



Washington State Liquor Control Board

Washington State Liquor Control Board

Business Plan 2009-2011

Trends, Opportunities, & Strategies
for the Business Enterprise



Submitted to the Office of Financial Management (OFM) July 2008

Washington State Liquor Control Board Business Plan 2009 - 2011



Washington State Liquor Control Board

Washington State Liquor Control Board
Business Enterprise Division
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July 2008

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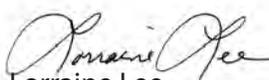
We are pleased to present to you the 2009-11 Washington State Liquor Control Board (WSLCB) Business Plan. This plan identifies our business strategies, financial projections and the current conditions and challenges of the market.

The Board established three overarching themes that prioritize the initiatives of the agency during the 2009-11 Biennium. The Business Enterprise team – made up of the Purchasing, Distribution, and Retail divisions – will play a key role in supporting these initiatives.

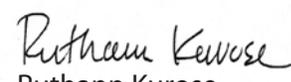
1. **Public Safety:** The Board's top priority is to promote public safety by aggressively pursuing initiatives that further that goal.
 - We will pursue staffing levels that will allow us to keep up with population growth and continue our high store compliance rate.
 - Our stores will support our education and outreach efforts to parents to promote informed decision-making that prevents underage drinking.
2. **Regulatory Reform:** The Board will pursue the simplification and modernization of existing alcohol-related laws and regulations.
 - Our goal of regulatory reform is to ensure laws and regulations are effective and flexible while meeting the needs of today's dynamic social and business environment.
 - The Business Enterprise team will work closely with our stakeholders to gather their input and expertise throughout this process.
3. **Agency Operations:** The Board will take action to improve agency operations and unstimulated business growth to ensure a steady return of revenue to the state and local communities. New investments into our business operations will allow us to ensure responsible sales while offering excellent customer service.

We thank our 1,450 full- and part-time employees for their enthusiasm, energy and commitment to continued improvement. We also appreciate the continuing support and comments we receive from the public, our stakeholders, Governor Gregoire and the Legislature as we work to achieve our public safety and revenue-generating goals.

Sincerely,


Lorraine Lee
Chairman


Roger Hoen
Board Member


Ruthann Kurose
Board Member

The Board is composed of three members appointed by the Governor to six-year terms. Board members are responsible for hiring the agency’s Administrative Director, who manages day-to-day operations. The Board holds regular public meetings and work sessions with stakeholders and other interest groups, and provides oversight for major policy and budget decisions.

Lorraine Lee

– **Board Chairman**

Lorraine Lee, of Federal Way, was appointed Board Chairman in November 2006. Prior to her appointment as Chairman, she had served as the Director of Licensing and Regulation for the WSLCB since 2002. She was the Assistant Director of the Washington State Lottery from 1997 to 2000 and Executive Policy Advisor for Governors Gary Locke and Mike Lowry from 1995 to 1997.



Roger Hoen

– **Board Member**

Roger Hoen, of Seattle, was appointed to the Board in 2002. Roger has more than 30 years of experience in the hospitality industry. He has been active with the Seattle-King County Convention and Visitors Bureau and served as a vice president and on the board of directors of the Restaurant Association of Washington. He has a long history of community involvement in the Seattle area and was recognized for proactively engaging minority- and women- owned businesses as subcontractors and vendor-suppliers.



Ruthann Kurose

– **Board Member**

Ruthann Kurose of Mercer Island was appointed to the Board in January 2007. Ruthann serves on the KCTS Public Television Advisory Board, the Seattle Art Museum Community Advisory Board. She recently completed her term as chairman of the Bellevue Community College Board of Trustees where she served for 14 years and the Wing Luke Asian Museum Capital Campaign Committee. Ruthann has a long history of public service working on congressional legislative policy in Washington, D.C. and on economic development policy for the cities of Seattle and Tacoma. In October 2007, Ruthann was honored as a “distinguished alumni” by the University of Washington Alumni Association for her efforts to ensure equal educational opportunities for all students.

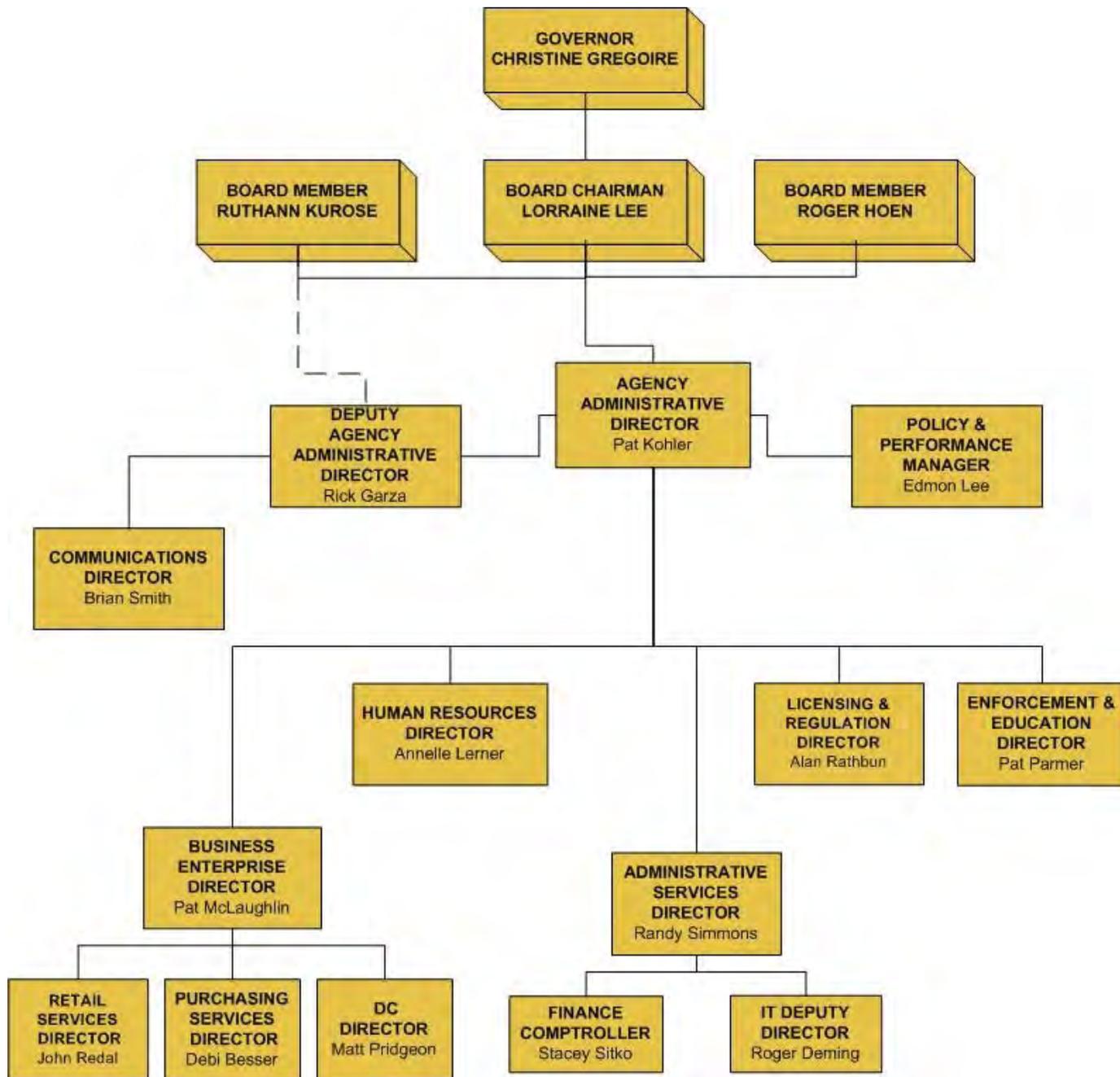


Pat Kohler

– **Administrative Director**

Pat Kohler joined the WSLCB in January 2002. Pat has held senior level positions in the areas of finance, audit, materials management, and procurement. She received the 1998 Governor’s Distinguished Managers Award, and served as president of the National Association of State Procurement Officials in 2001, and as chair of the Western State Contract Alliance from 1999 to 2001. Pat is a certified public accountant.





1

Introduction

It is my honor to serve as the leader for a team we call the Business Enterprise.

We are responsible for the controlled distribution functions associated with the Board's balanced mission. Essentially, we brought together the Purchasing, Distribution, and Retail organizations to form the Business Enterprise team.

We are one team with one purpose. "To serve customers and maximize revenue through the responsible sale of liquor".

The state of Washington elected to adopt a controlled distribution model for alcohol in 1933, creating the Liquor Control Board. Inherent in our business model is that the State operates a retail business.

Our primary purpose is to promote public safety. We do this through responsible sales in our stores. At the same time, we are also obligated to operate an efficient business operation. We seek to maximize financial return, build and retain a highly competent workforce, and use technology to accelerate our progress.

The Business Enterprise employs over 1,000 team members across the state in a variety of functions including buying, marketing, warehousing, finance, process improvement, and of course retailing. We are results oriented, innovative, collaborative, efficient, and empowered. This helps to make the Liquor Control Board the employer of choice.

The Business Enterprise Team focuses on creating value in everything we do. We don't just solve problems; we strive to understand root causes and implement solutions that prevent their recurrence. We design our business processes to be lean and effective. We work as a team and hold high regard for communicating with each other.

This business plan has been developed with the oversight of the Board and Administrative Director. It serves to highlight our new organizational structure, identify market conditions, and summarize our financial projections. Additionally our strategies for addressing market opportunities and responding to operational challenges are defined along with the investments required.

The Business Enterprise leadership team and I are excited about this opportunity to continue investing in this successful business as we fulfill our mission to serve customers through the responsible supply of liquor products.

Sincerely,



Pat D. McLaughlin, C.P.M., CPIM

Executive Summary

The Business Enterprise was created nearly two years ago when the Purchasing, Distribution, and Retail functions of the Board were brought together to improve the coordination of the controlled distribution functions. This Business Plan is the first developed under this new organizational structure and has benefited from a more integrated approach to assessing the needs and opportunities of the business and developing strategies to address those areas.

The direction illustrated within, is centered on the mission of the Liquor Control Board and intended to advance the Priorities of Government, WSLCB goals, and Board priorities. An overview of our organization, value contribution, and culture is included. Our diverse team is comprised of skill sets from government and the private sector. We have a clear understanding of the value that we provide as a retailer. Through our operations, we ensure public safety by preventing youth and impaired access to liquor. We are among the leaders in the nation with a compliance rate of 96 percent. Our customers also benefit from over 2,000 varietals, flavors, sizes, and gift sets. This represents a product offering that is unprecedented in comparison to most open state privately run liquor stores. Our customer service has also been highly rated by the communities we serve. Our sales network has remained fairly constant at 161 state owned stores, 154 contract stores, 9 tribal stores, and 28 military stores.

A comprehensive market analysis shows that U.S. alcohol (beer, wine, and spirit) sales in 2007 exceeded \$20 billion dollars (up 5.6 percent) and 578 million cases (up 1.5 percent). Although beer continued to dominate case sales with nearly 80 percent of the market share, this segment represented only 42 percent of total sales dollars. Distilled spirits and wine continue to take market share away from beer. Vodka and Tequila lead the spirit category in terms of growth whereas Chardonnay and Cabernet Sauvignon lead the wine category. Washington wines were fourth in the nation in terms of dollar sales at \$218 million, a 22 percent increase over the previous year. Wines from California, Australia, and Italy led the category.

Trends in Washington State are closely tied to the rest of the country. We are the 16th largest spirit market nationally but only the 29th in terms of per-capita consumption. The legal drinking age population is expected to increase 1.5 – 2 percent per year for the next 6 years. Consumers continue to choose higher priced product which is evidenced by dollar sales out pacing case sales. This trend towards more premium based products may lessen as the economy slows.

The primary strengths of the Business Enterprise include our;

- Focus on optimizing the entire supply chain
- Significant increase in operational resources
- Strong management and stakeholder support
- Ability to generate substantial revenue for the State
- Exceptional track record for ensuring compliant sales

Across the enterprise we focus on data driven decisions, collaboration, and achieving measurable and meaningful results. While we know this to be our target, we face several challenges in the course of its pursuit.

The primary challenges facing the Business Enterprise are;

- Priority Management: Proper alignment of resources and sequencing of activities is needed to deal with long standing deficiencies and unplanned demands.
- Communication: The broadly dispersed and highly interdependent Business Enterprise team must strengthen the effectiveness of communication to all its members in formats that address varied learning styles.
- Vision: Improving staff ability to envision new solutions more fully before they are designed and implemented to ensure the right solutions are ultimately realized. Collaboration and intentional planning are keys to success.
- IT Support: The Business Enterprise has a large dependency on information technology in the course of running an \$800 million dollar state wide distribution and retail business. Service level agreements are needed to define a commitment against which the agency can plan.
- Business Driven Solutions: Several divisions within the LCB provide critical services to the Business Enterprise. However, desirable results are often limited due to poorly defined support service requirements. The Business Enterprise must take greater care in ensuring the clear communication of project scope, success measures, and team member roles.

