

Strategic Plan

(2012-2014 Version 1)

Department of Alcoholic Beverage Control (999)

Agency Plan

Mission Statement

The mission of the Department of Alcoholic Beverage Control is to control the distribution of alcoholic beverages; operate efficient, conveniently located retail outlets; enforce the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco products; and provide excellent customer service, a reliable source of revenue, and effective public safety.

Vision Statement

The vision of the Virginia Department of Alcoholic Beverage Control is to enhance the quality of life for Virginia's citizens by balancing control, service, and revenue, in the distribution, sale, and consumption of alcoholic beverages.

Values

- **Integrity**
ABC team members are fair and truthful in our dealings with each other and with all those outside the agency with whom we interact. We obey the laws, rules and regulations governing our activities. We make our behavior an example of trustworthiness.
- **Loyalty**
ABC team members are committed to "do the right thing" for the welfare of the agency and the citizens of the Commonwealth. We achieve personal and professional growth by advancing the interests of the organization.
- **Excellence**
ABC team members demonstrate a passion to be the best. We provide quality, professional service, and expect it from each other. We strive for and encourage quality improvement through innovation. We try to exceed customer expectations. We perform our duties with enthusiasm.
- **Teamwork**
ABC team members empower and support each other to accomplish agency goals. We treat each other with courtesy and respect. We anticipate the needs of others, encourage them to take risks, and help them to improve their skills. We candidly share with each other necessary or helpful information.

Information Technology

Current Operational IT Investments

ABC's information technology environment must enable the Agency's mission of control, service and revenue production. The Information Technology Services Division (ITSD) is responsible for developing specialized internal support systems, procuring applications and programs that support agency mission requirements, maintaining hardware and software, and providing client support services to all ABC facilities throughout the state.

ABC's major application systems that support the business functions of the agency and related performance measures include:

- **Point-Of-Sale System (POS)** - POS is the cash register system for 338 ABC retail stores. POS is involved with the collection of sales and revenue data and tracking inventory of products sold. This system interfaces with MOVE and MIPS and supports three of the four service areas of the Department.
- **MOVE (Warehouse Management)** - MOVE is the application that manages all inventory in the ABC warehouse and is utilized to select product to fill orders that are shipped to 338 ABC retail stores. MOVE is the application most directly involved with the service area of Alcoholic Beverage Purchasing, Warehousing and Distribution and the performance measures in this service area including inventory turns and warehouse productivity.
- **MIPS (Management of Inventory and Product Sales)** - MIPS is an application that maintains a perpetual inventory in all stores and is utilized to develop weekly orders to each ABC retail store based on history of prior sales and forecast future sales. MIPS interfaces with the MOVE and POS applications and supplies information for the performance measure related to percentage of stock outs in ABC retail stores.
- **WebCore (Computerized Organization of Resources for Enforcement)** – WebCore is a license management application that provides web-based services to ABC customers. ABC banquet license applications are processed directly through this system, in addition to extensive information for other types of ABC license applications. Performance measures in the enforcement and regulation service area are supported by WebCore.
- **CMS/IBR (Case Management System/Incident Based Reporting)** – The CMS/IBR application supports functions in the enforcement and regulation service area. Records of special agent activity including compliance checks, ABC license violations, and underage buyer violations are all maintained by this system. Key measures of underage compliance for retail alcohol sales are maintained and produced by the CMS/IBR application.
- **HRMS and MyABC (Human Resource Management System)** – HRMS and MyABC support multiple services for employees and track multiple human resource functions, including hiring, payroll, performance, training, and employee separation. The performance measure of agency turnover rate is obtained from the HRMS system.
- **Performance (financial management system for accrual accounting)** - Performance processes and maintains all financial accounting and fiscal functions of the agency. All service areas and business functions of the Department are impacted by the services provided by the Performance system. Preliminary planning to replace existing system includes assessment of Commonwealth Enterprise Solutions.

Most of ABC's unique applications are Java based, internally developed, and are tightly integrated into one environment through multiple interfaces. Applications change often based on statutory or regulatory changes, new business requirements, data interchange requirements, supplier and other external requests, and security updates. Because of ABC's integrated development environment, rapid change is the expected reality.

