

IDAHO STATE
LIQUOR
DIVISION

Executive Office of the Governor

STRATEGIC PLAN

Fiscal Years 2024-2027

Submitted: June 26, 2023

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

GOALS

- (1) Operate in a manner that prioritizes safety. Maintain Idaho’s 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 maintains 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 spirits products.
- d. Responsibly nurturing relationships with our suppliers to leverage their expertise and means to promote responsible use.
- e. Building synergistic partnerships with coalitions and state and local law enforcement 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 identification 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. Execute upgrades to the Division's Enterprise Resource Planning (ERP) system that will affordably and effectively integrate with the Warehouse Management System (WMS) and Point-of-Sale (POS) systems to 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 annual reports and in-store informational brochures.
- b. Modernizing rules; reducing barriers to commerce.
- c. Partnering with the National Alcohol Beverage Control Association (NABCA) to provide monetary awards to fund 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.

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 responsibly focuses on 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 Trends

	actual FY19	actual FY20	actual FY21	actual FY22	est. FY23
Sales \$ (benchmark)	\$230,094,340	\$258,567,000	\$297,072,900	\$305,619,200	\$319,372,100
<i>chg. vs. PY</i>	6.9%	12.4%	14.9%	2.9%	4.5%
Total OPEX**	\$19,180,000	\$20,493,300	\$21,100,600	\$18,647,000	\$21,996,800
<i>% of Sales</i>	8.3%	7.9%	7.1%	6.1%	6.9%
<i>chg. vs. PY</i>	1.5%	6.8%	3.0%	-11.6%	18.0%
Net Income	\$86,275,900	\$98,241,700	\$114,069,700	\$114,246,000	\$118,815,800
<i>% of Sales</i>	37.5%	38.0%	38.4%	37.4%	37.2%
<i>chg. vs. PY</i>	8.1%	13.9%	16.1%	0.2%	4.0%
Cap Ex**	\$855,000	\$531,300	\$824,400	\$4,447,000	\$5,127,300
<i>% of Sales</i>	0.4%	0.2%	0.3%	1.5%	1.6%
<i>chg. vs. PY</i>	54.4%	-37.9%	55.2%	439.4%	15.3%
Distributions (benchmark)	\$85,346,900	\$95,444,300	\$114,513,100	\$115,565,600	\$120,881,600
<i>% of Sales</i>	37.1%	36.9%	38.5%	37.8%	37.8%
<i>chg. vs. PY</i>	8.7%	11.8%	20.0%	0.9%	4.6%
9-Liter Case Sales (benchmark)	1,234,000	1,348,000	1,463,000	1,442,500	1,430,800
<i>chg. vs. PY</i>	4.4%	9.2%	8.5%	-1.4%	-0.8%
Performance Measures:					
<u>Consumption</u>					
9-Liter Cases/adult * (benchmark)	1.00	1.03	1.08	1.05	1.02
<i>chg. vs. PY</i>	6.4%	3.0%	4.9%	-2.8%	-2.9%
Net Income/9-Liter Case	\$69.92	\$72.88	\$77.97	\$79.20	\$83.04
<i>chg. vs. PY</i>	3.4%	4.2%	7.0%	1.6%	4.9%
OPEX/9-Liter Case**	\$15.54	\$15.20	\$14.42	\$12.93	\$15.37
<i>chg. vs. PY</i>	-2.9%	-2.2%	-5.1%	-10.4%	18.9%

*Idaho residents aged 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.

**In accordance with Government Accounting Standards Board (GASB) Statement No. 87, Lease costs are now recognized as a capital outlay beginning in Fiscal Year 2022. Prior to FY22, Lease costs were included as an operating expense. Consequently, Cap Ex costs increased sharply in FY22 by approximately \$3.5MM per year with a corresponding decrease in OPEX.

Idaho State Liquor Division Performance Forecast

	est. FY23	est. FY24	est. FY25	est. FY26	est. FY27
Sales \$ (benchmark)	\$319,372,100	\$332,147,000	\$343,107,900	\$355,116,700	\$367,545,800
<i>chg. vs. PY</i>	4.5%	3.1%	3.3%	3.5%	3.5%
Total OPEX**	\$21,996,800	24,464,800	25,272,000	26,157,000	27,072,000
<i>% of Sales</i>	6.9%	7.5%	7.3%	7.1%	7.1%
<i>chg. vs. PY</i>	18.0%	11.2%	3.3%	3.5%	3.5%
Net Income	\$118,815,800	122,380,300	126,418,800	130,843,500	135,423,000
<i>% of Sales</i>	37.2%	36.8%	36.8%	36.8%	36.8%
<i>chg. vs. PY</i>	4.0%	3.2%	3.3%	3.5%	3.5%
Cap Ex**	\$5,127,300	5,434,938	5,614,300	5,810,800	6,014,200
<i>% of Sales</i>	1.6%	1.6%	1.6%	1.6%	1.6%
<i>chg. vs. PY</i>	15.3%	6.0%	3.3%	3.5%	3.5%
Distributions (benchmark)	\$120,881,600	124,749,800	128,991,300	133,635,000	138,445,900
<i>% of Sales</i>	37.8%	37.6%	37.6%	37.6%	37.7%
<i>chg. vs. PY</i>	4.6%	3.2%	3.4%	3.6%	3.6%
9-Liter Case Sales (benchmark)	1,430,800	1,453,700	1,481,300	1,512,400	1,545,700
<i>chg. vs. PY</i>	-0.8%	1.6%	1.9%	2.1%	2.2%
Performance Measures:					
<u>Consumption</u> (benchmark)					
9-Liter Cases/adult *	1.02	1.03	1.03	1.04	1.05
<i>chg. vs. PY</i>	-2.9%	1.0%	0.0%	1.0%	1.0%
Net Income/9-Liter Case	\$83.04	\$84.19	\$85.34	\$86.51	\$87.61
<i>chg. vs. PY</i>	4.9%	1.4%	1.4%	1.4%	1.3%
OPEX/9-Liter Case	\$15.37	16.83	17.06	17.30	17.51
<i>chg. vs. PY</i>	18.9%	9.5%	1.4%	1.4%	1.3%