In addition, there are significant division specific challenges that will require additional funding in order to adequately address;

- Material Handling System Upgrades: Additional investments are necessary to improve productivity and reduce safety risks. These are areas of natural progression following the current expansion project and will ensure we are well poised to support our continued business growth.
- Maintain Staffing Hours in Balance with Business Growth: Recent additions to staffing hours have allowed us to serve the increased demands associated with our growth. As growth trends continue it will be important to maintain this balance to avoid lost sales or a decline in service levels.
- Contract Liquor Store Technology Refresh: Nearly 50% of the liquor stores in the State of Washington are operated by private business under contract. The LCB provides the basic computer system for back office operations and reporting. The existing systems are beyond their useful life and in need of replacement. A new refresh program is needed to ensure financial reporting complies with accounting standards.
- Brand Management: A powerful opportunity exists to enhance the image of the LCB retail operations to create a more consistent and desirable shopping experience for our customers which will in turn generate additional revenues for the State as a result of improved merchandising and service training.
- DC IT Support: Expanded hardware and software support is needed to address the upgraded material handling systems. Some existing components have not had adequate coverage and new components require support and maintenance going forward.

- Building Maintenance: The DC facility is owned by the state and is in need of an expanded maintenance program to preserve and protect the building and equipment inside. The existing funds fall short of addressing normal wear and tear associated with a facility of this type.
- Additional Liquor Stores: The continued increase in drinking age population and general growth of the liquor case sales in Washington presents a need for more stores to serve the larger customer base. This also presents an opportunity for increased revenue generation that would not be fully realized without additional stores to serve the emerging markets. This will in turn generate \$11 million in new annual sales for the State.
- On-Site Safety Manager: To enhance the existing safety program at the DC and reliably prevent workplace injury, the addition of a Safety Manager will ensure consistency and effectiveness in work place safety through policy, training, and enforcement.
- Store Lease Costs: The second largest expense associated with running our retail business is the store leasing costs. Nearly 20% of our sales are centered in the Seattle area which ranks amongst the top 10 most expensive retail space markets in the country. Occupancy rates are very low at about 1% which encourages higher leasing costs. This cost is amplified by the need to expand the footprint of existing stores to address the growing business demands. More funding will be required to support the continued growth in response to market demand.
- Store Relocations and Remodels: Although part of our public safety strategy involves limiting our locations, we do want to ensure that our stores are located in areas that are convenience for our customer base. As demographics and community development change, the relocation of a store may be necessary to optimize service and revenue. Fixtures such as shelving, cabinets, and counters experience normal wear and tear over time and require replacement to maintain desired functionality and image.

The General Fund-State revenue forecast has been reduced by \$423.4 million for the 2007-2009 Biennium. The national outlook has been weakened by deteriorating real estate and related financial markets, declining customer confidence, and weak employment rates. The State of Washington, while brighter than the U.S. economy, will be affected by the national recession and own housing market problems.

The economic downturn is expected to have a slight negative impact on liquor revenue. However, the continued increase in drinking age population coupled with the ongoing orientation to premium priced products will more than offset the effects of the economy. Therefore we project continued growth in liquor revenue at a rate of 5 per cent per year through 2016. Gross sales for the 2009-2011 Biennium is projected to reach \$1.71 Billion with net revenue of \$727.9 Million.

Vision

We strive to make Washington communities safe by being:

- A recognized national leader in alcohol and tobacco regulation, business operation and public safety;
- A model employer where employees grow and thrive; and
- A collaborative partner that establishes effective and lasting solutions

Mission

Contribute to the safety and financial stability of our communities by ensuring the responsible sale, and preventing the misuse of, alcohol and tobacco.

Goals

- Provide the highest level of public safety by continually assessing, analyzing and improving laws, regulations, and policies to ensure they are easy to understand, effective and reflect today's dynamic environment.
- Maximize financial return to the state by running an efficient business operation.
- Recruit, develop, retain and value a highly competent and diverse workforce capable of responding quickly and effectively to challenges in our business and regulatory environment.
- Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology.
- Promote a work environment that increases employee safety and reduces agency liability through an integrated program of risk management, safety and wellness.

Values

Respect for People

Professionalism and integrity

Honest and open communication

Internal and external accountability

Measurable and meaningful results

Public trust and stakeholder involvement

***Pat McLaughlin*****Director of Business Enterprise**

Pat McLaughlin has over 20 years of business experience with expertise in supply chain management. For the past 10 years, he has served in an executive capacity with responsibilities for strategic planning, organizational development, and leadership over functions including Purchasing, Distribution, Production Planning, Marketing, Information Technology, and Quality. Mr. McLaughlin is certified by the two leading bodies in supply and operations management - the Institute of Supply Management and APICS. He holds an Associates Degree in Purchasing and Materials Management as well as a Bachelor of Science Degree in Business Administration. In 2005, Mr. McLaughlin left the private sector to join the Washington State Liquor Control Board and now serves as the team leader for the Business Enterprise.

***Debi Besser*****Director of Purchasing**

Debi Besser has 13 years of experience in purchasing, inventory, and supplier management. She worked in a variety of industries, including high-tech and consumer products manufacturing, before joining the State of Washington in February 2007. She holds a Masters of Technology Management from Washington State University and a Bachelor of Arts in Business Administration from Portland State University. She is also a Certified Purchasing Manager, a credential from the Institute of Supply Management.

***Matt Pridgeon*****Director of Distribution**

Matt Pridgeon has over 25 years of operations management experience. In 2005 he joined the Liquor Control Board as Director of the Distribution Center in Seattle. Prior to coming to the LCB, he worked for 20 years in ground operations and customer service management for a major airline in locations around the globe. Previously, Mr. Pridgeon achieved the rank of Major while serving in the US Army as a logistics officer. He holds a Bachelor of Science from the United States Military Academy at West Point.

***John Redal*****Director of Retail**

John Redal has over 20 years of business experience working within the Washington State Liquor Control Board and nearly 10 years in private sector grocery with expertise in retail sales. Mr. Redal successfully worked his way up through the LCB from entry-level clerk to the Director of the Retail Division. For the past 5 years he has served in a senior management capacity responsible for the overall operations, union negotiations and relations, information technology deployment projects and strategic planning related to the stores including new store development, and Contract Liquor Stores.

***Margee Thompson*****Finance Manager**

Margee Thompson joined the Liquor Control Board in 2004 with over 30 years experience in accounting. She has held four increasingly responsible positions including Merchandise Accounting Sales Desk, Revenue Specialist and Payroll Supervisor to her current position of Business Enterprise Financial Manager. Prior to the LCB, she spent 27 years in various facets of accounting for companies in the timber products industry, to supporting people with developmental disabilities and for those who are the “keepers” of Native American cultural studies.

***Jim Hutchins*****Process Analysis Manager**

Jim Hutchins has nine years experience in process and human performance improvement. He also has twenty years of experience training and developing personnel across all levels of an organization and from individuals up to and including whole agencies. As a graduate of the University of Washington, he holds a Bachelor of Arts in Business Administration with concentrations in Marketing and Information Technology. Mr. Hutchins is the leader of the Process Improvement Team in the Shared Resources group of the Business Enterprise. This group of analysts provides on-site analysis and support to improve operations addressing the needs of a complex industry.

***Tresha Coleman*****Administrative Assistant**

Tresha Coleman joins the Liquor Control Board - Business Enterprise Division with over 15 years of project management, IT Help Desk and administrative support experience. Before joining the Liquor Board she served in the Strategic Initiatives & Policy Division at the Department of Retirement Systems. She also worked for the Employment Security Department and is in the process of completing her Bachelor Degree as well as certification in IT Network and Systems Administration. Tresha uses her knowledge and skills to help our team continue the pursuit of excellence through improved communication and coordination across our dispersed team.

Shared Resources Overview

The Shared Resources team was assembled to provide support to the three divisions that comprise the Business Enterprise. Services include process improvement, financial management, and strategic leadership.

This team exists for the benefit of the Purchasing, Distribution, and Retail functions of the agency. In addition to providing strategic direction for the business we facilitate communication and coordination across the broadly dispersed enterprise. The Process Improvement Team, while centralized as a function, has resources that reside within each division to provide analytical and problem solving expertise. The Financial Management Team provides budgetary support, store hour allocation modeling, and financial analytics such as profit and loss.

Purchasing Division Overview

Purchasing manages the selection of products in our stores, keeping a wide variety of products available while still maintaining enough space for the most popular products. This involves coordinating the efficient delivery for over 2,000 different products to the Distribution Center.

Working within the Purchasing division is the Marketing team. This relatively new group works with the suppliers and the retail stores to enhance the customers' shopping experience, through standardized shelf schematics, product displays, training, and seasonal promotions such as June Summer Spirit and Washington Wine Month.

Distribution Center Divisional Overview

The Mission of the Distribution Center (DC) is to ensure the timely, safe and efficient receipt, storage and shipment of spirits,

wine, and beer to all liquor outlets located throughout the state. The Washington State Liquor Control Board distribution center was originally built in 1947. The old building was torn down, and construction on the new building began in 2000.

In April 2002, the facility began operating a very sophisticated automated material handling system within a 140,000 square foot distribution facility. The building was expanded in 2007 adding 62,000 square feet and material handling upgrades.

When the expansion and improvement project is complete in 2009, the DC's daily shipping capacity will increase from 18,000 cases to 28,000 cases which is expected to support growth through 2018.

Retail Division Overview

The Retail Division is the largest division within the Liquor Control Board. Working closely with the Purchasing and Distribution divisions, it is responsible for operating over 315 retail outlets, strategically located across the entire state, that employ 12 District Managers, a Store Leasing and Store Development team and over 900 full and part-time state workers, and 154 contract managers.

Retail is responsible for all strategic planning related to the stores. The leadership team makes proposals to the Legislature for new store development, engages in an ongoing program of store re-location, selects contract store managers, maintains accurate accounting and inventory controls and engages in management strategies to ensure maximum store profitability.

It is reasonable to ask why the State runs a retail business. After all, while most appreciate the need for alcohol regulation some may not immediately understand the benefits of a controlled distribution model such as in Washington State. The answer to such a query is simple and deeply rooted in history.

The State sells liquor through control distribution. This strategy dates back to 1919 when, in response to rising alcohol abuse across the nation, the Federal Government prohibited the consumption of alcohol. What is interesting to note is the fact that Washington was a dry “anti-saloon” state prior to national prohibition.

When this “noble experiment” failed, the states were entrusted in 1933 with the responsibility to regulate alcohol. Washington chose a model as a controlled state – one of 18 currently in the nation along with 2 jurisdictions in Maryland.

This approach has been reconsidered on multiple occasions by the citizens of Washington over the last 70 years and while enhancements have been made to reflect the times, the core essence of the control model remains in tact.

We believe that this is in part influenced by the effectiveness of the model and specifically the value we provide as a retailer. We ensure responsible sales, offer impressive product selection, provide excellent customer service, and generate revenue for communities across the state of Washington.

On one hand, we offer limited hours at limited locations. By itself, that sounds pretty discouraging. However, let’s look at the rest of the story. The fact is limited access and higher prices do indeed foster temperance in consumption.



Our mission as an agency is to prevent the misuse of alcohol and this is achieved in part by limiting access to the very product we provide. Although access will remain limited, we continually seek out the most convenient locations to serve our communities, often anchoring ourselves with other established retailers. When it is not feasible to serve a community with state resources, we partner with private business owners to serve as an agent of the State.

Although the LCB was started on the principle of controlled distribution, it has evolved to include revenue via taxes. It is no secret that liquor in Washington costs more than other states due to the tax structure for alcohol. And, while any retailer could theoretically collect the retail liquor taxes, the LCB retail business introduced a drastically different approach. We have removed the profit motive from the retail sale of liquor. Our sales staff and agents are not incentivized to sell



Business Enterprise Management Team:

Front Row: Meagan Renick, Debi Besser, Tresha Coleman, Shayna Burmiester, Lynn Savage

Back Row: Matt Pridgeon, Fred Byers, Pat McLaughlin, John Redal

Not Pictured: Jim Hutchins, Margee Thompson

more. Instead, we focus their efforts on selling responsibly and providing excellent customer service. The feedback regularly received from our valued customers suggest we are doing just that.

The most significant evidence that this model works is the success rate we have achieved in preventing sales to underage and intoxicated individuals. While the average licensee success rate is only 76 percent in Washington, the LCB retail business boasts a 95 percent compliance rate, a leader in the nation. Additionally, the retail business generates significant revenue for communities across the state, over \$300 million in 2007.

Our customers have come to appreciate the vast selection of products that include over 2,000 varietals, flavors, sizes, and gift sets. We offer more Washington wines than most retailers and a broad range of spirits ranging

from value lines to ultra premium products.

When compared to the product selection available in most open state privately run liquor stores, the portfolio of liquor products offered by the LCB is unprecedented. The Washington State Liquor Control Board holds the unique governmental responsibility of running a retail business to help achieve its mission of preventing the misuse of alcohol in Washington. Managing the procurement, distribution, marketing, and sales of nearly 5 million cases of alcohol each year is no easy task.

However, when done right, customers are delighted, responsible sales are made, and over \$300 million dollars are returned to communities. We love our job and are committed to continuing to prove our value to the citizens of Washington State.



