



IDAHO STATE
LIQUOR
DIVISION

Executive Office of the Governor

STRATEGIC PLAN

Fiscal Years 2017 - 2020

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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 on-going and evolving strategic initiatives for the benefit of the People of Idaho. In FY2016, the ISLD:

- Maintained Idaho's low consumption of distilled spirits of 1.4 gallons per capita, 16% less than the average for non-control states (adjusted for Washington impact).
- Increased sales and net income above 9-Liter case equivalent shipments and consumption.
- Secured \$27,500 in funding from the National Alcohol Beverage Control Association (NABCA) for grant programs and initiatives benefiting prevention and law enforcement efforts throughout all of Idaho. The competitive Educational Mini-Grant program provided awards that funded prevention efforts in Kamiah, Weiser, Payette, and Middleton, Idaho.
- Continued to improve operational efficiencies by responsibly applying sound business principles throughout all levels of the enterprise. These included but were not limited to enhancements to warehouse staffing and pick locations, just-in-time inventory delivery to retail locations, and shelf-set optimization. Refined inventory management processes at retail and the distribution center delivered more consumer-focused product management with fewer out-of-stocks, as well as stronger protection of the chain of custody of our products.
- Enhanced customer service for both retail and on-premise customers with improved product selection and access to special order items, and advanced associate training in responsible service and product knowledge.
- Provided another record distribution to our stakeholders of \$68,700,000.
- Upgraded and/or relocated retail locations throughout the Gem State when leases expired, dramatically improving responsible service, the customer shopping experience, and enhancing net revenues. No new state-run stores were added.
- Implemented micro-chip credit card readers in all state-run stores to improve customer security, reduce agency liability, and enhance Payment Card Industry (PCI) compliance.
- Continued to focus on improved customer service with instructor-led customer service training statewide, an online product knowledge training program, and an enterprise-wide mystery shopper program.

The ISLD executive team is committed to ensuring 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

- Intense focus improved returns on asset utilization, enhanced retail customer service, and optimized profitability yielding quantitative benefits.
- More in-depth category management analytics have led to improved inventory turnover, upgraded product placement and selection, and higher gross profits.
- Enhanced our relationship with the Idaho Distillers Association to facilitate success for the Gem State’s emerging spirits-producing industry.
- Improved product listing and close-out methodologies continue to provide for a more direct and timely path to market for new products, particularly for Idaho-produced spirits.
- Innovations in store design have enhanced the customer shopping experience and proactively address dynamic consumer expectations in a rapidly evolving marketplace.
- Data-driven and customer-oriented criteria for store siting provides for optimal store locations when leases expire.
- Liter-sized products, considered the standard size for licensees, were introduced in 2013 and continue to exceed expectations and provide value for retail consumers and by-the-drink-licensees. Liters now represent 17% of total sales and 37% of on-premise sales.
- Implemented programs on age verification in our retail stores. Utilized a third-party to execute internal identification compliance checks at all state-run liquor stores. Also, with a grant from NABCA, produced a professional identification checking video to aid in employee training.
- Increased safety efforts for the entire agency. Warehouse leadership attended *Safety Fest*, the Northwest’s leading safety and health training conference. Boise Police Department provided active shooter training at our statewide meeting.
- Reorganized the warehouse management structure to more efficiently operate the multiple pick zones and expedite the daily replenishment process. Instructor-led supervisor transition training was provided in conjunction with this change.
- Implemented an Electronic Document Management (EDM) tool to streamline and make more efficient the administration and storage of the myriad of personnel, lease, contractor, and business documents that we maintain on-site in hard copy.
- Sales per FTP improved 3% to \$901,000. The five year trend is +27%.
- Introduced legislation during the 2016 session (H331) to prohibit the importation, distribution, and sale of powdered alcohol. The bill was signed into law by the Governor on March 30, 2016. Twenty-nine other states have done the same.

GOALS of the Idaho State Liquor Division

- (1) 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.**
- (2) 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.**
- (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 to grow faster than sales; sales to grow faster than 9-liter case equivalent sales; 9-liter case equivalent sales to grow faster than consumption per capita.**

OBJECTIVES

(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 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.
- e. Execute internal ID checks to ensure high compliance rates.
- f. Providing responsible service suggestions through our consumer website.
- g. 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 locations and 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 in the use of beverage alcohol.
- d. Responsibly nurturing relationships with our suppliers to leverage their expertise and means to promote responsible use.
- e. Build synergistic partnerships with coalitions and law enforcement agents throughout the state to optimize prevention efforts.
- f. 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. Continuously evaluating retail store performance and store siting criteria.

