



IDAHO STATE
LIQUOR
DIVISION

Executive Office of the Governor

STRATEGIC PLAN

Fiscal Years 2022 - 2025

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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 FY2021, the ISLD:

- Continued Idaho's low consumption of distilled spirits at 1.6 gallons per capita, 19% 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 program 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 **five** 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. We achieved an 87% compliance rate for FY21, 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 \$114,300,000
- 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.

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

- Adapted to Covid-related supply chain, logistical, and raw material disruptions by implementing operational changes such as maximizing store inventory levels, increasing central warehouse receiving capacity, and procuring alternative products in place of unavailable items.
- 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 COVID-19 activation that started in March of 2020. In FY 2021, three in-bound shipments comprising 20 pallets and 900 cases. There were 10 outbound shipments from the ISLD distribution center to support the State of Idaho.
- Focused analytics and assessments have resulted in superior 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 fiscal year, website traffic increased overall page views to a total of 2.4 million, up 1 million over last year - an increase of 72%. Newsletter subscribers also increased to 26,150 - up 37% over last year. Our user count has declined 20% over the last year to 63,000, due to a pause in our Rare Whiskey Release Lotteries and other events resulting from the pandemic and staffing shortages. We have noticed that the top three pages visited are the homepage, product search, and limited availability items. ISLD anticipates a surge in users this coming year due to the return of Rare Whiskey Release Lotteries and the eCommerce functionality to purchase those Rare Whiskey Release products. 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.
- Postponed in-store events in light of the ongoing COVID-19 pandemic. In order to continue to responsibly serve our customers, no tastings or promotional activities have been scheduled since the pandemic began. In the future, events will hopefully be scheduled; however, the safety of our patrons and staff is of the utmost priority. We have continued the modified barrel release events statewide. We successfully launched and sold through 12 ISLD private barrel releases with an additional 10-15 scheduled for the remainder of the year. Thirteen licensee/consumer private barrels were also acquired and sold by the Division.
- Net Income per 9-Liter case sold improved to \$78/case. That represents a +25% improvement since FY2015 and a +51% 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 FY17 | actual FY18 | actual FY19 | actual FY20 | Actual FY21 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Sales \$ (benchmark) | \$203,381,700 | \$215,157,580 | \$230,094,340 | \$258,567,000 | \$297,057,460 |
| <i>chg. vs. PY</i> | 6.5% | 5.8% | 6.9% | 12.4% | 14.9% |
| Total OPEX | \$18,600,900 | \$18,896,700 | \$19,180,000 | \$20,493,300 | \$21,100,600 |
| <i>% of Sales</i> | 9.1% | 8.8% | 8.3% | 7.9% | 7.1% |
| <i>chg. vs. PY</i> | 6.1% | 1.6% | 1.5% | 6.8% | 3.0% |
| Net Income | \$75,571,900 | \$79,839,840 | \$86,275,900 | \$98,241,700 | \$114,084,300 |
| <i>% of Sales</i> | 37.2% | 37.1% | 37.5% | 38.0% | 38.4% |
| <i>chg. vs. PY</i> | 7.5% | 5.6% | 8.1% | 13.9% | 16.1% |
| Cap Ex | \$830,500 | \$553,900 | \$855,000 | \$531,300 | \$824,400 |
| <i>% of Sales</i> | 0.4% | 0.3% | 0.4% | 0.2% | 0.3% |
| <i>chg. vs. PY</i> | 5.2% | -33.3% | 54.4% | -37.9% | 55.2% |
| Distributions (benchmark) | \$73,297,000 | \$78,512,000 | \$85,346,900 | \$95,444,300 | \$114,513,100 |
| <i>% of Sales</i> | 36.0% | 36.5% | 37.1% | 36.9% | 38.5% |
| <i>chg. vs. PY</i> | 6.7% | 7.1% | 8.7% | 11.8% | 20.0% |
| 9-Liter Case Sales (benchmark) | 1,138,000 | 1,181,000 | 1,234,000 | 1,348,000 | 1,463,000 |
| <i>chg. vs. PY</i> | 4.2% | 3.8% | 4.4% | 9.2% | 8.5% |
| Performance Measures: | | | | | |
| <u>Consumption</u> | | | | | |
| 9-Liter Cases/adult * (benchmark) | 0.92 | 0.94 | 0.97 | 1.05 | 1.12 |
| <i>chg. vs. PY</i> | 2.2% | 2.2% | 3.2% | 8.2% | 6.7% |
| Net Income/9-Liter Case | \$66.41 | \$67.60 | \$69.92 | \$72.88 | \$77.98 |
| <i>chg. vs. PY</i> | 3.4% | 1.8% | 3.4% | 4.2% | 7.0% |
| OPEX/9-Liter Case | \$16.35 | \$16.00 | \$15.54 | \$15.20 | \$14.42 |
| <i>chg. vs. PY</i> | 2.0% | -2.1% | -2.9% | -2.2% | -5.1% |

*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.