Business Enterprise Directors:

Matt Pridgeon - Distribution Center Director; Pat McLaughlin - Business Enterprise Director; Debi Besser - Purchasing Director; John Redal - Retail Director

The state of Washington has long been at the forefront of leadership and excellence. This was recently confirmed by The Pew Center's study that recognized Washington as being among the best of all states in the nation in terms of managing public resources.

Governor Gregoire's GMAP program was noted as one driving force that has led to such an accomplishment. Another strategic decision made back in 1994 has also set the stage for even greater accomplishments.

The Washington State Legislature officially established the Washington State Quality Award (WSQA) in 1994 with Senate Bill 6220. The standards are based on the Malcolm Baldrige criteria. The Baldrige Award was established by Congress in 1987 as a national quality award to raise awareness about the importance of quality and performance excellence as a competitive edge.

The actual award is presented by the President

of the United States. Organizations receiving the award are judged to be outstanding in seven areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results.

The assessment and application process associated with the WSQA program presents an opportunity to examine the organization critically and identify strengths and opportunities to improve. Typical benefits include a more collaborative environment where people "speak" a common language. Knowledge sharing is also increased as is integration between functions and sites. Employee motivation increases as breakthrough improvements are realized. Life at work simply gets better!

The Business Enterprise has taken the first steps in this process. Each of the divisions have completed their initial assessment. In



Lorraine Lee - Board Chair with WSQA Examiners

the process we have benefited from the internal voices of our extended team who were interviewed, as well as the fresh perspectives of other agency personnel who assembled the findings and recommendations. Our next steps, which will be completed by the summer of 2008, will be for each division to agree on the two or three things that they will focus on during the next two or three years in order to reach our next level of performance.

While the areas of focus have not been finalized, there appears to be some common themes across the Business Enterprise which includes opportunities to build upon our

communication and recognition programs. It is important to realize that the WSQA is not a task but a process. It is less about "what" we do and more about "how" we do it. As we continue our focus to improve over the next few years we will be met with another opportunity to commence the assessment process again to ensure our ongoing effectiveness.

Renovating Our Culture

Culture can be defined as “the learned and shared behavior of a community”. Culture isn’t what we say, rather it is reflected in what we do. Whereas the predominant belief was that behaviors were shaped through individual reward and punishment, experts have now come to realize the primary influence of behavior is observation.

It all starts with our thoughts (our inputs) which are filtered through our beliefs and values (our operating system). We then make decisions, heavily influenced by what everyone else is doing. The results are outcomes; one of which is culture. This equation is simple yet powerful and highly predictable. Our culture already exists – the real question is what do we want our culture to be? And, what are we willing to invest to make this a reality?

Shaping a culture is not a spectator sport. It takes the efforts of everybody on a continuous basis. The work is never done and the process is similar to a home renovation the process.

RENOVATION

- ***Takes longer than planned***
- ***Is Messy!***
- ***Costs more than expected***
- ***In the end, is SPECTACTULAR!***

When you consider the fact that our Agency has been in the making for over 70 years, our culture has been in development for quite a long time. Making changes, therefore, will also take some time and meaningful results may not be evident right away. In the course of the renovation, mistakes will be made as we “figure things out”.

Some people will leave in the process and not always by their choice. This is where things

can get messy. And if that were not enough, this project will cost us more than we realize. It takes everyone everyday. The words we choose, the tone of our voice, the effort we put in, the conversations we choose to have and those we avoid all help to shape our culture.

Wow, what an investment! Fortunately, again similar to any worthwhile renovation, the results can be spectacular. It has been said that what you focus on expands. With that in mind, let us clarify the key areas of focus for the cultural renovation within the Business Enterprise to create a high performance workplace.

During our journey we must ensure that our direction is established and agreed at the highest levels of the organization. This is done. We have worked closely with our Administrative Director Pat Kohler to understand her vision as it has been shaped through her well thought out plans with the involvement of our Board. We must also ensure that we regularly communicate with our extended teams and engage them throughout the process. We must travel as a team.

The core elements of our desired culture are defined by six dimensions. We call these our “We Are” statements.

- Innovative
- Collaborative
- Empowered
- Employer of Choice
- Efficient
- Results Oriented

We do this through root cause problem solving, intelligent business process design, teamwork, and communication to accommodate all learning styles. Additionally, we use assessments and key performance indicators to provide us timely and

meaningful feedback on our efforts so we can amplify success and make necessary course corrections.

As our behaviors and outcomes reflect this culture, they also serve to protect our core values of Accountability, Respect, Professionalism, Communication, Meaningful Results, and Stakeholder Trust.

We are already well on our way down this road to renovating our culture. It is exciting to see the results beginning to surface inspiring additional efforts. Our hard work is making the Washington State Liquor Control Board the ideal place to work.



Retail District Management Team 2008

John Redal-Retail Director, Kathy McDaniel, Theresa Grant-Duggins, Marc Sipherd, Brian Johnson, Brent Duncan, Jonathan Harkness, Chuck O'Donnell, Eddie Cantu, Dave Wilson, Grant Bulski, Debbie McVicker



Brad Rinke and Brent Neff of Tumwater Store



Stakeholder Relationships

A core reason for our success has been our recognition of the importance and influence, of our key stakeholders on our business operations. Through our interactions, we continually benefit from their perspective and involvement. We meet with them throughout the year and invite their input in our strategic and business planning process.

We value these relationships and look forward to the ongoing collective efforts to achieve alignment and mutual success.

- ❖ Distillery Representatives Associates of Washington
- ❖ Governor’s Office of Indian Affairs
- ❖ United Food & Commercial Workers
- ❖ Washington Beer and Wine Wholesalers Association
- ❖ Washington Brewers Guild
- ❖ Washington Contract Managers Association
- ❖ Washington Public Employee Association
- ❖ Washington Restaurant Association
- ❖ Washington Wine Commission
- ❖ Washington Wine Institute

Our stakeholders provided feedback to us in advance of writing this business plan to ensure we were aware of key areas of interest. This feedback is summarized in table 1-1.



Table 1-1 Stakeholder Areas of Interest

On Premise Reporting	Expanded Safety Program
Expanded Sunday Sales	Agency Succession Planning
Spirit HUB Store Program	Improved Recruitment Process
Off Premise Sampling	Improved Communications
More Schematic Clusters	Expanded Employee Empowerment

2

Market Analysis

The Washington State Liquor Control Board (WSLCB) is the only source for spirit products in Washington State, therefore it is imperative that we understand our market and our consumers, and thoughtfully implement strategies that provide a positive shopping experience while promoting public safety and maximizing financial return.

National Trends

Total U.S. alcohol (beer, wine and spirit) sales in 2007 topped \$20 billion dollars and 578 million cases. Case sales increased 1.5 percent over 2006, a somewhat slower rate as compared to dollar sales increase of 5.6 percent. Beer continued to dominate case sales with nearly 80 percent of the market share. However, beer sales represented only 42.2 percent of total sales dollars. Spirits, which represents 8 percent of case sales, accounted for 33.6 percent of dollar sales nationally.

Distilled spirits and wine continued to take market share away from beer, and as a result, companies traditionally focused on beer and wine are beginning to enter the spirits market. The variety of spirit types available today are very mixable and appeal to a wide range of consumer tastes. Wine also has broad appeal because of the vast number of regions that produce wine and the number of varietals that exist.

Because spirits and wine are more flexible and dynamic, they offer more unique and interesting options, which appeals to a greater number of consumers. The image associated with spirits and wine also projects

a higher level of status to many people. Wine also enjoys the reputation of providing positive health benefits when consumed in moderation.

Spirits

Total dollar sales of spirits in 2007 were \$6.74 billion, an increase of 6.1 percent over 2006. The fastest growing spirit categories were Vodka at 5.8 percent and Tequila at 6.9 percent. Irish Whisky also showed tremendous growth for a very small category at 17 percent.

Wines

The US wine, grape, and grape products industries contribute more than \$162 billion annually to the American economy. Wine grew in 2007 at the rate of 7.3 percent in dollars to \$4.84 billion and 4.08 percent in case volume to 70.1 million.

California wines lead the way with over \$3.28 billion in sales while Australia finished second at \$476 million following Italy. Washington wines finished an impressive fourth, at \$218 million, improving by 22 percent as compared to 2006 sales.

Chardonnay remains the leading varietal choice of consumers, holding a 24 percent share of the market dollar volume, growing at 3.7 percent.

Cabernet Sauvignon is second with a 15 percent share growing at 13 percent, and Pinot Noir continues its impressive growth of 25 percent over the previous year. Wine priced

between \$5.00 and \$7.99 has the largest dollar share at 20 percent, however, wines priced at \$15.00 to \$19.99 grew the fastest at 21 percent. The 750 mL. size package is still favored and captures 67 percent of all wine sold in dollars.

In the last 26 weeks of 2007, both dollar and case sales began to slow, 6 percent for dollars and 2.8 percent for cases. This was consistent with other retailer's trends for the 4th quarter of 2007.⁷

Washington Trends

Trends in Washington are closely tied to the national trends described previously. Washington is the 16th largest spirit market nationally, but 29th in per-capitua consumption. Washington consumers showed a slightly greater preference for wine, placing Washington as the 8th largest wine market, with case sales of 8,203,310 in 2006.²

In Washington, there was a 4.7 percent increase in spirit case sales in 2007. Washington's top-selling spirit brands remained Monarch Vodka, Canadian Rich & Rare, Black Velvet Canadian Whisky, Potters Vodka, and Smirnoff Vodka.¹ There has been consistent growth in volume in spirits from 2002 -2007. In contrast, wine which saw some volatility and an overall decrease in volume due to pricing formula changes.

With influencing factors remaining relatively constant, we expect a continuation of this steady growth in spirits and gradual growth in wine. The legal drinking age population is expected to increase by 1.5 percent – 2.0 percent per year for the next 6 years.⁴

Spirits and wine are also gaining increased social acceptance and popularity. There is definite uncertainty about the economy over the next few years, and there may be a decrease in the growth of spirits case sales. Spirits and

Table 2-1: Washington Actual Case Sales, Trends, & Forecast

Fiscal Year	Total	Total Trend	Spirits	Spirit Trend	Wine	Wine Trend
2002	3,786,236		3,153,695		593,787	
2003	3,898,872	3.0%	3,252,730	3.1%	606,509	2.1%
2004	4,084,641	4.8%	3,451,338	6.1%	591,391	-2.5%
2005	4,237,419	3.7%	3,606,390	4.5%	590,325	-0.2%
2006	4,279,619	1.0%	3,736,395	3.6%	513,217	-13.1%
2007	4,458,370	4.2%	3,913,792	4.7%	518,935	1.1%
2008	4,623,330	3.7%	4,070,344	4.0%	524,211	1.0%
2009	4,794,393	3.7%	4,233,157	4.0%	529,453	1.0%
2010	4,966,991	3.6%	4,402,484	4.0%	534,748	1.0%
2011	5,145,803	3.6%	4,578,583	4.0%	540,095	1.0%
2012	5,331,052	3.6%	4,761,726	4.0%	545,496	1.0%
2013	5,522,969	3.6%	4,952,195	4.0%	550,951	1.0%

wine make up more than 99 percent of our case sales. The remaining .5 of cases are beers and malt alternatives, and sales of those products have declined significantly over the past 3 years.

In the last five years, dollar sales of spirits have consistently increased faster than case sales: 6.4 percent increase in dollars vs. 4.7 percent increase in cases. This reflects the overall population's trend toward choosing higher priced options, commonly referred to as "trading up".

But the anticipated recession may slightly affect the frequency of consumers doing this, as reflected in the lower 5 percent dollar sales growth rate forecast for FY2009 and 2010. Consumers may not continue trading up to the extent they have for the last few years, but they won't stop purchasing this "affordable indulgence"; according to Paul Walsh, CEO of Diageo plc. "This isn't like going out and buying a new car or going on a big holiday. This

is something to reward yourself with."⁸ Since 1960, only twice has there been a decrease in dollar sales during an economic downturn. This occurred in 1970 and again in 1982.⁵

Due to cyclical economic patterns, projections beginning in 2011 will begin to show a return to the trend of buying more expensive product.

In fiscal year 2007, wine sales increased 2 percent in dollars as compared to 1.2 percent in cases.¹ It is anticipated that wine growth trends will remain relatively stable, as wine continues to attract new consumers. Washington also enjoys a very healthy wine industry, which should fuel growth in sales for both the LCB and private wine retailers. If that growth rate stays consistent, projected revenues from wine will exceed \$40 million by the end of 2011.