Factors Impacting the Current Agency IT

The ever-changing technology utilized for supply chain management is a key factor on ABC's long-term horizon. ABC has implemented automation and bar code scanning for product distribution and inventory management; however, other emerging technologies may play a role in the future.

- ABC must meet new higher information security standards set by COV-ITRM and the payment card industry data security standards (PCI-DSS) for control of sensitive information (credit card data). Requirements include upgrades to networks, firewalls, POS equipment, and ABC applications and programs. ABC must continually maintain compliance with PCI-DSS standards.

Proposed IT Solutions

Security Upgrade

Implementation of transformation recommendations and PCI-DSS requirements is mandatory in order to protect sensitive data of the citizens of the Commonwealth of Virginia and the credit card holder data ABC uses in conducting its business. Without this implementation, ABC is vulnerable to sustained prosecution by internet data criminal activity with risk of compromise and data loss. Such a catastrophic event subjects ABC and the Commonwealth of Virginia to extensive fines, penalties, and reduced revenues. The erosion of customer trust in the ability of ABC and the Commonwealth of Virginia to handle credit card holder and sensitive citizen data would be automatic, impacting ABC's ability to increase customer satisfaction and protection of the ABC revenue stream.

Information access and process improvements:

ABC continually assesses customer requirements to identify new demands for information and new business processes. While ABC's methodology is constantly evolving, assessments have indicated various customer groups expect more convenient access to store locations, access to information concerning product availability and pricing, improved availability of information on the web, reduced time for processing applications for licenses, and other services.

- Computerized Organization Resources (Core Rewrite) – upgrade the Core licensing system to Java. Core is a mainstream application for license payments, approvals, renewals and administration. The modules for cashier, admin, and LRM will be updated and rewritten from Delphi to Java, will interface with other enforcement applications, and will use account central for user authentication. The new environment will meet enterprise architecture standards.
- Java Conversions -General services application Java conversions will update an existing Power Builder to Java. The new application will consolidate, integrate and enhance functions and processes existing in current applications. The new system is to provide equal or better functionality than the current system.
- eCommerce -developing and implementing an electronic commerce strategy and service offerings. The roadmap lays out the customer service offering (i.e. licensee portal for spirit orders, on-line license applications, on-line payment systems, system to support special orders, and wine label approvals.) In addition, is the inclusion of the development of a dot com web site designed specifically for education regarding responsible consumption, educational content around craft spirits and liqueurs, revenue generation, and theme based events
- Electronic Content Management (ECM) and document management system (Sharepoint 2010) specifically related to contracting third party vendors to help scan and digitize a large volume of paper files within our License Record Management (LRM) group and our Hearings and Appeals division. This also includes the design and rollout of Sharepoint 2010 to support our document management initiatives.
- Business Intelligence to improve access to information, communication, data reliability, analysis, and data sharing. This specifically relates to incorporating the Business Intelligence module within Sharepoint 2010 to integrate with our data warehouse and data that is located on other system. The goal of this initiative is to develop an integrated system that provides customized dashboard reporting and generating data that allows the agency leadership team to make better business decisions.

Financial Overview

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. The state budget gives ABC the authority to spend in four services areas: Enforcement and Regulation of Alcoholic Beverage Control Laws, Administration and Support, Alcoholic Beverage Retail Stores, and Alcoholic Beverage Purchasing, Warehousing and Distribution. The Appropriation Act mandates a series of profit transfers to other state agencies as well as the Virginia State General Fund.