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 FY12	actual FY13	actual FY14	actual FY15	est. FY16
Sales \$ (benchmark)	\$153,628,200	\$164,516,800	\$169,044,500	\$179,028,100	\$190,844,000
<i>chg. vs. PY</i>	6.7%	7.1%	2.8%	5.9%	6.6%
Total OPEX	\$14,732,800	\$15,939,100	\$16,174,500	\$16,347,100	\$17,467,700
<i>% of Sales</i>	9.6%	9.7%	9.6%	9.1%	9.2%
<i>chg. vs. PY</i>	1.7%	8.2%	1.5%	1.1%	6.9%
Net Income	\$55,456,100	\$59,785,900	\$61,625,100	\$65,657,100	\$70,039,700
<i>% of Sales</i>	36.1%	36.3%	36.5%	36.7%	36.7%
<i>chg. vs. PY</i>	10.7%	7.8%	3.1%	6.5%	6.7%
Cap Ex	\$903,600	\$557,400	\$401,500	\$442,100	\$788,000
<i>% of Sales</i>	0.6%	0.3%	0.2%	0.2%	0.4%
<i>chg. vs. PY</i>	117.3%	-38.3%	-28.0%	10.1%	78.2%
Distributions* (benchmark)	\$63,052,900	\$60,138,500	\$63,023,800	\$64,412,700	\$68,703,800
<i>% of Sales</i>	41.0%	36.6%	37.3%	36.0%	36.0%
<i>chg. vs. PY</i>	25.6%	-4.6%	4.8%	2.2%	6.7%
Sales (9-Liter Cases) (benchmark)	970,000	1,010,000	1,019,000	1,050,000	1,092,000
<i>chg. vs. PY</i>	4.2%	4.1%	0.5%	2.8%	4.0%
Performance Measures:					
<u>Consumption</u>					
9-Liter Cases/adult ** (benchmark)	0.85	0.87	0.86	0.87	0.90
<i>chg. vs. PY</i>	2.4%	2.4%	-1.1%	1.2%	3.4%
Net Income/9-Liter Case	\$57.17	\$59.19	\$60.48	\$62.53	\$64.14
<i>chg. vs. PY</i>	6.2%	3.5%	2.2%	3.4%	2.6%
OPEX/9-Liter Case	\$15.19	\$15.78	\$15.87	\$15.57	\$16.00
<i>chg. vs. PY</i>	-2.4%	3.9%	0.6%	-1.9%	2.7%

* FY12 Distributions were 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.

** 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 Statue 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.***

Idaho State Liquor Division Performance Measures:

	est. FY16	est. FY17	est. FY18	est. FY19	est. FY20
Sales \$ (benchmark)	\$190,844,000	\$198,477,800	\$206,813,900	\$215,500,100	\$224,766,600
<i>chg. vs. PY</i>	6.6%	4.0%	4.2%	4.2%	4.3%
Total OPEX	\$17,467,700	\$18,796,300	\$19,440,500	\$20,041,500	\$20,903,300
<i>% of Sales</i>	9.2%	9.5%	9.4%	9.3%	9.3%
<i>chg. vs. PY</i>	6.9%	7.6%	3.4%	3.1%	4.3%
Net Income	\$70,039,700	\$72,444,400	\$75,487,100	\$78,657,500	\$81,815,000
<i>% of Sales</i>	36.7%	36.5%	36.5%	36.5%	36.4%
<i>chg. vs. PY</i>	6.7%	3.4%	4.2%	4.2%	4.0%
Cap Ex	\$788,000	\$874,600	\$695,000	\$705,000	\$718,000
<i>% of Sales</i>	0.4%	0.4%	0.3%	0.3%	0.3%
<i>chg. vs. PY</i>	78.2%	11.0%	-20.5%	1.4%	1.8%
Distributions (benchmark)	\$68,703,800	\$72,245,900	\$75,693,900	\$78,980,800	\$82,152,200
<i>% of Sales</i>	36.0%	36.4%	36.6%	36.7%	36.6%
<i>chg. vs. PY</i>	6.7%	5.2%	4.8%	4.3%	4.0%
Sales (9-Liter Cases) (benchmark)	1,092,000	1,115,000	1,140,000	1,165,000	1,192,000
<i>chg. vs. PY</i>	4.0%	2.1%	2.2%	2.2%	2.3%

Performance Measures:

Consumption (benchmark)

9-Liter Cases/adult *	0.90	0.90	0.91	0.92	0.92
<i>chg. vs. PY</i>	3.4%	0.0%	1.1%	1.1%	0.0%
Net Income/9-Liter Case	\$64.14	\$64.97	\$66.22	\$67.52	\$68.64
<i>chg. vs. PY</i>	2.6%	1.3%	1.9%	2.0%	1.7%
OPEX/9-Liter Case	\$16.00	\$16.86	\$17.05	\$17.20	\$17.54
<i>chg. vs. PY</i>	2.7%	5.4%	1.2%	0.9%	1.9%

* 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.

External Factors

Efforts to Deregulate and Liberalize the Idaho Model of Distilled Spirits Distribution

Voters in Washington State enacted I-1183 in November 2011, which dismantled the state's 78-year direct involvement in the importation, distribution, and retail sale of distilled spirits. The initiative was supported by the Northwest Grocers Association and other major retailers.

The Northwest Grocers Association, the Distilled Spirits Council (representing many of our major suppliers), and others joined forces in a similar attempt to qualify an initiative for the ballot in Oregon in 2014 and 2015. However, using the initiative process in Oregon was to no avail and ultimately abandoned each year.

In our view, these same proponents continue to have interest in exploring a similar action in Idaho. The ultimate decision on how Idaho addresses the debate will be determined by policymakers on behalf of Idahoans. We stand ready to provide accurate information to policymakers and citizens on the consequences of increased outlet density, loss of control in ensuring responsible service, and diminished ability to provide predictable revenue to the citizens of the Gem State.

While we have experienced a relative stabilization of sales increases from Washington State consumers as a consequence of our uniform state-wide pricing vs. the I-1183 related price increases in Washington State, we continue to provide positive results on a larger base.

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. 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 FY2016. However, any general economic declines would likely 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: changes in Washington State that could lower taxes and fees imposed on Evergreen State spirits consumers that may impact the velocity of cross-

border sales; unpredictable increases in commodities prices and fuel for delivery services that affects our cost of goods sold; 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; and Acts of God.

Additionally, unintended adverse changes to our business model as a result of legislative action may impact our ability to perform to plan. Specifically, the ISLD will need spending authorization in the near future to address replacement of end-of-life information technology infrastructure (ERP, back-office, inventory control, etc.) as well as warehouse upgrades to ensure capacity and pick locations remain optimal for the future.

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