All of these projections assume no significant change in the tax or mark-up structure. Changes in the retail price do affect growth

Table 2-2: Sales, Trends, & Forecast

Fiscal Year	Total	Total Trend	Spirits Sales	Spirit Trend	Wine Sales	Wine Trend	Other Sales
2002	\$531,679,969		\$492,504,152		\$38,026,264		\$1,149,553
2003	\$557,589,514	4.9%	\$517,370,214	5.0%	\$38,829,464	2.1%	\$1,389,836
2004	\$608,778,014	9.2%	\$569,605,566	10.1%	\$37,873,563	-2.5%	\$1,298,885
2005	\$647,036,068	6.3%	\$606,997,698	6.6%	\$38,609,253	1.9%	\$1,429,117
2006	\$728,912,341	12.7%*	\$691,110,406	13.9%*	\$36,542,280	-5.4%	\$1,259,655
2007	\$774,176,796	6.2%	\$735,578,123	6.4%	\$37,283,170	2.0%	\$1,315,503
2008	\$826,514,148	6.8%	787,068,592	7%	\$38,028,833	2%	\$1,416,723
2009	\$866,698,991	4.9%	826,422,021	5%	\$38,789,410	2%	\$1,487,560
2010	\$908,870,258	4.9%	867,743,122	5%	\$39,565,198	2%	\$1,561,938
2011	\$961,819,865	5.8%	919,807,710	6%	\$40,356,502	2%	\$1,655,654
2012	\$1,017,914,797	5.8%	974,996,172	6%	\$41,163,632	2%	\$1,754,993
2013	\$1,077,343,140	5.8%	1,033,495,942	6%	\$41,986,905	2%	\$1,860,293

* The significant growth in dollar sales in 2006 was due to a tax increase.

rates, especially in the first year. This can be seen in the FY2006 growth trends.

When a considerable tax was added to spirits, and there was a pricing formula change for the best selling wines. For spirits, that resulted in a slight slowing in case volume growth, but a 13.9 percent increase in dollar sales. For wine, there were more significant results, with a 13 percent drop in case volume, and a 5.4 percent decline in dollar sales. The trends returned to more normal rates the following year.

A very small percent (0.5 percent) of our sales is in malt beverages. Statewide, there is a current trend away from the value priced domestic beers, and toward craft and micro-brewed beers. This trend is reflected in our sales as well.



consumption of spirits reached its lowest point in 1997 at 1.72 gallons per person and has been relatively stable since.

In 2005, the rate was 1.88 gallons per person. Per capita consumption of wine reached its lowest point in 1995 at 0.30 gallons per capita and increased slightly to 0.44 gallons in 2005.⁵ The following graph shows consumption trends over time in the three categories of beer, wine and spirits.

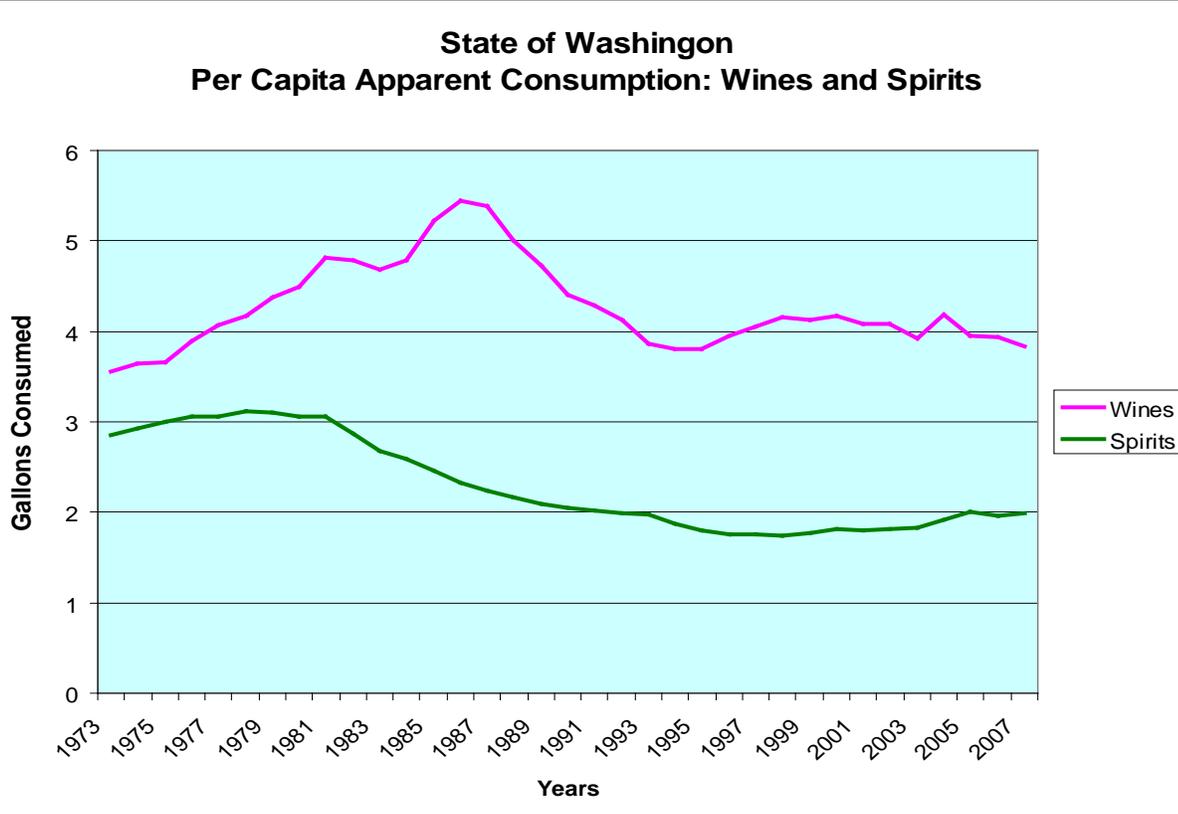
Per-capita Consumption

Per-capita consumption trends in Washington were slightly lower than the national average for licensed states and were 12th lowest out of 18 control states.

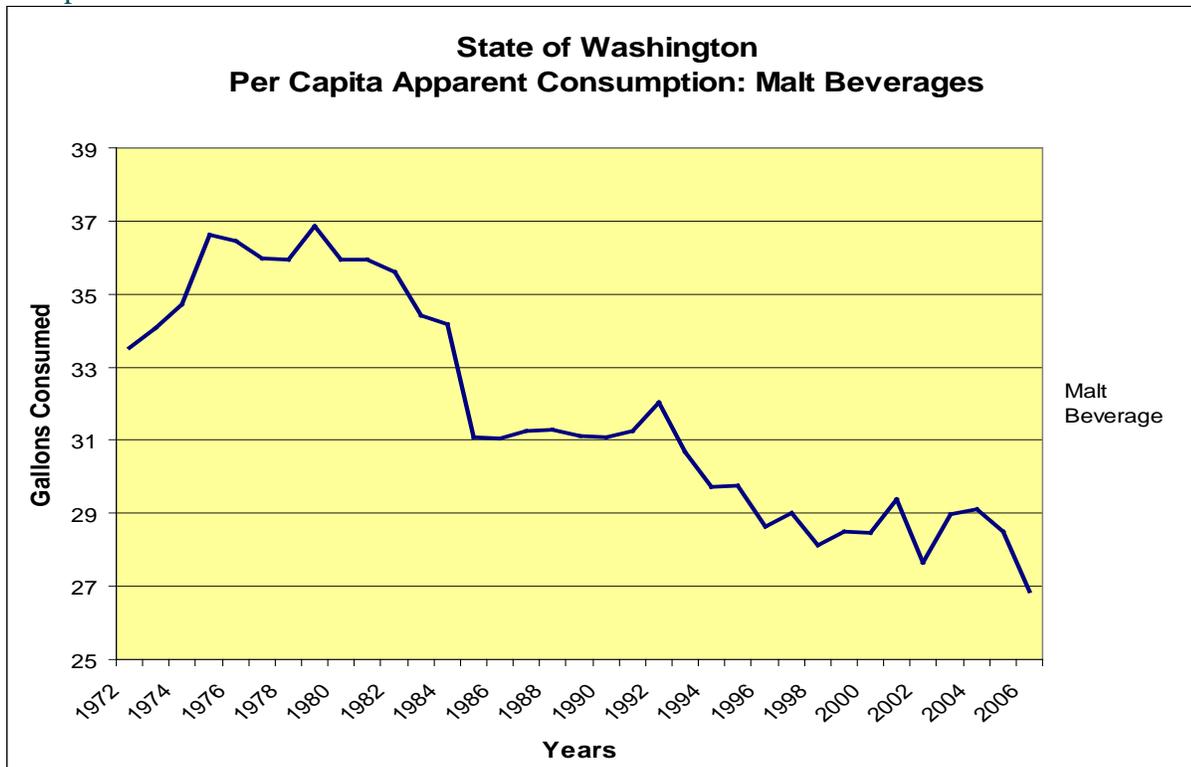
Peak annual per-capita consumption of spirits occurred in 1981 at 4.12 gallons. Per-capita



Graph 2-1



Graph 2-2



Spirit Category Performance and Trends

A category is a general group of similar products, such as Rum, or Tequila. Our biggest categories by far are Vodka and Whiskey, totaling 54 percent of the total spirit sales.

Vodka continues to show an impressive growth trend of almost 10 percent in an already large category. Within the two largest categories, the hottest growth in FY2007 was in flavored vodkas at 13.4 percent, and Irish whiskeys at 23.4 percent growth. The fastest growing category is Tequila, which contributes 9.3 percent of sales, and showed respectable growth of 13.2 percent in FY2007.

Washington continues to be the largest control state for Tequila sales, and the 10th largest of all states in Tequila sales.²

The number of products in each category also closely reflects its contribution, with the exception of liqueurs. The liqueur category requires a broader number of products because it encompasses such a wide variety of unique items.

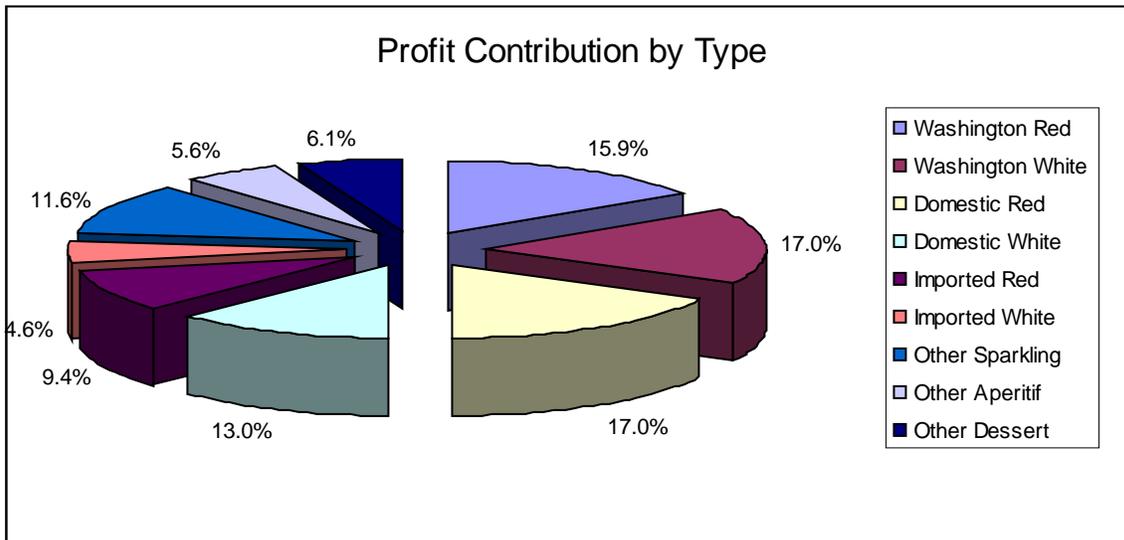


Table 2-3: Washington Spirit Category Performance FY2007

Category (# of products)	Retail Sales	Growth Trend
Whiskey (242)	\$211,836,285	4.8 percent
Vodka (195)	\$184,798,357	9.9 percent
Liqueurs (207)	\$116,728,423	4.9 percent
Rum (103)	\$ 81,016,377	6.2 percent
Tequila (90)	\$ 67,926,307	13.2 percent
Gin (47)	\$ 34,694,386	2.5 percent
Brandy (66)	\$ 28,946,911	5.4 percent
Cocktails (42)	\$ 7,500,062	1.5 percent
TOTAL	\$733,447,107	6.5 percent

Wine Performance

Wine is more dynamic and harder to categorize as compared to spirits, due to the broad number of producers, varietals, and vintages. The LCB wine sales break out approximately into the following categories:



As a percentage of sales, LCB sells a larger portion of Washington wines - 33 percent - as compared to the private sector, which averages 25 percent.^{1,7}

Currently, the LCB market share of wine is 8 percent of statewide sales. In 2005, the Board committed to adjusting wine pricing should the LCB share of wine sales exceed 10 percent of all wine sales. Private sector wine sales are outpacing LCB wine sales growth, thus, we do not anticipate exceeding the 10 percent limit in the near future.

Product Management

In order to best manage the product selection, category strategies are developed for each of the major product categories. This allows the Liquor Control Board to better understand consumer trends based on the latest and most relevant data, and can respond accordingly to ensure the products in our stores reflect customer demands. In selecting what products are offered, we take many factors into account, including:

1. Historical sales and trends of other products in that category and brand,
2. Number of cases ordered in past year via special orders,
3. Supplier performance in delivery and maintaining stock, and
4. The marketing strategies planned by the supplier to promote the product

Product Distribution and Geographic Availability

The controlled distribution model of the Liquor Control Board dictates that we have locations across the state, generally in proportion to population, but not to market saturation. The LCB intentionally maintains a very conservative number of stores, so that sales are not being increased by a large number of locations. However, as the only source for spirit products, it is imperative that we provide a pleasant and informative shopping experience for the consumers of Washington State in the locations we currently occupy.