Budget Component	2013 GF	2013 NGF	2014 GF	2014 NGF
Base	0	531,954,464	0	531,954,464
Changes to Base	0	16,580,272	0	32,714,732
Total	0	548,534,736	0	564,669,196

Agency Goals

- Improve public safety through increased compliance and responsible consumption

Goal Summary and Alignment

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. This goal is the cornerstone of services to ABC licensees, compliance with alcohol and tobacco laws particularly for underage persons, and the responsible consumption by adults who choose to purchase ABC products. Prevention and education programs and services are provided for all ages through the educational and prevention materials and programs developed by the agency. The public safety goal closely aligns with the Council's objectives of protecting the public's safety and security, ensuring a fair and effective system of justice, and providing a prepared response to emergencies and disasters of all kinds. The prevention efforts in the public safety service area also align with inspiring and supporting Virginians toward healthy lives and strong and resilient families. All of ABC's strategic goals align with the objectives of engaging and informing citizens to ensure their interests are served.

Long Term Goal

Protect the public's safety and security, ensuring a fair and effective system of justice and providing a prepared response to emergencies and disasters of all kinds.

- Excellent Customer Service - Enhance services provided to agency customers and stakeholders

Goal Summary and Alignment

Quality customer service for ABC involves many of ABC's service areas. In the retail stores, ABC has focused attention on providing convenient locations to Virginia's growing population. Enhanced store design contributes to the current trends in the retail marketplace. ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores. This goal also addresses quality customer service beyond retail stores to licensees, customers, vendors, suppliers, citizens, law enforcement and municipalities in addition to internal employees as customer of each other. Statewide Goals Supported by this goal include engaging and informing citizens to ensure their interests are served, and being recognized as the best managed state in the nation.

Long Term Goal

Protect the public's safety and security, ensuring a fair and effective system of justice and providing a prepared response to emergencies and disasters of all kinds.

Be recognized as the best-managed state in the nation.

- Reliable Source of Revenue Growth - Generate increasing revenues while promoting sound business practices

Goal Summary and Alignment

ABC has evolved into a significant source of revenue resulting from store sales, license fees, penalties, and collection of taxes from wine and beer wholesalers. In FY 2011, ABC's sales surpassed \$692 million and total revenue contributions to the General Fund exceeded \$339 million for the first time in ABC's 75-year history. At the same time, ABC gives equal weight to maintaining the public's trust through strong internal controls and compliance with generally accepted accounting principles and state administrative procedures. The revenue goal aligns with the vision of responsible economic growth, and being a national leader in the preservation and enhancement of our economy and being recognized as the best-managed state in the nation. The revenue goal aligns with the objective of being a national leader in the preservation and enhancement of our economy. And all of ABC's strategic goals align with the objectives of engaging and informing citizens to ensure we serve their interests

Long Term Goal

Be a national leader in the preservation and enhancement of our economy.

Be recognized as the best-managed state in the nation.

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Long Term Goal

Be a national leader in the preservation and enhancement of our economy.

Be recognized as the best-managed state in the nation.

Programs and Service Areas for Agency

- 30403: Enforcement and Regulation of Alcoholic Beverage Control Laws
- 80101: Administrative Services
- 80102: Alcoholic Beverage Control Retail Store Operations
- 80103: Alcoholic Beverage Purchasing, Warehousing and Distribution

Customers

Pre-Defined Customer Group	User Specified Customer Group	Customers Served Annually	Potential Annual Customers	Projected Trend in # of Customers
Wholesale/Retail Trade	ABC Licensees	15,746	15,764	Increase
Adult	ABC Store Customers (annually transactions)	25,000,000	25,000,000	Increase

Organization	Prevention Groups (Community Service Boards)	35	35	Stable
Higher Education Institutions	Colleges & Universities	64	64	Stable
Local or Regional Government Authorities	City & County Law Enforcement Agencies	136	136	Stable
Federal Agency	Federal Law Enforcement Agencies	10	10	Stable
Local or Regional Government Authorities	Local City & County Governments	137	137	Stable
Alcoholic Beverage Distributor	Liquor and Wine Vendors	368	368	Stable
Wholesale/Retail Trade	Vendors & Suppliers other than liquor	3,850	3,850	Stable
State Agency(s),	State Government Agencies	37	37	Stable
Institute	Trade Associations	12	12	Stable
Adult	Senior Virginians -Over 65 years	976,000	976,000	Increase
Child	Virginia's under 21 population	2,300,000	2,300,000	Increase
Employee	ABC Employees as internal customers	2,511	2,511	Increase

Key Risk Factors

One of the most important issues facing ABC is the ability to attract and maintain a qualified work force. Employee turnover has improved but continues to be a concern in stores, warehouse, enforcement, technology and other key positions and is expected to worsen as the number of employees eligible for retirement increases. Turnover is compounded by an extremely competitive labor market and the fact that private sector wages continually outpace the state's ability to pay similar wages.

