilled spirits. 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.
- Received zero citations for selling to underage people during the past **four** 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. We are at **94% compliance for FY20**, which is well above industry averages. License states' average compliance is in the mid-70% range (source: NABCA).
- Provided another record distribution to our stakeholders of \$95,400,000.
- Upgraded or relocated various retail locations throughout the Gem State when leases expired. These business updates dramatically improve responsible service and the customer shopping experience while enhancing net revenues. An additional, new store was also opened in the Treasure Valley on August 5, 2020.
- Continued engaging with the State Controller's Office (SCO) on conversion to **Luma** for Enterprise Resource Planning (ERP). The scope of work is more complicated than anticipated, requiring numerous interfaces with multiple systems relating to procurement for resale, warehousing, inventory control, reporting, and retail point-of-sale.

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

- Partnered with the Idaho Division of Health & Welfare (IDHW) over the last decade as ISLD is an identified staging facility in the event of national emergencies. ISLD, IDHW and FEMA partnered to simulate emergency activations and prepare for national emergencies in the State of Idaho. The 2019 simulation prepared each agency for the COVID19 activation, where 30+ shipments were received, 24/7, at the ISLD distribution center to support the State of Idaho.
- 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](http://www.mixblendenjoy.com). During the last year, this program has increased website traffic flow by 92,000+ users; 187,000+ sessions; 1,207,000+ page views; and Rare Whiskey Release and newsletter subscribers have surpassed 19,000+. Moreover, other categories of interest to citizen consumers such as Rare Tequila and Scotch Releases 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, and small sizes have continued to be expanded.
- Hosted our second Rare Whiskey and Barrel Select store event in the Treasure Valley in September of 2019. Nearly 300 bourbon whiskey enthusiasts registered for this 1-day event which included whiskey education, and an opportunity to purchase rare products for their collections. A third event was planned in March of 2020, which was modified to statewide store release due to the COVID pandemic. These events were 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. The licensee portal was upgraded, based on feedback, to include scheduled pick-up windows for orders. This has allowed our partners and associates to plan for the day’s workload.
- Net Income per 9-Liter case sold improved to \$72.93. That represents a +16.6% improvement since FY2015 and a +40.7% 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 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.**
- (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 desire for access to convenient but limited retail outlets.
- 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. Working with the SCO to implement upgrades to the Enterprise Resource Planning (ERP) that will effectively integrate with the 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	Actual FY19
<b>Sales \$</b> (benchmark)	<b>\$179,028,100</b>	<b>\$191,047,500</b>	<b>\$203,381,700</b>	<b>\$215,157,580</b>	<b>\$230,094,340</b>
<i>chg. vs. PY</i>	5.9%	6.7%	6.5%	5.8%	6.9%
<b>Total OPEX</b>	<b>\$16,347,100</b>	<b>\$17,537,700</b>	<b>\$18,600,900</b>	<b>\$18,896,700</b>	<b>\$19,180,000</b>
<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%
<b>Net Income</b>	<b>\$65,657,100</b>	<b>\$70,274,500</b>	<b>\$75,571,900</b>	<b>\$79,839,840</b>	<b>\$86,275,900</b>
<i>% of Sales</i>	36.7%	36.8%	37.2%	37.1%	37.5%
<i>chg. vs. PY</i>	6.5%	7.0%	7.5%	5.6%	8.1%
<b>Cap Ex</b>	<b>\$442,100</b>	<b>\$789,600</b>	<b>\$830,500</b>	<b>\$553,900</b>	<b>\$855,000</b>
<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%
<b>Distributions</b> (benchmark)	<b>\$64,412,700</b>	<b>\$68,702,200</b>	<b>\$73,297,000</b>	<b>\$78,512,000</b>	<b>\$85,346,900</b>
<i>% of Sales</i>	36.0%	36.0%	36.0%	36.5%	37.1%
<i>chg. vs. PY</i>	2.2%	6.7%	6.7%	7.1%	8.7%
<b>9-Liter Case Sales</b> (benchmark)	<b>1,050,000</b>	<b>1,094,000</b>	<b>1,138,000</b>	<b>1,181,000</b>	<b>1,234,000</b>
<i>chg. vs. PY</i>	2.8%	4.0%	4.2%	3.8%	4.4%
<b>Performance Measures:</b>					
<b>Consumption</b>					
<b>9-Liter Cases/adult *</b> (benchmark)	<b>0.87</b>	<b>0.90</b>	<b>0.92</b>	<b>0.94</b>	<b>0.97</b>
<i>chg. vs. PY</i>	1.2%	3.4%	2.2%	2.2%	3.2%
<b>Net Income/9-Liter Case</b>	<b>\$62.53</b>	<b>\$64.24</b>	<b>\$66.41</b>	<b>\$67.60</b>	<b>\$69.92</b>
<i>chg. vs. PY</i>	3.4%	2.7%	3.4%	1.8%	3.4%
<b>OPEX/9-Liter Case</b>	<b>\$15.57</b>	<b>\$16.03</b>	<b>\$16.35</b>	<b>\$16.00</b>	<b>\$15.54</b>
<i>chg. vs. PY</i>	-1.9%	3.0%	2.0%	-2.1%	-2.9%