Geographically, stores are strategically located based upon legal drinking age population. According to a research study done by ECONorthwest in September 2006, the LCB had adequate store locations at that time to “efficiently and effectively serve its existing populations”.

However, that study also recommended that the number of stores be increased to 385, including closures and relocations by the end of 2013, with an emphasis on opening new contract stores, rather than state stores. There are 4 different types of stores: State-owned, Contract, Tribal, and Military.

State-owned:

There are 161 state-owned stores throughout Washington. These locations are leased from

local building owners, and employ 3 to 7 union-represented managers, assistant managers, and clerks. The majority of listed products are available and product shelf arrangement and floor displays are controlled to optimize merchandising in the stores.

Contract:

There are 154 stores that are owned by private parties who are licensed to sell spirits by the bottle. These locations are generally in less populated or seasonally popular areas, and are frequently combined with another business such as a pharmacy or souvenir shop. Product selection is generally more limited and there is no specified product placement or displays.

Tribal:

There are nine Tribal outlets across the state. These partnerships with sovereign nations help to serve the tribal population and surrounding communities across the state.

Military:

There are 28 military outlets across the state. These stores serve the men and women of our armed services who serve our country while based in our state.

The most popular products are offered in the retail stores, but consumers can order almost any product – in full case quantities - through the special order process.



Inside the stores, products are organized in a clear and logical manner which allows customers to easily find the products they are looking for. These standardized shelf schematics, designed using space management software, place products in sequences group similar products together and make them easy to find.

Because the demographics of the areas served by the stores can vary significantly across the state, the Liquor Control Board has created three “clusters” and developed unique shelf schematics for each cluster. This allows the products on store shelves to be slightly customized to the market each store serves.

The Liquor Control Board also works closely with the product suppliers to create floor displays of new or popular items. These displays create a more interesting store layout and highlight the availability of new products or remind people about our more popular products.

One of the most valuable resources in the LCB is the knowledge and experience of our store staff. To maximize the staff’s ability to share product knowledge with our customers and provide the most informative shopping experience, a product training program has been established to provide multiple levels of training to store staff. There is also the opportunity for staff to become a “specialist” by developing detailed knowledge about a particular category.

The development of the Marketing team in July 2007 has created many new opportunities to take the in-store merchandising to the next level. Details of these new efforts will be explained in the upcoming Marketing Strategy section.

Competitive Analysis

The LCB has 5 product lines: Spirits, Wine, Beer, Industrial Alcohol, and WA Lottery tickets.

The following details the current competitive environment for each product line:

Spirits: The LCB is the only distribution outlet for distilled spirits in the state of Washington. Spirit products may only be purchased from LCB state, contract, tribal, or military stores.

Wine: The LCB has a well-developed wine selection and reputation, but as already mentioned, holds only 8 percent of the total wine sales in the state, and should remain at that approximate market share based on the current pricing strategy.

As our wine program has grown and improved, we have become a relevant economic factor for wine manufacturers, brokers, and some Washington distributors. Wine is also sold for off-premise consumption in over 13,000 other outlets in Washington, in store types such as grocery, convenience, big box, and drug. There are also 2,471 on-premise licensees that are indirect competitors.

Beer: Beer has traditionally been sold in the LCB stores primarily as a customer convenience. Thus we have very limited product selection, and our market share is virtually zero. Our decision to limit beer offerings reduces the selection for our retail customers, and limits the economic opportunity for producers, brokers, and distributors.

Our decision not to be a competitor in this market was a strategy adopted by the Board, based on factors such as physical space, profit margin, and the political environment. We did recently adjust our product selection strategy to reflect the trends away from the higher alcohol, value-priced beers, and toward the craft, micro-brewed beers. However, this shift in product selection is primarily focused on economic development and market exposure for smaller breweries, as well as increased

customer convenience. There are many other outlets, including grocery stores and specialty beer shops that carry a significantly broader selection.

Industrial Alcohol: Certain types of businesses and organizations (medical, dental, scientific organizations and manufacturing) were previously required by Washington law (RCW) to purchase industrial alcohol through the LCB.

Other businesses (pharmacies and manufacturer that use the alcohol directly in their products) could purchase directly from the supplier. A change in the RCW in 2008 extended the ability for all industrial alcohol permit holders to purchase directly from a supplier.

With this legislative change, the majority of permit holders will likely purchase directly from the supplier, not through the LCB. The LCB will still carry smaller quantities of industrial alcohol for sale in our retail stores for the convenience of smaller customers.

WA Lottery tickets: LCB retail stores are one of many outlets for lottery tickets, and carry them as a cooperative partner to our fellow state agency and as a convenience to the customer.



Footnotes

1. LCB iSeries system and financial reports
2. Adams Beverage Handbook
3. MKF Research LLC of Napa Valley
4. Office of Financial Management (OFM), State Population by Age and Sex, November 2007 Forecast
5. LCB Agency Business Plan 2007-09 Biennium (Pg. 9-10)
6. NABCA Prodiver
7. IRI Scan Data
8. www.just-drinks.com article, "Affordable indulgence" protects Diageo from recession, January 30, 2008

3

Business Enterprise Strengths

Three primary strengths that are at the core of the Business Enterprise are;

- Focus on optimizing the entire supply chain
- Significant increase in operational resources
- Exceptional management and stakeholder support

The consolidation of the Purchasing, Distribution, and Retail Divisions to form the Business Enterprise has enabled a holistic approach to supply chain management. The improved collaboration of business activities is consistently yielding improved results. Decisions are made in the context of the whole business instead of a single division.

The significant increase in operational resources that came with the 2007-2009 Biennium budget represented a key to our future success. We have increased store operational staffing by 15 percent enabling us to more efficiently respond to market opportunities and meet customer needs.

Our service coverage has improved through expanded Sunday sales locations. Technology enhancements are improving transaction time and system stability. Risk management improvements have included additional surveillance cameras and new armored car service. The expansion and equipping of our Distribution Center is addressing long standing capacity constraints. These investments position us well to ensure that we can continue

responsibly serving the citizens while addressing the growth and complexity our business has realized as our sales have doubled in the last decade.

The level of support that is realized by both management and key stakeholder groups also represents a clear strength for the Business Enterprise. This is illustrated by the recent investments that have been made as described above.

However it is also reaffirmed by the involvement of these groups as we continue striving for excellence. The partnerships that we are establishing with other agency divisions such as Enforcement have proven invaluable towards advancing our public safety initiatives through compliant sales.

The interactive discussions and feedback from management on our business metrics have resulted in more meaningful and sustainable results. We regularly meet with stakeholders such as DRAW and WPEA to discuss strategies, and where possible, align our efforts. Clearly, the support from management and stakeholders is a strength that we intend to leverage going forward.

The primary strengths of the Purchasing Division are:

- Balanced perspectives and teamwork
- Good stakeholder relationships
- Data driven decision-making
- Technologically innovative

The Purchasing division has been through a significant amount of transition in the last few years. The staff now consists of an even mix of team members: half that have been with the division for many years, and half that are relatively new.

Team members with a significant amount of historical knowledge are invaluable in considering all the aspects of a situation. Newer team members question the current processes, and bring ideas of how things have worked in other places. Although the process of getting input from both sides isn't necessarily smooth or easy, we know the outcome is usually superior when multiple points of view are considered.

The Purchasing division also prides themselves on teamwork. The recent instability in the division has only sharpened this attribute. When people feel overwhelmed and ask for help, others step up to assist. Although we don't always agree, we do share a genuine care and concern for our fellow team members. We care about our jobs and about the agency, and routinely go above and beyond to ensure positive results.

Purchasing, along with the entire Business Enterprise, has established good relationships with our suppliers and stakeholders. We meet monthly with DRAW (or one of their sub-committees) and work closely with them on displays, policy and legislative changes, training, and store promotions. We have also established very good relationships with our suppliers that allow us to effectively work through performance issues and proactively address potential problems. The Supplier Scorecard program has been very effective in driving improvements in supplier performance and communication.

There is a strong focus in Purchasing on gathering data to support good decision

making. For example, in addressing supplier performance issues such as out-of-stock products, we also do analysis to truly understand the most frequent root causes and devise ways to address those causes, to solve the larger problem.

To choose which products to put on our store shelves, we gather data category size and growth trends, look at comparative sales in other states, and consider how easily will process through the DC and fit physically on the shelf. We also look at data from the supplier scorecard how the supplier has performed with the other products they supply to us.

We have developed Access database systems to assist us with three of our major business processes: order calculation, display assignments, and special order tracking. The use of these databases has significantly reduced manual calculations and tracking.

We have also purchased space management software that applies industry best practices to create a standardized and logical layout for products on store shelves. Having internal control over this function allows us more control, and increases the timeliness of getting the schematics out to the stores.

The primary strengths of the Distribution Center are:

- A cross trained warehouse and leadership team providing a flexible workforce
- A highly automated material handling system
- Expanded operational footprint and material handling equipment
- Improved analytic on operational activities

The DC has a dedicated team of employees across the warehouse floor, administration, and

leadership. We have experienced a minimal amount of turnover, and as a result, have hundreds of years of combined experience. This experience allows for an exceptional level of flexibility, reduced response time for problem resolution, and precludes the need for extensive initial training.

Additionally, programs in place such as the employee rotational training program are focused on development of skill sets and increased core competencies. This positions the DC to respond to unusual circumstances or exceptional needs competently and effectively.

The level of technology and automation represented in our material handling and warehouse management systems represent strength in our ability to distribute product on a large scale, without the potential hazard that a manual system represents with regard to employee injuries.

These integrated systems promote the efficient handling of over 100,000 pallets that are configured into customized truck loads of nearly 5 million cases each year to over 300 sales outlets across the state. Significant purchases of parts in the 2005-2007 biennium, as well as a Preventive Maintenance program, increased maintenance staffing and training, and outsourced services combine to provide a reliable material handling system, with reduced equipment downtime.

The expansion and improvements currently in process include an additional 62,000 square feet for storage of 100,000 more cases. Two more shipping docks will supplement our existing four and receiving docks will increase from four to twelve. A significant material handling enhancement is the addition of a four tier pick module designed to improve the efficiencies associated with carousel replenishments for low volume products.

The IT systems that control this material handling environment are also in the process of being replaced with a modern operating system that will provide greater stability. The expanded footprint has already proven its value as we handled record volumes during our peak holiday period in 2007. These additional improvements position us well to continue meeting the growing needs of our business for the next ten years.

The DC team has been a leader in the use of the Government Management, Accountability and Performance (GMAP) principles. In particular, their use of analytic has enabled an enhanced understanding of key factors of operational influence. An example of this is the DC's focus on Store Order fill rates, a primary outcome measure.

Through sensible process measurement and analysis the DC has been effective in understanding root cause and implementing preventive measures to improve performance.

This improved use of analytics has led to changes in policy and process, and is leading to improved fill rate. This management approach is expanding into other parts of the operations including outbound carrier performance through the implementation of a scorecard program.

The primary strengths of the Retail Division are:

- Exceptional compliance rates
- Ability to generate substantial revenue for the State
- Excellent customer service

The single greatest strength of the Retail division is their achievement in the area of ensuring compliant sales. In partnership with the Enforcement division, efforts in this area have resulted in boosting levels from 86 percent

to 95 percent for state and contract outlets. This is substantially better than the statewide average of 76 percent for licensee compliance.

During the last 70 years the agency has returned more than \$4 billion to the state in taxes and revenue. If current trends continue, the agency will return an additional \$3.25 billion by 2016. Most of the revenue returned – more than 72 percent – is derived from sales of liquor in state and contract stores. In fiscal year 2007, the business sales grossed \$774 million with net revenues topping out at \$314 million.

The additional operational resources that were received with the 2007/2009 Biennium budget have improved the efficiency and effectiveness of the Retail Business Operation. The 15 percent increase in staffing levels at state-owned liquor stores allows store employees to provide a better shopping experience through more consistent customer service.

Adding two District Managers and two support staff allows for more in-store time and focus to assist state and contract store employees in operating their stores successfully.

The Wide Area Network (WAN) installation has reduced credit card processing time from 22 seconds down to 4 seconds and provides a broadband communications portal for the stores. A successful Sunday sales program's has resulted in its expansion to now include 49 stores across the state.

Store staff training in the areas of entry level customer service and product knowledge is being conducted during quarterly store manager meetings in each of the 12 districts. Training in these areas empowers store staff with confidence in their product knowledge, increases morale, and enables greater consistency in how customers are served.

Armored car service is being implemented statewide for all state owned stores to eliminate the need for store employees to transport money to and from the bank. In addition, additional Security Camera equipment is being installed in state stores to deter both external and internal theft and give managers additional tools when dealing with operational issues.

Security guard service for targeted store locations during weekends and holiday periods has been initiated.

Excellent customer service is the foundation of a flourishing business. By making consumers feel like "guests" in your home, you can drive sales, increase customer loyalty, and increase



your market share. The business regularly measures input from our customers and have consistently exceeded 90 percent in customer satisfaction. The current process measures include Product Availability, Wine Selection, Store Cleanliness/Appearance, Employee Appearance, Friendly Customer Service and Speed of Service.