Like any state agency, funding is a continuing issue. As an Enterprise Agency, ABC does not receive any general funds. In ABC's case, the Appropriation Act does not allocate actual funds but grants authority to spend revenues generated through operations. Many of ABC's initiatives require additional authority to spend in order to improve services and generate additional profits for the Commonwealth. The opening of new stores is a one example of this type of investment. Increasing ABC's appropriation in recent years has allowed ABC to significantly improve services to the citizens and generate incremental gains in profits.

ABC is not immune to the national and state economic crisis. ABC store sales have consistently increased from year to year, however at a much slower rate than in previous decades. This is due in large part a substantial decrease in sales from mixed beverage licensees (e.g. restaurants). As a result of the economic recession, mixed beverage sales slowed during 2008 and 2009. Most recently, mixed beverage sales have rebounded and are showing slight growth through 2012. With retail sales showing slight but consistent gains from year to year, sales and profits for FY 2013 and beyond will be heavily impacted by continuous increases in mixed beverage sales.

Products and Services

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the annual issuance of nearly 16,000 licenses for retail establishments to sell wine, beer and spirits. In addition, over 17,000 licenses are issued annually for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted annually on 2,000 new business license applications, in addition to a thorough corporate investigation to ensure suitability for an ABC license.

ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues. ABC conducts aggressive compliance monitoring efforts related to the underage sale of alcohol by licensees and state stores in addition to underage sales of tobacco products by retail businesses.

A wide range of other compliance activities also includes illegal manufacturing and distribution (stills and nip joints), financial investigations and numerous other violations of state laws and regulations. ABC agents work collaboratively with local, state and federal law enforcement groups in these investigations. Agents also serve on state and federal task forces investigating drugs, gangs, and other criminal activity.

Trends

Rankings & Customer Trends

Of the 5.7 million legal age Virginians, approximately 50 percent consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 25 million customer transactions but it is not possible to know the frequency that individual customers visit and make purchases.

Population and economic growth and changing demographics are the primary driver of changes to ABC's customer base. In the next 10 years, the census bureau forecasts Virginia to grow over 900,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores. Historically, this growth has been focused between Northern Virginia and Tidewater, leading to a significant expansion of the store network in these areas. Consumption patterns also play an important role in ABC services. The number of distilled spirit products available in the marketplace has grown tremendously in recent years, which is contributing to slight increases in store size to ensure enough space is available to carry products to meet customer demand. At the same time per capita dollar and volume purchases have increased slightly in recent years and are expected to continue.

As the sole regulatory authority over the manufacture, transportation, distribution, sale and consumption of alcoholic beverages in Virginia, primary customers also include the 15,764 businesses licensed to sell alcoholic beverages in the Commonwealth. Among these are 4,365 restaurants required by statute to purchase distilled spirits from ABC stores. Population growth, as well as economic factors, influences the growth in the number of licensed establishments. The location of this growth has a significant influence on the number of ABC special agents needed in specific localities. While ABC conservatively forecasts that the number of licensees will grow by approximately 1,000 during the next ten years, the health of the economy can influence workload through license turnover, increased crime, etc.

ABC promotes zero tolerance for the underage consumption of alcoholic beverages and thus focuses on the 2.3 million Virginian's under the age of 21. Previous reports from the Journal of the American Medical Association (JAMA), those under 21 consume 20 percent of all alcoholic beverages sold in the United States. While significant strides have been made in licensee compliance with underage sales laws, most underage drinkers report older siblings and friends as the primary source of alcoholic beverages (primarily beer).