*Idaho residents aged 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

Tight Labor Market Impacts Recruitment and Retention

Idaho’s unemployment rate rose slightly between December 2022 and early 2023, coming in at 2.8% on a non-seasonally adjusted basis; however, January 2023’s employment numbers marked the second time in as many years that labor market conditions have tightened in the Treasure Valley (U.S Bureau of Labor Statistics). This will continue to present a challenge to the ISLD relating to the recruitment and retention of both warehouse and store-level personnel.

Washington State Changes to Liquor Taxes

ISLD sales to Washington State consumers continue to grow, 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 cause extraordinarily high retail prices. In Washington State, retail consumers pay \$3.77 per liter plus 20.5% sales tax; on-premise licensees pay \$2.44 per liter plus 13.7% sales tax. Washington State policymakers continue to consider reducing the taxes. If implemented, it could impact cross-border sales in the future.

Health of the Overall Economy

General economic conditions affect the liquor industry and the ISLD. The Consumer Price Index (CPI) rose 4.0% over the past 12 months (May 2022 to May 2023) according to CPI data released by the U.S. Bureau of Labor Statistics. At the time of publication for this document last year, inflation was significantly higher.

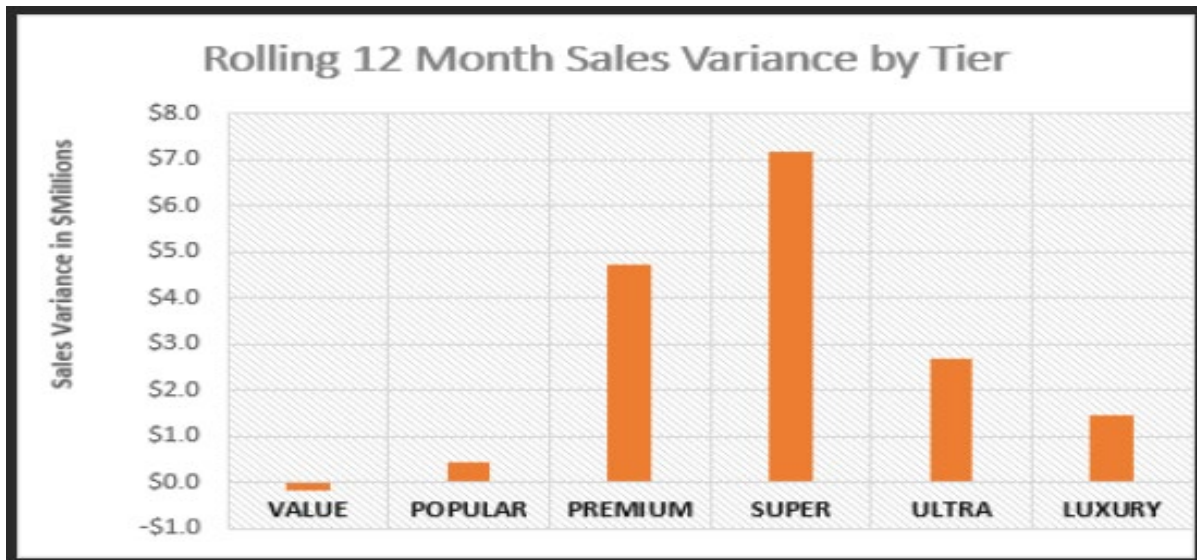
The US Inflation Rate is at 4.0%, compared to 4.9% last month and 8.6% last year. This is higher than the long-term average of 3.3%.

CPI Rate

(Bureau of Labor Statistics)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2023	6.4	6.0	5.0	4.9	4.0							
2022	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5

In 2022, it was generally accepted that consumer trends were migrating toward lower-priced products, smaller sizes, or a combination of both. However, even when inflationary pressures were high during the period of December 2021 to December 2022, products with a MSRP price between \$25.00 and \$39.95 (referred by industry as “Super Premium” tier products) experienced the largest increase in sales.



The trend has been one in which consumers have returned to migrating out of the lower-cost items and into more premium spirits. A key tenet of the ISLD mission is for dollar sales to grow faster than 9-Liter case equivalent sales. When consumers consume “better” as opposed to more, the mission is accomplished.

Supply chain disruptions have abated somewhat, but this will continue to be an ongoing issue. The major challenges suppliers face are related to glass and packaging shortages, production capacity, and general supply chain disruptions. Disruptions that precipitate out-of-stocks for popular brands may affect our ability to optimize distributions to beneficiaries.

Other

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to: future economic decline; continued disruptions in national trucking logistics that impact in-bound delivery of product; unprecedented increases in fuel prices 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; 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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