4

Business Enterprise Challenges

The primary challenges facing the Business Enterprise are:

Priority Management: In some ways, our very strengths lead to some of our greatest challenges. The new resources provided to address what were long standing deficiencies are proving difficult to implement as they are competing with other unplanned demands thus unveiling the challenge of priority management. Proper alignment of resources and sequencing of activities is being done regularly to help in this area.

Communication: The Business Enterprise brought together what were three separate divisions just 18 months ago. We knew then, and continue to realize, the challenge of communication across this broadly dispersed team that is so dependent upon each other for success. Although quarterly meetings with the extended leadership team help, we need to continue to find effective ways work with the varied learning styles of our staff. Constant, clear, and consistent messaging that reaches those across the entire enterprise is the objective.

Vision: While our creative staff seem to have a natural talent for identifying prospective solutions for the problems that face our retailing business, often we fall short of a clear vision of what that solution will look like once in place. This includes anticipating operational dependencies and how the given process will be different once the new solution is in place.

Consequently, sometimes after much work is done to implement a new program we find that does not fit in the business as it was intended. This requires more intentional work upfront to envision and ultimately realize true success.

IT Support: The Business Enterprise is highly dependent on information technology resources to maintain existing systems as well as enhance current capabilities through programming changes and implementation of new solutions. The distribution center is a highly automated computer based material handling system and our stores handle tens of thousands of transactions every day. Our legacy systems are not well integrated and accessing meaningful information from them is highly problematic.

The IT Division has been unable to provide the necessary service levels to support the Business Enterprise and as a result key strategic initiatives are at risk. Service Level Agreements (SLA's) are needed between the Business Enterprise and IT to establish a defined commitment against which both divisions can plan.

Business Driven Solutions: The Business Enterprise benefits from the support of other central divisions such as Finance, Human Resources, and Information Technology. These teams enable the Business Enterprise to manage daily operations as well as pursue new investments.

However, the business does not consistently define the support service requirements. This often leads to costly confusion and delays in program implantation. In addition to improving the Vision for new solutions, the business must take care in ensuring the clear communication of project scope, success measures, and team member roles.

The primary challenges facing the Purchasing Division are:

Technology: Our biggest business challenge by far is our technology systems. We have put some systems in place to assist us with processes, but there are many more processes that are still too manual.

Although we utilize an Access database to calculate order quantities, we have to manually enter that order into the agency information system. Purchasing, receiving, and payment functions reside in three separate systems, and the links between them is not always reliable. Some changes have to be made manually in two or more systems, and we still rely upon paper reports to communicate information between systems.

This lack of integration increases the likelihood of errors. We also struggle with obtaining meaningful information from our agency systems. Data is frequently presented one-dimensionally, and accessing additional information or the same information in a different way is very difficult.

Priority Management and Inter-Divisional Communication: Like the entire Business Enterprise, we struggle with focusing on the projects that will make the biggest difference. With so many project opportunities to make an impact, it is difficult to prioritize and ensure we are completing our current projects in a quality manner before taking on more.

Because we work so closely with other divisions, especially Financial, Distribution, and Retail, we are also dependent on their partnership to implement many process improvements. Keeping these communication channels open is an on-going challenge. Success in this area is critical to our efficient operation.

Process Transparency: We are challenged with maintaining the transparency and consistency that is required of a public agency. Our decisions and actions have a very direct effect on the livelihood of liquor suppliers, on the choices of consumers, and on the magnitude of revenue returned to the state and counties.

This adds levels of complexity and documentation that wouldn't be required for a merchandise purchasing division within a private sector company. This balance requires clear criteria and communication around our decisions.

The primary challenges facing the Distribution Center are:

Safety: The DC is an industrial environment that is characterized by complex automated material handling machines, heavy equipment, and a high volume of product movement involving 80 employees. This requires the value of safety to be front and center. This facility has benefited from external assessments as well as the safety

committee that meets regularly to discuss and expand upon the safety initiatives. In the last few years, a multitude of significant enhancements have been made to improve safety at the DC.

However, a recent accident has highlighted the need to bring the safety program under further scrutiny to ensure more comprehensive policies and procedures, expanded training, and a rigorous compliance program. Recently a cross functional team of employees has identified new priorities for this area and work has commenced. Going forward it is essential that organizational and policy changes be made to ensure that the safety program is more effective in terms of preventing work place injury.

Organizational Development: To improve effectiveness, consistency, and unity among the leadership team at the DC, it is necessary to reorganize and refresh the roles and responsibilities amongst the leadership team. Reporting lines need to reflect a structure that results in improved implementation of operational initiatives.

Core areas for development focus should include accountability and teambuilding. The organizational development efforts need to penetrate all levels at the DC to ensure all are competent to fulfill their role in supporting the team's mission.

Team Morale: In January 2005 the LCB received the results of a consultancy study that focused on employee morale at the DC. In response to the opportunities identified, an advisory council called the "Task Team" was formed comprised of employees, supervisors, union representatives, Human Resources, and management.

This council meets monthly to collectively identify and address concerns, and develop solutions. While over 18 important accomplishments have been realized there

remains a significant need to address the morale issues throughout the organization.

At the heart of the problem lie three significant drivers: *Communication, Respect, and Accountability*. This effort needs to be led from the top and effectively involve all levels of staff to understand the underlying issues and achieve an alignment of staff to the cultural elements that are being implemented across the agency. There have also been recent concerns expressed in the area of compensation. This is handled through the collective bargaining process.

Technology: Many systems and levels of technology converge at the DC to operate and manage our business, including a Warehouse Management System (WMS), Material Handling System Operating System (DTM), Ethernet, DeviceNet, Programmable Logic Controllers (PLCs), programmable Variable Frequency Drives, and others.

Although some of the technology has been updated as necessary, such as the Radio Frequency (RF) Network and Laser Scanners, much of the existing technology has not been updated in the last several years. System reliability and support capabilities have noticeably deteriorated over time.

This presents operational risks due to system stability issues and also limits opportunities for benefits associated with newer systems. In addition to maintaining current technology platforms, it is imperative that a comprehensive IT support program is implemented to encompass the total technology system within DC operations.

Building Maintenance: Since the DC was built in 2000, there has not been a comprehensive Building Maintenance Program in place to affect repairs and maintain the value of the building. Projects such as landscaping, roof, window,

pavement, and gutter repairs on the outside, wall or flooring repairs, and many others are typically addressed as the need arises, leading to budget overruns or exceptional expenditures which were not forecasted.

Additionally, cleanup and custodial functions occur as a cooperative effort between a contracted custodial service, warehouse employees, and maintenance personnel. Approximately 70 percent of the Material Handling System is generally unassigned to any area or process, necessitating the maintenance crew to clean the equipment and the area before they can apply maintenance, increasing the time necessary for maintenance tasks and redirecting skilled maintenance resources toward non-skilled custodial functions.

Many of these tasks are on portions of the automated Material Handling Equipment that cannot be cleaned while the equipment is running, and must be scheduled on graveyard shift, during non-production times.

Operational Throughput: The primary goal at the DC is to consistently fill store orders with the available stock; this is referred to as the Effective Fill Rate.

As discussed earlier, the DC has developed strength in terms of analyzing the impacts and trends associated with this goal. This has enabled incremental process improvements. However, in a macro sense, this operation still needs to evolve its focus on the velocity of product moving through the facility.

While inventory storage does provide a buffer for unanticipated demand, significant value could be realized for the business as increased focus is given to distribution efficiency. As this is achieved the retail outlets will benefit by the assurance of receiving the product they want when they want it.

Financial Planning: Our ability to effectively collect data and measure our strengths and weaknesses has led to a better understanding of our systems and processes. This, in turn, leads to identification of areas of operation that can be modified to better serve and support our mission, and opportunities for process improvement.

In the past, our budgets have been developed with a primary view toward near term operations and sustenance of existing systems. Funding for operational improvements too often have taken the form of supplemental spending requests due to poor financial planning. Our challenge in this area is to be more intentional in anticipating and prioritizing long term investment needs and fold those into the business planning process on an ongoing basis.

The primary challenges facing the Retail Division are:

Communication: Retail Division leadership recognizes the geographical complexities of the organization and strives to develop innovative methods to improve communications. Even though the division supports staff by promoting open communication, listening, focus group formation, training opportunities, participation in divisional initiatives, recognition activities and lobbying executive management on needs of the division, there appears to be a lack of consistency in the deployment of rules, laws, policy updates, and general operational information to store employees.

Project Management: Although the Retail Division has obtained additional resources in the form of people and services to address store operational needs, the project management associated with implementing these programs has been inadequate resulting in delays and confusion.

The business needs to define their needs more clearly to ensure acquired services actually represented the desired solution. The hiring of an operational support position will help in this area but also needs to be supplemented with fundamental project management methodologies.

Inadequate Contract Liquor Store Information Technology Platform: The IT systems that support 154 contract liquor stores (half of the physical sales outlets) was put into place in 2001 but has proven to be inadequate in terms of integration, stability, and support. This impairs our ability to communicate via e-mail and exchange information such as new orders and on-line sales reporting.

Inconsistent Brand Image in the Marketplace: The overall appearance of state store image and style can vary significantly from location to location. This is influenced by variations in signage, uniforms, store layout, and fixtures. Much of the fixtures in state stores are over 15 to 30 years old. Some are damaged beyond repair and in some cases have been replaced with saw horses and plywood.

Older fixtures are inconsistent in size and style making it difficult to merchandise. This negatively impacts shelf schematics and display plans each month raising concerns for stakeholders such as DRAW. While new fixtures have been introduced over the years, funding has never been sought to ensure that all stores benefit from a basic level of fixtures.

Modern and consistent fixtures can improve store performance through better space utilization, improve product information, and other in-store promotional opportunities. Industry research shows that attractive displays improve the customer experience and drive additional product sales.



5

Business Enterprise Opportunities

The opportunities for the Business Enterprise include:

Business Enterprise Communication Plan:

The Business Enterprise has the important responsibility to effectively communicate with its widely dispersed workforce of nearly 1,000 employees. Our team profile spans from the office to the warehouse to retail stores and resides in over 160 locations across the state. This makes this task very challenging.

There are many practices in play to enhance communication amongst this team including quarterly meetings, development of a web presence, and the use of conference calls. While these are valid steps, more needs to be done. The development and implementation of a comprehensive communication plan can ensure that communications across the enterprise are bi-lateral, timely, and clear.

It is essential messaging format takes into account the variety of locations, roles, and learning styles that exist within the Business Enterprise. The goal of this plan should be to inform, educate, collaborate, motivate, and increase the cohesiveness of the team.

SIOP Evolution: Sales, Inventory, & Operations Planning (SIOP) is focused on facilitating a more structured approach to assessing new sales opportunities and the resources associated with those activities. SIOP development and implementation will

be complete by the end of the 2007-2009 Biennium.

This will result in substantially improved coordination and efficiency across all levels of the Business Enterprise. Once these improvements are realized the need will remain to address what is currently a disjointed inventory management strategy. Although performance measures are in place to monitor stock levels at various points in the supply chain, a holistic inventory management strategy to include product in the supplier pipeline, distribution center, and stores.

Fulfillment strategies also need to be researched to identify those which will optimize our desired results. This includes reviewing the costs and merits associated a Push vs. Pull model for store replenishment.

Prioritization: Given the size of the Business Enterprise and the ongoing number of initiatives that are in play, it is critical to continually assess priorities from a true enterprise perspective. Many initiatives are competing for the same resources across the agency.

Success will in large part be tied to effectively ensuring that all dependent resources are in alignment with the established priorities and that such focus in consistent with the Boards interest.

The opportunities for the Purchasing Division include:

Brand Identification and Communication:

The stores are the agency's public face to our millions of retail customers and need to reflect our brand. Every store location, signage, and design decision that is made in our stores affects how our customers and stakeholders perceive the LCB.

The ongoing focus of the Marketing team, in close coordination with Retail Store Development, is to create a store environment that is reflective of our mission of public safety through controlled distribution. How we communicate that mission is our "brand". Beginning in the 2009-2011 biennium and continuing perpetually after that, we need to determine exactly how stores will create this consistent brand, and then begin transitioning each store as resources and funding allows. This documented plan for will include specific strategies for:

- Store geographical placement
- External signage
- Store shelving
- Personnel uniforms
- Floor display fixtures
- Internal signage
- Cooler design
- Flooring
- Uniforms
- Cleanliness standards
- Differentiation of stores based on size and demographics
- Information resources

Public Safety Messaging

As the Board continues with their newly launched public safety initiative there are opportunities to integrate these efforts with targeted messaging in the retail stores. Innovative formats can help to increase the

amount of "impressions" that customers get on public safety issues, such as safe consumption habits and not drinking and driving.

Availability of Electronic Information:

As technology continues to evolve, the Purchasing division should continue to take advantage of new methods of communication, particularly the Intranet (internal to LCB) and the Internet (external). In addition to providing information faster and more conveniently, the reduction in paper waste would be a benefit to the LCB and the environment.

Although we currently have an active Intranet pages to facilitate communication with our cross-divisional team members in the retail stores, we are continuing to identify new information they may need, and news ways to provide it to them.

Similarly, we have recently created an internet site for suppliers to have easy access to information they need, but there is much more that we could do. Long-term, dependant upon funding, we would like to create a secure "Supplier Portal" where suppliers could log-in to access information specific to their products and accounts. This technology could potentially extend to an interactive system where they could enter orders and provide us with shipment updates.