ABC is also concerned with adults who consume in an irresponsible manner because of public health and safety issues such as traffic accidents and fatalities, and the high correlation between sexual assaults, domestic violence, and other crimes in which the over consumption of alcoholic beverages is often an issue. While approximately 80 percent of the drinking population does so in a responsible manner, the remaining 20 percent consumes 83 percent of the alcoholic beverages sold in the United States

(JAMA). In Virginia during 2010, there were over 29,000 convictions with an average Blood Alcohol Content of .1425 (.08 is the legal limit).

ABC's other customers include other state, local and federal government agencies, other law enforcement agencies, public and private K-12 schools and colleges, the military and numerous prevention groups. In addition, ABC has a significant number of indirect customers including distilled spirits vendors, trade association representatives, landlords, and members of the media. The exact number of these stakeholders constantly changes and varies significantly by group.

Trend Name	Trend Area
Number of customers	Increase
Number of stores	Increase
Sunday sales	Increase

Performance Highlights: Service Performance & Productivity Initiatives

The Department of Alcoholic Beverage Control has a very diverse mission with an even more diverse customer base. Value creation activities, or those that provide direct services to customers, include: the control and distribution of alcoholic beverages, processing license applications, conducting enforcement and adjudication activities, accurately accounting for over 750 million dollars in revenues and a host of integrated internal support processes.

Compliance with youth access to alcohol and tobacco continues to show improvement, increasing from 77 percent in 2002 to 90 percent in 2011. In ABC stores, compliance rates are even higher, exceeding 97 percent in 2011. The time taken to process hearings cases decreased nearly 24 percent from 2010 to 2011, as measured by the date the ABC violation was referred for a hearing to the completion of the hearings process. Despite being in a regulatory environment, customer surveys indicate licensee satisfaction has averaged 94 percent over the last three biennial survey cycles with a similar amount (93 percent) believing ABC agents provide clear guidance about how to maintain compliance with state law and agency regulations.

Store customer satisfaction is also very high, averaging 92 percent (Very Satisfied) over the last three biennial survey cycles. Between 2007 and 2011, ABC opened 25 new stores and relocated 31 stores, which means over 98 percent of Virginians are within 10 miles of an ABC store. At the same time, ABC modernized (remodeled) 60 and expanded the number of products available for sale leading to high marks from customers in the areas of product availability, convenience of locations, hours of operation and store layout and design. The increase in service quality generated significant increases in revenues and profitability. Between 2002 and 2011, sales increased 71 percent and revenues returned to the Commonwealth increased 78 percent. At the same time, ABC places a very high priority on fiscal accountability. Through strong internal controls and effective process management, ABC has received only two written audit points from the Auditor of Public Accounts in the last four years.

Management Discussion & Analysis

Future Direction, Expectations, and Priorities

ABC's future direction will continue to be centered on its mission and strategic goals of public safety, customer service, revenue growth and sound business practices, and employee management and development. In the area of public safety, continued emphasis is on reducing youth access to alcoholic beverages and tobacco products (particularly through older friends and relatives) and maintaining the high rate of compliance by ABC stores.

In the area of customer service, ABC will continue to focus on improving customer satisfaction by opening new stores, improving the number of stores meeting service and design standards, and ensuring that products in demand are available for sale. In the area of new stores, the rate of increase will slow significantly from 2012 to 2014 as ABC seeks only to maintain service levels comparable with population growth. ABC's priority will shift from opening new stores to improving the shopping environment in existing stores using a set of consistent design standards. ABC's enforcement and adjudication functions also have a role in improving customer service. ABC will continue to focus on improving license application processing time, violations and hearings processing time and expanding licensee interactions with agents through increased inspections. Additionally, special agent staff time will be used to improve the audits and inspections of the wholesaler and mixed beverage licensees.

Managing agency revenue growth, internal controls and business processes will continue to be a priority for the agency. Agency initiatives based on Virginia's Agency Risk Management Internal Control Standards (ARMICS) provides guidelines for establishing and assessing agency internal controls to more effectively manage risk and maintain accountability. Identification and mapping of business processing, assessing risks and developing corrective actions as necessary are significant initiatives requiring ongoing staff commitment across the agency. Requirements exist for improving computer security from both administration mandates and external sources such as the Payment Card Industry requirements. Reaching compliance with these requirements has significant cost implications; however severe penalties for violations and infractions.