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 FY21 | est. FY22 | est. FY23 | est. FY24 | est. FY25 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Sales \$ (benchmark) | \$297,057,460 | \$308,955,730 | \$321,314,000 | \$334,166,600 | \$347,533,300 |
| <i>chg. vs. PY</i> | 14.9% | 4.0% | 4.0% | 4.0% | 4.0% |
| Total OPEX | \$21,100,600 | \$19,300,400 | \$20,072,000 | \$20,875,000 | \$21,710,000 |
| <i>% of Sales</i> | 7.1% | 8.8% | 8.9% | 8.9% | 8.9% |
| <i>chg. vs. PY</i> | 3.0% | -8.5% | 4.0% | 4.0% | 4.0% |
| Net Income | \$114,084,300 | \$116,853,140 | \$121,527,000 | \$126,388,000 | \$131,444,000 |
| <i>% of Sales</i> | 38.4% | 37.8% | 37.8% | 37.8% | 37.8% |
| <i>chg. vs. PY</i> | 16.1% | 2.4% | 4.0% | 4.0% | 4.0% |
| Cap Ex | \$824,400 | \$4,744,400 | \$4,934,000 | \$5,131,000 | \$5,336,000 |
| <i>% of Sales</i> | 0.3% | 1.5% | 1.5% | 1.5% | 1.5% |
| <i>chg. vs. PY</i> | 55.2% | 475.5% | 4.0% | 4.0% | 4.0% |
| Distributions (benchmark) | \$114,513,100 | \$116,197,100 | \$121,481,000 | \$126,322,000 | \$131,358,000 |
| <i>% of Sales</i> | 38.5% | 37.6% | 37.8% | 37.8% | 37.8% |
| <i>chg. vs. PY</i> | 20.0% | 1.5% | 4.5% | 4.0% | 4.0% |
| 9-Liter Case Sales (benchmark) | 1,463,000 | 1,507,000 | 1,552,000 | 1,599,000 | 1,647,000 |
| <i>chg. vs. PY</i> | 8.5% | 3.0% | 3.0% | 3.0% | 3.0% |
| Performance Measures: | | | | | |
| <u>Consumption</u> (benchmark) | | | | | |
| 9-Liter Cases/adult * | 1.12 | 1.14 | 1.15 | 1.17 | 1.19 |
| <i>chg. vs. PY</i> | 6.7% | 1.8% | 0.9% | 1.7% | 1.7% |
| Net Income/9-Liter Case | \$77.98 | \$77.54 | \$78.30 | \$79.04 | \$79.81 |
| <i>chg. vs. PY</i> | 7.0% | -0.6% | 1.0% | 0.9% | 1.0% |
| OPEX/9-Liter Case | \$14.42 | \$12.81 | \$12.93 | \$13.06 | \$13.18 |
| <i>chg. vs. PY</i> | -5.1% | -11.2% | 1.0% | 0.9% | 1.0% |

* 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 a decade. We have responded effectively since March 2020. Fortunately, our preparedness prevented unmanageable disruptions to regular operations. The nature of the next emergency response may be different and may negatively impact our activity.

Uncompetitive Wages Impact Recruitment and Retention

Starting wages for retail and warehouse associates trail the general market throughout all of Idaho by very wide margins, depending on the region, and shows no signs of abating. The impact is more pronounced in Washington border areas where state minimum wages are much higher than our starting wages at retail. Staffing stores and the warehouse is a serious challenge due to the insufficient flexibility to respond to market labor forces. Hence, the quantity and quality of applicants is suboptimal. 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 teleworking and enhanced unemployment payments 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 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-improving results.

Other

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to: raw material shortages for finished products are creating frequent out-of-stocks in popular brands which may affect our ability to optimize distributions to beneficiaries; 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; our need to continue to meet the market with additional retail locations that are convenient for citizens; unintended adverse changes to our business model as a result of legislative action or inaction; and Acts of God.



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