Ordering and Receiving Process Improvement

Given the situation with the legacy information systems, we need to continue our focus on improving and streamlining our supply chain. In collaboration with the DC and our suppliers, we should further explore the most efficient and customer-friendly way to order product, receive it at the DC, and place it in to inventory, utilizing process improvements or technology such as Electronic Data Interchange (EDI).

Special Orders

Our current Special Order process is very cumbersome for both the customer and the WSLCB. We are actively working to implement staff and procedural process improvement to improve communication and customer satisfaction. However, to truly have a streamlined, customer and supplier friendly system, we need to develop a web-based ordering and tracking system that would provide end-to-end order management and customer communication. The benefits of this kind of system would include faster delivery, better communication, improved reporting, and ultimately the customers will feel more confident about special ordering products.

The opportunities for the Distribution Center include:

On-Site Safety Manager: Enhance the DC safety program to reliably prevent workplace injury by adding one FTE position to serve as the on site Safety Manager. This individual would be responsible for working with the Agency lead to ensure consistency and effectiveness in work place safety policy, training, and enforcement.

Morale: Develop a strategy in conjunction with Human Resources that reflects a top-down, lead-by-example standard of fairness, transparency, and cooperation so that employees at all levels know they are a member of a cohesive team with common goals.

Leadership: Design and implement a reorganization of the duties and responsibilities of the DC leaders to best fit the mission and critical initiatives of the Distribution Center and business enterprise. Define a leadership development strategy focused on teambuilding and accountability.

Material Handling System Upgrades:

Improve productivity and reduce safety risks. This plan has four sections:

- a. Add accumulation lanes from the depalletization area to the floor deck lanes to relieve the congestion that occurs when cases are sorted into the first few deck lanes slowing the replenishment process.
- b. Automate the scanning and sorting of cases into the split case area and motorizing the conveyers in this area will increase productivity and minimize the risk of repetitive motion injuries.
- c. Upgrade and replace the control components portion of the software system such as photo eyes, proximity switches, encoders, and other related components to increase reliability, reduce troubleshooting and repair time, and maximize the use of technology.
- d. Automate the manual pick process for non-conveyable items to improve productivity rates and address ergonomic concerns associated with the current handling methodology that requires manual loading and unloading of carts.

IT Service Level Agreement (SLA): Define the specific IT support requirements for all systems and technologies within the DC to serve as a basis for a Service Level Agreement (SLA), and, in partnership with the IT Division, implement a SLA to ensure system performance, reliability, maintenance, enhancements, and repair during all production hours.

The complexity of these systems exceeds the scope and experience of most current DC employees. System reliability and support capabilities have noticeably deteriorated over time. This presents operational risks due to system stability issues and also limits opportunities for benefits associated with newer systems. In addition to maintaining current technology platforms, this could ensure that a comprehensive IT support program is implemented to encompass the total technology system within DC operations.

Building Maintenance: Improve the preservation and protection of the DC building and the equipment inside. This effort will result in a building and grounds that are pleasant to view, and show the citizens that we, as stewards of taxpayer money and resources, are maintaining and upgrading the building responsibly, thereby protecting their investment. For the state employees that use the building, daily or intermittently, the goal is to develop an environment that is uplifting and pleasant, and functionally fills their needs.

Carousel Management: Reduce costs and increase productivity associated with the carousel maintenance program by adding two FTE positions to replace the currently outsourced service. The FTE costs would be substantially less than the contracted costs and would leverage internal competencies to assume full carousel maintenance duties while supplementing additional maintenance activities of the material handling system.

DC Capacity Planning: Develop a strategy that addresses current and anticipated constraints associated with our growing business, and review strategies annually to identify and make any necessary changes. Analysis has identified three significant capacity constraints: Zone Capacity, Carousel Capacity, and DC Effective

Inventory Capacity. This drives the need to recognize and manage the quantity and mix of product received at the Distribution Center.

This includes pursuing alternative approaches that allow for shipping from locations other than the carousels. We will develop a macro inventory capacity plan that takes into account in-bound receipt of product in terms of frequency and volume, and the various types of staging capacities within the DC, product assignments, and inventory levels at each staging area.

Pallet Management: Implement a program to direct the sorting, disposal, movement, storage, and replacement of all empty pallets within DC operations. This could include a structured pallet exchange program with external business partners to maximize the financial return associated with these assets, and develop policies and procedures and deploy necessary training to ensure optimal safety and efficiency in the sorting and storage of pallets while supporting operational needs.

Throughput Strategy: Increase the velocity of product moving through the DC by pursuing process improvements through workflow analysis and the implementation of productivity standards for key operations. Explore the feasibility and benefits associated with a modified labor scheduling approach based on the new capacities associated with the completed expansion and material handling upgrades additional alternative labor scheduling methods.

Contract Administration: Revise the contract administration process for DC expenditures to result in improved planning and reconciliation of financials. Partner with Support Services and Financial to centralize and organize our Budget management. This will allow for real-time

budget management, visible budget status, and more informed decisions. This includes a need to establish a template for defining a clear scope of work reflecting business defined needs for contracted services.

The primary opportunities for the Retail Division include:

Continued Development of the Retail

Communication Plan: In 2007 a new communication plan was introduced in the Retail Division. This has begun to address the challenges associated with a widely dispersed workforce.

The program is designed to provide a consistent method of delivering specific types of information to each outlet that includes a defined frequency, format, and content for the communication of core issues.

In addition, this program provides our stores with a channels for sharing information with management. Although this is a current Biennium objective, this will remain a key area of focus for the indefinite future due to its importance.

New Resource Integration and Development:

The increase of support resource positions including operations management, process improvement and financial analysis team members are already proving their value.

More work is necessary however to ensure these resources realize their full organizational potential and service levels are clarified.

Maintain Staffing Hours In Balance with

Business Growth: The additional staffing hours that were added in this Biennium has enabled us to serve the increased demands associated with our growth over the last several years. It will be important to maintain this balance in

staffing. As we anticipate continued growth more staffing hours will be required so we don't lose ground again resulting in lost sales or declining service levels.

Brand Management: As the gap between our brand identity and image is understood, we can begin enhancing our image in the marketplace through attractive and functional store fixtures, staff uniforms, improved signage and displays resulting in increased product sales and overall store performance.

Expanded Prevention of Non-Compliant Retail

Sales: The first priority of the retail business is to ensure responsible sales are made, preventing underage or intoxicated individuals from purchasing liquor.

Although staff have achieved admirable results with a 95 percent compliance rate, the pursuit of excellence continues. There are additional tools that can supplement existing training and systems to achieve even better results in terms of public safety.

POS Upgrades: More upgrades to the store point-of-sale system will improve functionality and secure maximum profitability. Although many improvements have already been realized, the need to continue enhancements will continue into the foreseeable future.

Contract Store Strategy: Although a lot of work goes into the administration and award of Contract Stores throughout the year and good decisions are generally made, the process associated with this process needs to be refined and clearly documented.

Furthermore, a funded strategy to achieve a stable, modern, fully functional technology platform for contract store operations is needed.

Current systems are not integrated and based

on a “homegrown” software system that has limited capabilities and support. Working with our IT and Financial partners the requirements for contract liquor store equipment and online business reporting software should be fully examined along with a feasibility study to look into cost options and desirability improved connectivity.

Expanded Recognition Program: The 2007 employee survey shows the Liquor Control Board results were among the highest of all agencies statewide. The Retail Division has a formal recognition program in place that recognizes employees for significant accomplishments and implementing process improvements which undoubtedly contributed to this outcome. There remain opportunities to strengthen this program to build morale and employee unity through more consistent and meaningful recognition of staff.

Labor Relations: As with any large retail organization that is represented by collective bargaining agreements, it is important to have a labor strategy that identifies a desired state and key steps for its realization. The Retail Division has made broad improvements in our union relationships, WPEA and UFCW local 21, and plans to build on these successes. A cooperative relationship will be fostered through regularly scheduled Union Management Communication Committee Meetings to ensure open communication and thorough understanding of both parties concerns.

GMAP and the Washington State Quality Award: The Retail Division views these two programs as key opportunities to ensure broad staff participation in the continued evolution of sensible management practices.

The Division is preparing to take action on the results of their first WSQA assessment and will experience another assessment in the

new Biennium. GMAP and WSQA represent excellent tools to leverage strengths and address weaknesses to drive overall operational efficiency.

Add Stores & FTE's to Serve Growing Communities: As the Metropolitan population growth in Washington State continues at a rapid pace, this has dramatically increased the number of drinking age adults served by each state owned store. This presents an important opportunity to add stores and FTE's to ensure an appropriate level of service to our customer base while maximizing financial return to the state.

Store Location Strategy Enhancement: The driving strategy for locating stores across the State needs to be refreshed and documented. Initial work suggests the essence of the strategy could be to strive to responsibly serve demand by maintaining reasonable customer travel efforts and ensuring outlets are operating at desired capacity levels.

Lease Management: Improvements to the tracking, prioritization, and decision making process for leases is necessary. This could include greater alignment to industry and OFM best practices. Additionally, the implementation of performance measures and improved forecasting.

Store Relocations & Remodel: Store Relocations and Remodels: Although part of our public safety strategy involves limiting our locations, we do want to ensure that our stores are located in areas that are convenience for our customer base. As demographics and community development change, the relocation of a store may be necessary to optimize service and revenue. Fixtures such as shelving, cabinets, and counters experience normal wear and tear over time and require replacement to maintain desired functionality and image.

6

Financial Plan

Background

In addition to helping prevent the misuse of alcohol through controlled distribution, the Retail business generates revenue for communities across the state of Washington.

In Fiscal Year 2007 gross sales were \$774. Each year, revenue earned through the sale and taxation of alcohol is returned to the state. In Fiscal Year 2007, the WSLCB sent more than \$314 million to the State General Fund, cities and counties, the Basic Health Program, prevention programs, and research. See Graphic 4-1.

Cities and counties receive more than 11 percent of this money - \$31.9 million in FY2006. The money returned to local governments is used for prevention programs, law enforcement support, affordable health care coverage and health benefits for children and pregnant women, and many other related programs and services. More than 42 percent of the price of each bottle sold supports programs and services for Washington citizens.

A Liquor Revolving Account #501 has been established to transact all LCB income and expenses. The income received is used to fund operational expenses including cost of goods and indirect expenses. Each month, taxes collected through retail sales are redistributed by the Office of Financial Management (OFM). At the end of each Quarter, excess funds are distributed accordingly by OFM.

Each biennium, the Business updates its business and strategic plan to determine the revenue and expense projections for the new period. These plans are shared with OFM and are ultimately reviewed for consideration

through the legislative process. Once funding plans have been approved the LCB Budget office allocates the money to the divisions and operational spending plans are established.

Currently, the cost of product is considered a non-appropriated expense. This essentially provides the LCB with spending authority to purchase liquor products for resale to satisfy demand as it arises.

However, all other expenses are appropriated requiring separate authorization through the budget and supplemental budget process. This makes it difficult for the business to respond to other costs that are driven by market changes such as leasing and direct operational costs.

New Business Enterprise Funding Model

Beginning in the 2009/2011 Biennium, additional expenses will be moved to non-appropriated status including leasing and DC maintenance costs. This will improve our ability to make timely investments needed in our \$800 million annual business that has been hampered by the biennial funding process. This added funding flexibility will help the LCB to meet the challenges of the future and maximize revenue return to the state.

Graph 4-1

WHERE YOUR LIQUOR DOLLARS GO . . .

More than 42 percent of the price of each bottle supports programs and services for Washington citizens.

Taxes, markup and fees collected provide more than \$312 million in FY'07 for state programs and services.



Price at Register
\$13.65

DC Construction Funding

The Liquor Control Board's Seattle Distribution Center was financed in 1996 by means of a Certificate of Participation (COP). With the issuance of the COP, proprietary fund 335 – Construction and Maintenance Account – was created as a funding mechanism for the repayment of the debt.

The COP was financed by a construction and maintenance surcharge that was placed on the

sale of spirits. Earnings from the surcharge are placed in Fund 335 and construction debt payments are paid from these earnings.

The Seattle Distribution Center was designed to ship 17,000 cases of liquor in an 8-hour day or 22,000 cases in a 16 hour day. Growth has exceeded expectations and cases shipped, especially during peak season, has far surpassed these design specifications, requiring the LCB to implement several new strategies over the past 3 years, including construction of an additional 62,000 square foot expansion to the facility.

DC Expansion Funding

In 2005, the LCB was authorized by the Legislature to enter into a new COP for \$17,000,000 to finance the construction of an extension of the Distribution Center. With the assistance of the Office of the State Treasurer, a new COP was issued for the expansion and construction on the expansion was completed in 2008. Repayment of the debt for this expansion is being paid from the construction and maintenance surcharge established with the original construction project.

Also in 2005, the Legislature authorized the LCB to use proceeds from the fund for the early redemption of the original COP. This early redemption saved the state \$390,000 in interest expense that would have been paid if the original COP had gone to maturity.

Both the funding for the debt created by the expansion and the early redemption of

the original COP were paid from revenues generated from the existing surcharge. In addition, during the supplemental budget process for the 2008 legislative session, two supplemental decision packages for additional work at the Distribution Center were submitted that propose to use earnings generated by the construction surcharge that are in excess of what is needed to cover the debt payment created by the expansion COP.