30403: Enforcement and Regulation of Alcoholic Beverage Control Laws

Description

This service area for ABC is defined by the services and functions of the Bureau of Law Enforcement including Education, License Records Management, and the Hearings and Appeals Division. For public safety, ABC's strategic priorities have included the aggressive promotion of zero tolerance for underage access and consumption of alcohol and tobacco, the promotion of responsible selling and serving by ABC licensees, and responsible consumption by adults. The Enforcement Division is the second largest division at ABC, consisting of over 241 sworn and civilian employees (135 classified and 106 wage). There are 113 classified employees who are sworn agents with full police authority. Ninety-three percent of the wage employees are Student Undercover Agents (civilian) used for the Underage Buyer Program.

Service Area Products/Services

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the issuance of licenses to retail establishments and restaurants to sell wine, beer and spirits. Licenses are also issued for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted on the individuals associated with the business license application, in addition to a thorough corporate investigation to ensure suitability to be issued an ABC license.

- o ABC issues annual licenses to over 16,136 businesses and retail establishments to sell alcoholic beverages in the Commonwealth.
- o ABC annually issues over 18,000 one-day banquet and special event licenses.
- o ABC conducts background investigations to issue 2,000 new retail, wholesale, and special permit licensees on an annual basis.

A wide range of other compliance and investigative activities surrounding the illegal manufacturing and sales of alcohol (stills and nip joints), financial investigations and numerous other violations of state laws and regulations. ABC agents work collaboratively with local, state and federal law enforcement groups to investigate illegal and criminal activity in licensed establishments. Agents also participate with state and federal law enforcement investigations and task forces related to anti-drug, alcohol, and tobacco issues. Annually, ABC conducts over 8,700 compliance checks of businesses and licensees concerning underage sales of alcohol and tobacco. ABC's Compliance section also reviews and approves all wine and beer products.

ABC's public safety mission is also apparent in the retail store environment. Direct services include the aggressive prevention of sales to underage and intoxicated persons. Indirect services include the overall management of per capita consumption through environmental factors such as limiting the number of outlets, hours of availability, and promotional activities.

Prevention and education services provided by ABC include specialized training, free educational materials, and direct monetary grants. Training examples include training to local law enforcement agencies on the alcohol laws, annual conferences designed to coordinate college prevention efforts, and direct programming such as Seller/Server Training for ABC licensees. Tens of thousands of posters, brochures and other printed materials are available to key communities including K-12 schools, colleges, business and community groups free of charge. All print materials can be ordered via ABC's website and many are available for download via an extensive electronic library.

- o ABC Education creates and distributes nearly 200,000 pieces of prevention literature annually to licensees, schools, and the general public.
- o ABC Education section conducts training for nearly 2,000 of ABC licensees and servers of alcohol on responsible selling and serving.
- o Participates in the Youth Alcohol and Drug Abuse Prevention Project (YADAPP), and the College Alcohol Leadership Council. These efforts are partnerships between various state agencies, educational institutions and ABC that have continued to shape alcohol prevention efforts for more than 25 years.

Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention.

ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues and collects civil penalties and fees. ABC conducts aggressive compliance monitoring efforts related to the underage sale of alcohol by licensees and state stores in addition to underage sales of tobacco products by retail businesses.

Mission Alignment and Authority

This service area directly aligns with the ABC mission of controlling the distribution of alcoholic beverages and enforcement of the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco.

Customers for this Service Area

Anticipated Changes to Customers Base

Population growth, legislation changes and economic factors, influence the growth in the number of licensed establishments. Furthermore, the location of this growth has a significant influence on the number of ABC special agents needed in specific localities. ABC conservatively forecasts that the number of licensees will grow by approximately 1,000 during the next ten years; however, the health of the economy can influence workload through license turnover, increased crime, etc. In the next 10 years, the census bureau forecasts Virginia's population to grow over 900,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide effective law enforcement and compliance services.