\*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.**

	actual FY20	est. FY21	est. FY22	est. FY23	est. FY24
<b>Sales \$</b> (benchmark)	<b>\$258,567,000</b>	\$259,396,000	\$271,068,800	\$283,266,900	\$296,013,900
<i>chg. vs. PY</i>	12.4%	0.3%	4.5%	4.5%	4.5%
<b>Total OPEX</b>	<b>\$20,493,300</b>	\$21,862,500	\$23,854,100	\$25,210,800	\$26,345,200
<i>% of Sales</i>	7.9%	8.7%	8.8%	8.9%	8.9%
<i>chg. vs. PY</i>	6.8%	6.7%	9.1%	5.7%	4.5%
<b>Net Income</b>	<b>\$98,241,700</b>	\$97,273,500	\$100,566,500	\$105,092,000	\$110,117,200
<i>% of Sales</i>	38.0%	37.0%	37.1%	37.1%	37.2%
<i>chg. vs. PY</i>	13.9%	-1.0%	3.4%	4.5%	4.8%
<b>Cap Ex</b>	<b>\$531,300</b>	\$870,400	\$900,000	\$925,000	\$935,000
<i>% of Sales</i>	0.2%	0.3%	0.3%	0.3%	0.3%
<i>chg. vs. PY</i>	-37.9%	63.8%	3.4%	2.8%	1.1%
<b>Distributions</b> (benchmark)	<b>\$95,444,300</b>	\$97,646,800	\$99,753,300	\$104,525,500	\$109,229,100
<i>% of Sales</i>	36.9%	36.7%	36.8%	36.9%	36.9%
<i>chg. vs. PY</i>	11.8%	2.3%	2.2%	4.8%	4.5%
<b>9-Liter Case Sales</b> (benchmark)	<b>1,347,000</b>	1,350,000	1,391,000	1,433,000	1,476,000
<i>chg. vs. PY</i>	9.2%	0.2%	3.0%	3.0%	3.0%
<b>Performance Measures:</b>					
<b>Consumption</b> (benchmark)					
<b>9-Liter Cases/adult *</b>					
<i>chg. vs. PY</i>	1.05	1.03	1.05	1.07	1.08
	8.2%	-1.9%	1.9%	1.9%	0.9%
<b>Net Income/9-Liter Case</b>	<b>\$72.93</b>	\$72.05	\$72.30	\$73.34	\$74.61
<i>chg. vs. PY</i>	4.3%	-1.2%	0.3%	1.4%	1.7%
<b>OPEX/9-Liter Case</b>	<b>\$15.21</b>	\$16.19	\$17.15	\$17.59	\$17.85
<i>chg. vs. PY</i>	-2.1%	6.4%	5.9%	2.6%	1.5%

\* 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 7.5% to ISLD Sales and related consumption statistics.



## **External Factors**

### **National and Local Response to Pandemics and Other Disruptions**

The Division's distribution center is a staging area for Strategic National Stockpile emergency supplies. In collaboration with the Idaho Department of Health and Welfare, the Division has been preparing for a response to an emergency like COVID-19 for over ten years. The result was success in accepting, processing, and preparing PPE, medicines, and other critical supplies for delivery to health districts, hospitals, and everywhere else they were needed at the onset of the pandemic response. Fortunately, the preparedness prevented unmanageable disruptions to regular operations. The nature of the next emergency response may be different and may impact our activity in a more negative way.

### **Uncompetitive Wages Impact Recruitment and Retention**

Starting wages for retail and warehouse associates trail the general market throughout all of Idaho by 20% to 35%, depending on the region. The impact is more pronounced in Washington border areas where state minimum wages are currently \$13.50 per hour in the Evergreen State. Staffing stores and the warehouse is a serious challenge due to the insufficient quantity and quality of applicants. Turnover is high and is forecast to remain so for the foreseeable future.

### **Washington State Changes to Liquor Taxes**

Sales to Washington State consumers continue to grow naturally, providing positive results on a larger base. This is due to Idaho's lower, uniform state-wide pricing vs. Washington's highest-in-the-nation spirits taxes that lead to extraordinarily high retail prices. However, Washington State policymakers continue to debate reducing the bottle taxes and 20.5% sales tax at check-out. If implemented, it 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. While the effects of the response to the pandemic in 2020 has been extremely devastating to many businesses, pantry-loading, teleworking, enhanced unemployment payments, and stay-at-home orders led to marked increases in the Division's retail business. The sustainability of increased sales velocity is unlikely and is expected to recede to something more akin to normal in the immediate future.

Despite the disruption in the economy due to the pandemic, Idaho continues on a path of increased population growth resulting in pressure on wages. Increased turnover due to uncompetitive wages will likely continue and increase operating expenses.

Future economic decline may have a negative effect on the Division's ability to deliver ever-increasing results.

## **Other**

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to: continued disruptions in national trucking logistics that impact in-bound delivery of product; unpredictable increases in fuel prices 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 such as home delivery; 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. ISLD has moved to a virtual firewall which is part of the ITS Palo Alto firewall system. The new features give ISLD 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 seven 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 complete 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. ISLD has moved to Palo Alto Traps for anti-virus scanning software. 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. ISLD is looking at two factor authentication options and plans to use Duo for Global Protect VPN users.

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

ISLD uses Varonis to create central, read-only logs for access to critical systems while the new Palo Alto virtual firewall logs internet traffic. 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.

## **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 has 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 began this endeavor utilizing a zero-based approach, which required a legitimate and contemporary rationale for each rule in order to justify its retention. The following steps were employed in this process:

- 1) Each member of the review team familiarized themselves with all of the ISLD administrative rules and solicited members of their respective functional areas for suggested edits to existing rules.
- 2) Initial suggestions for modification or deletion were discussed amongst the team and recommendations for revision were compiled and submitted to the Director for approval.
- 3) Remaining rules were reviewed one-by-one, and the need/importance of their retention was justified.

**Results:** Through this process, the Division has aimed to reduce its IDAPA word count by at least 20%. As of June 30, 2020, the Division has reduced its word count from 5,387 to 3,999 or 25.8%.



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