Once payment of this additional work is completed, the LCB has the option of to reduce the surcharge to simply cover the repayment of the COP for the expansion, or leave the surcharge in place and distribute earnings above the debt repayment as excess revenues. To achieve this end, the LCB would need to work with the Office of Financial Management and the Legislature to have authority to distribute these excess earnings.

The construction surcharge will generate \$11.8 million dollars during the current biennium with \$12.5 projected in the 09-11 biennium. The funding required for the expansion COP is \$2.8 million per year over a 7 year repayment period. The funding required for the supplemental request during the 2008 legislative session is \$4.9 million. As can be seen, the revenues generated by the surcharge exceed the operating expenditures in this fund. This is a dedicated fund that is used only for construction and maintenance expenses for the Distribution Center.

Washington State Revenue Forecast.

The General Fund-State revenue forecast has been reduced by \$423.4 million for the 2007-09 Biennium. The national outlook is much weaker than assumed in November due primarily to the deteriorating real estate and related financial markets, declining consumer confidence, and weak employment.

For the first time since 2001, the forecast assumes a mild national recession in the first half of 2008. Fiscal and monetary stimulus should help in the second half of the year but overall activity is expected to remain weaker than assumed in November throughout the biennium.

The outlook for the state economy is significantly brighter than for the U.S., in part due to our above average exposure to export markets and expanding aerospace and software sectors. However, we will be affected by the national slowdown as well as our own housing market problems.

Liquor Board Revenue Forecast

While LCB merchandising and customer service programs contribute to our sales growth, more significant drivers include:

- Drinking age population
- Economic conditions
- Taxation model
- Per capita liquor consumption
- Industry national marketing programs
- Consumer trends towards more premium priced products
- Increase in licensee establishments
- LCB business operations in terms of product availability and customer service.

The recession is anticipated to carry through the new biennium period and have a slight negative impact on our revenue forecast during this time. According to a study by the National Bureau of Economic Research, “drinking decreases in bad economic times” and “the decrease is concentrated among heavy drinkers, who spend the most on liquor.”

Spirits per capita consumption since 2005 has been flat following moderate increases in 2002-2005. According to estimates from OFM, the drinking age population is projected to grow by nearly 5 percent per year through 2016. See Table 4-2.

Table 4-2

Estimated Drinking Age Population (In Millions)											
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Millions	4.45	4.55	4.64	4.73	4.82	4.90	4.99	5.10	5.15	5.23	5.30
Cumulative Change	1%	2%	4%	6%	8%	10%	12%	14%	15%	16%	18%

In 2006, the cap on licensee establishments was raised to accommodate anticipated growth during the next three years. This is anticipated to result in some increase in liquor sales. During the 2007 Legislative process, no tax changes were made to directly affect liquor pricing.

This sales forecast assumes that the tax structure and Board mark-up will remain as they are presently. The Purchasing Division is expanding their merchandising efforts and product selection methodologies to leverage national trends for customer's orientation towards more premium priced products. This too is anticipated to aid in increased revenue.

In summary, the economic downturn is expected to have a slight negative impact on liquor revenue. The continued increase in drinking age population coupled with the ongoing orientation to premium priced products will more than offset the effects of the economy. Therefore, we project continued growth in liquor revenue at a rate of 5 percent per year through 2016. Gross sales for the 2009-2011 Biennium is projected to reach \$1.71 billion with net revenue \$727.9 million. This is depicted in Table 4-3 and Table 4-4.

Table 4-3

Projected Sales FY 2008-2011			
Fiscal Year	Fund 335	Fund 501	Totals
2008*	\$5.8	\$759.6	\$765.4
2009*	\$6.0	\$797.2	\$803.2
2010*	\$6.2	\$831.4	\$837.6
2011*	\$6.3	\$867.2	\$873.5
Total	\$24.3	\$3,255.4	\$3,279.7
<i>In Millions of Dollars *Projected as of February 2008</i>			

Table 4-4

Projected Sales Distributed to State and Local Governments		
Fiscal Year	Amount	Change
2008*	\$324.6	\$12.6
2009*	\$346.1	\$21.5
2010*	\$356.5	\$10.4
2011*	\$371.4	\$14.9
<i>In Millions of Dollars *Projected as of February 2008</i>		

7

Strategic Initiatives

Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>Supplier Performance Metrics: Develop systems that allow for collection of supplier management data about all suppliers, in a format that can be easily retrieved and analyzed.</p>	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen the ability of state government to achieve results efficiently and effectively</p>
<p>Automated Purchase Order Entry: Once an order is calculated in Buyer Buddy, automate the entry into an iSeries P.O. This would significantly reduce workload and increase speed and accuracy in the Purchasing Division.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen the ability of state government to achieve results efficiently and effectively</p>
<p>Place public safety messages in retail stores: With funding from our supplier partners and/or DRAW, develop and place public safety "ads" in the retail stores and/or around the state. Possible in-store locations may include shopping carts, register screens, cooler handles, bags, receipts, and/or floors.</p>	<p>LCB Goal: Provide the highest level of public safety by continually assessing, analyzing, and improving laws, regulations, and policies to ensure they are easy to understand, effective, and reflect today's dynamic market environment. Board Priority: Initiatives promoting public safety. POG #7: Improve the safety of people and property.</p>

Business Enterprise Strategic Initiatives and Primary Alignment

<p>Additional merchandise opportunities: Explore the potential of selling gift cards or other non-alcoholic merchandise. Evaluate the profitability and customer service aspects, and determine if any legislation will need to be proposed.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #5: Improve the economic vitality of businesses and individuals</p>
<p>Conduct WSQA Re-assessment: Three years after the initial assessment, measure what progress has been made based on the changes made in Business Enterprise areas of focus.</p>	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen the ability of state government to achieve results efficiently and effectively.</p>
<p>Kiosk: Pending the resolution of regulation questions, develop a small touch-screen computer system (much like the airport check-in) to be placed in select stores to provide a potential number of services to customers.</p> <ul style="list-style-type: none"> ● Information about all of the products in the store: varietals of wine, food pairings, drink recipes and responsible party planning tips ● Information on products that can be special-ordered, maybe even placement of orders ● Banquet permit applications, saving time for both customers and store personnel. ● Alternate language abilities to enhance access for non-English speaking customers. 	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology. Board Priority: Improving our agency operations and managing business growth. POG #5: Improve the economic vitality of businesses and individuals.</p>

Business Enterprise Strategic Initiatives and Primary Alignment

<p>Special Order System: In coordination with ITS, develop an Internet-based ordering and tracking system that would provide end-to-end order management and customer communication.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen the ability of state government to achieve results efficiently and effectively.</p>
<p>Secure Supplier Portal: In coordination with ITS, develop an Internet-based supplier portal that would provide current, supplier-specific data from the i-Series and other information sources about inventory levels, purchase orders, and delivery appointments.</p>	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen the ability of state government to achieve results efficiently and effectively.</p>
<p>Fully-integrated Agency Information System: Work across all agency divisions to encourage and contribute to the selection and implementation of a fully integrated IT system.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen the ability of state government to achieve results efficiently and effectively.</p>

Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>DC Software/Controls Support: Implement a comprehensive maintenance support program for software and control components, including programmable logic controllers, variable frequency drives, Star controllers, DeviceNet, and other warehouse software systems, for repair, upgrades, troubleshooting, and maintenance.</p> <p></p>	<p>LCB Goal: Maximize financial return to the state and local government by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen state government’s ability to achieve results efficiently and effectively.</p>
<p>DC Facilities/Building Maintenance: Implement an expanded building maintenance service to perform custodial, repair, and housekeeping functions throughout the facility while contributing to the material handling system preventive maintenance program, and fulfill requests for repair, upgrades, and maintenance, thereby maintaining the value of the property and facility.</p> <p></p>	<p>LCB Goal: Maximize financial return to the state and local government by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #5: Improve the economic vitality of business and individuals.</p>
<p>Reduce Cost of Carousel Maintenance: Implement a comprehensive in-house carousel maintenance program at a cost less than the existing limited program that is currently outsourced.</p>	<p>LCB Goal: Maximize financial return to the state and local government by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen state government’s ability to achieve results efficiently and effectively.</p>

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Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>Optimize and increase throughput, efficiency, and reliability of Material Handling System by making modifications and/or updating equipment and technology.</p> <p style="text-align: right;"></p>	<p>LCB Goal: Maximize financial return to the state and local government by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen state government’s ability to achieve results efficiently and effectively.</p>
<p>Contract Store Technology Refresh: The back-room PC’s in all 154 CLS are over six years old and have reached the end of their useful life. The LCB needs funding to lease this equipment on a four year refresh cycle and develop or purchase online reporting software that will comply with agency financial accounting standards, review commission structure as a possible source of funding as well as for any potential changes to ensure it is effective in promoting our mission.</p> <p style="text-align: right;"></p>	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>

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Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>Maintain current store service levels to maximize financial return and provide excellent customer service. To maintain the level of service and public safety to LCB customers and staff, we are requesting 21 additional FTEs per year beginning the 2009-2011 biennium.</p> <p style="text-align: right;"></p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>
<p>Store Location Strategy: Implement a refreshed store location strategy that takes into account refined market areas, established service levels, and key performance measures to monitor the effectiveness of decisions and establish operational priorities.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>

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Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>Embrace Alcohol Awareness Campaign: Develop and institute in all state stores a revolving awareness and educational program.</p>	<p>LCB Goal: Provide the highest level of public safety by continually assessing, analyzing, and improving laws, regulations, and policies to ensure they are easy to understand, effective, and reflect today’s dynamic market environment.</p> <p>Board Priority: Initiatives promoting public safety.</p> <p>POG #7: Improve the safety of people and property.</p>
<p>Develop Succession Plan: Develop a mentoring program, job rotation and job shadowing plan. Educate supervisors on how to tie in these new tools when evaluating staff. Be transparent when communicating to employees the link between job shadowing and the ability to compete for future promotions.</p>	<p>LCB Goal: Recruit, develop, retain and value a highly competent workforce.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>
<p>Store Standardization/Brand Image Transition: Determine optimal store type, size, configuration and develop a consistent checklist and key indicator report. In addition, work with Purchasing and Store Development to implement the necessary changes to stores as opportunity and funding allows.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>

Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>Communication Plan: Develop and implement a consistent means of communication to all division employees including District Manager, Store Manager and Asst. Manager and employees, as well as all contract store types across the entire sales network.</p>	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>
<p>Open Six New State Stores: In order to meet the ongoing demands of increased population in the 21-year-old and over bracket, the Liquor Control Board is requesting funding and staffing for six new stores in the 2009-11 biennium. An investment of about \$2 million per year will help the agency improve sales by about \$10.8 million annually when fully implemented.</p> <p style="text-align: right;"></p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #5: Improve the economic vitality of business and individuals.</p>

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Business Enterprise Strategic Initiatives and Primary Alignment	
Strategic Initiative	Alignment
<p>Store Equipment: In support of relocating and/or retrofitting 38 stores, many of the store fixtures will also need to be replaced as they are over twenty years old. Store display fixtures and signage affect the operational efficiency and customer experience. Funding is required to ensure revenue, service, and efficiency goals are realized in the new biennium period.</p> 	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>
<p>Store Transfer Program: Implement a program and appropriate policies/procedures to economically address the need for transferring product between stores across the State.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>
<p>Improve Tools for Store Management: Provide better tools and support to store management resulting in their improved understanding of their role in the agency and their ability to succeed through more clear communications, relevant training, and improved access to data.</p>	<p>LCB Goal: Create a culture that fosters excellent customer service, communication, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology.</p> <p>Board Priority: Improving our agency operations and managing business growth.</p> <p>POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>

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Business Enterprise Strategic Initiatives and Primary Alignment	
<p>Streamline Recruitment Process for Retail Staff: Work in partnership with Human Resources to improve the process for attracting, qualifying, hiring, and retaining a great workforce for State operated stores.</p>	<p>LCB Goal: Recruit, develop, retain and value a highly competent workforce. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>
<p>Increased public safety through the use of the latest technology that verifies the authenticity of presented ID. Review options to obtain electronic ID verification machines or ID verification software for each state owned liquor store point-of-sale terminal.</p>	<p>LCB Goal: Public Safety: The Board’s top priority is to promote public safety. The Board will strategically pursue activities in the coming biennium that reflect that priority. Board Priority: Initiatives promoting public safety. POG #7: Improve the safety of people and property.</p>
<p>Store Lease Expenses: Lease rates rose nearly 20% from 2005-2007 to the current 2007-2009 biennium. These increases are driven by demand for retail locations in our core market areas. The escalation is also amplified by the number of leases that were originally negotiated in the late 1990’s but are now up for renewal. Additional funding will be required to offset these unavoidable increases in operating expense.</p>	<p>LCB Goal: Maximize financial return to the state by running an efficient business operation. Board Priority: Improving our agency operations and managing business growth. POG #10: Strengthen government’s ability to achieve results efficiently and effectively.</p>



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Washington State Liquor Control Board

Mission

Contribute to the safety and financial stability of our communities by ensuring the responsible sale, and preventing the misuse of, alcohol and tobacco.

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