Enabling legislation has expanded the categories for wholesalers, importers and shippers from 300 in 2006 to more than 1,100 in 2010. Regulatory functions for these licensees include licensing investigations, trade practices enforcement, inspection reviews and financial audits for accurate tax transmission.

Part of ABC's mission is to promote zero tolerance for the underage consumption of alcoholic beverages, which creates a customer base of 2.3 million Virginian's under the age of 21. Previous reports from the Journal of the American Medical Association (JAMA) claim those under 21 consume 20 percent of all alcoholic beverages sold in the United States. While significant strides have been made in licensee compliance with underage sales laws, most underage drinkers report older siblings and friends as the primary source of alcoholic beverages (primarily beer). ABC works with numerous prevention groups, K-12 schools, colleges and general public to address this underage issue.

ABC is also concerned with adults who consume in an irresponsible manner because of public health and safety issues such as traffic accidents and fatalities, and the high correlation between sexual assaults, domestic violence, and other crimes in which the over consumption of alcoholic beverages is often an issue. A new and growing initiative for prevention and education services is the senior population. Older adults face distinct and often underestimated risk factors for alcohol misuse. These age related factors range from life-changing events, such as retirement or bereavement, to mixing alcohol with prescription and over the counter medications. While approximately 80 percent of the drinking population does so in a responsible manner, the remaining 20 percent consumes 83 percent of the alcoholic beverages sold in the United States (JAMA). In Virginia during 2010, there were over 29,000 convictions with an average Blood Alcohol Content of .1425. (.08 is the legal limit)

Current Customer Base

Pre-Defined Customer Group	User Specified Customer Group	Customers Served Annually	Potential Annual Customers	Projected Trend in # of Customers
Wholesale/Retail Trade	Businesses licensed to sell alcoholic beverages	17,248	17,248	Increase
Aged	Senior population	977,000	977,000	Increase
Adult	Adult alcohol consumers	25,000,000	25,000,000	Stable
Organization	Prevention Groups (Community Service Boards)	35	35	Stable
Higher Education Institutions	Colleges and Universities	64	64	Stable
Local or Regional Government Authorities	School facilities across the state from kindergarten to high school	2,222	2,222	Stable
Local or Regional Government Authorities	City and County Law Enforcement Agencies	136	136	Stable
Federal Agency	Federal Law Enforcement Agencies	10	10	Stable
Organization	Customers for prevention messages	2,300,000	2,300,000	Stable

Partners for this Service Area

Partner	Description
<i>No partners currently entered in plan</i>	

Products and Services

Factors Impacting the Products and/or Services

The current number of sworn positions remains below 2003 levels, and has remained constant for the past eight years, despite a growing population and customer base. Additionally, large numbers of retirements, increased per-agent workloads and significant competitive salary issues with other local and federal law enforcement agencies all impact the delivery of public safety, regulatory monitoring, and compliance of ABC statutes.

The Enforcement division strives to increase productivity and continuously monitors agent activity (e.g. licenses issued, investigations conducted) per labor hour. However, the quality of an investigation and the administrative time spent documenting an investigation greatly impact downstream activities such as management review and administrative hearings. The ability to hire additional agents would mitigate the risk of decreased compliance with statutes and regulations, and increased numbers of agents leaving for jobs with higher salaries and fewer responsibilities in other state, local and federal law enforcement agencies.

Anticipated Changes to the Products and/or Services

Staffing issues have had a major impact on the delivery of services related to enforcement and public safety. The Compliance Unit is comprised of Special Agents responsible for regulation and enforcement that pertain specifically to the industry at the wholesale, manufacturer, importer and direct shipper level. Due to legislation and expanding categories of direct shippers and Internet shippers, licensees have increased from 300 in 2006 to more than 1,100 in 2010 with further growth expected. Even with the increase in licensees, agent staffing of this unit has remained static, resulting in delayed or reduced investigations and audits.

The licensee application process remains a critical performance measure for this service area. Based on recommendations by a process improvement team, all enforcement regional offices now utilize a civilian licensee technician to organize and conduct the preliminary licensee applicant investigation. Licensee technicians designed as the first point of contact for customers clarify information needed and reduce the amount of time to process the application. Utilizing these civilian positions shifts functions from sworn agents in a cost beneficial improvement impacting agent's workload and improved customer satisfaction.

The Enforcement Bureau continues to embark on a statewide accreditation program that will benefit the agency by setting standards and the framework for best practices and standardized processes throughout the Bureau. The accreditation process contributes to a high standard of organizational excellence of the Baldrige criteria and has prompted improvements in operations protocol, development of procedure manuals, an increase in cross-training of administrative duties, and changes in organizational structure. The Bureau's office of Policy and Planning has been instrumental throughout the accreditation process, while continuing to ensure laws and regulations are being followed through internal investigations, audits, compliance reviews and policy development.

In conjunction with other work units, mainly Information Technology Services division, the Enforcement division expects to change the way it delivers basic licensing services and carries out training and education programs. Several key proposed changes include:

- Development of a fully functional Electronic Commerce (eCommerce) system for all types of license applications would reduce administrative processing time and vastly improve customer service. Evaluation of this project is underway and includes the option for applicants to use credit/debit cards for payment of license/permit taxes and fees.
- Delivering on-line training and education to support RSVP (Responsible Sellers and Servers: Virginia's Program) and MART (Managers' Alcohol Responsibility Training). Utilizing web technologies would redirect agent time for enforcement and investigative work, reduce the cost required to deliver training, and increase standardization of training across the state.
- Improving Enforcement's web presence and communication channels to include electronic media. Planned improvements will better represent ABC Enforcement responsibilities to licensees, other law enforcement organizations and citizens of the Commonwealth.
- Utilizing electronic content management to more efficiently process applications, research customer inquiries, and improve access to records amongst internal work units.

Listing of Products and / or Services

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the issuance of licensees to sell wine and beer to retail establishments and restaurants for the wine, beer and spirits. Licensees are also issued for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted on the individuals associated with the business license application, in addition to a thorough corporate investigation to insure suitability to be issued an ABC license.

A wide range of other compliance and investigative activities also includes illegal manufacturing and distribution (stills and nip joints), financial investigations and

numerous other violations of state laws and regulation. ABC agents work collaboratively with local, state and federal law enforcement groups in these investigations. Agents also serve on state and federal task forces investigating anti drug and other criminal activity.

ABC's public safety mission is also apparent in the stores environment. Direct services include the aggressive prevention of sales to underage and intoxicated persons. Indirect services include the overall management of per capita consumption through environmental factors such as limiting the number of outlets, hours of availability, and promotional activities.

Prevention and education services provided by ABC include specialized training, free educational materials, and direct monetary grants. Training examples include training to local law enforcement agencies on the alcohol laws, annual conferences designed to coordinate college prevention efforts, and direct programming such as Seller/Server Training for ABC licensees. Hundreds of thousands of posters, brochures and other printed materials are available to key communities including K-12 schools, colleges, business and community groups free of charge. All print materials can be ordered via ABC's website and many are available for download via an extensive electronic library.

Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention.

ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues. ABC conducts aggressive compliance monitoring efforts related to the underage sale of alcohol by licensees and state stores and underage sales of tobacco products by retail businesses.

Financial Overview

Budget Component	2013 GF	2013 NGF	2014 GF	2014 NGF
Base	0	0	0	0
Changes to Base	0	0	0	0
Total	0	0	0	0

Objectives for this Service Area

Objectives for this Service Area

Objective

Increase compliance with underage alcohol and tobacco laws

Description

Increase the compliance rate with underage alcohol and tobacco laws. ABC issues licenses to sell wine and beer to retail establishments and restaurants for wine, beer and spirits. In addition, licenses are issued for one-time special events to sell wine, beer and spirits. ABC monitors compliance of licensees with Virginia ABC laws and regulations and issues violations for non-compliance. Effective July 1, 1997, legislation added tobacco enforcement responsibilities to the agency mission including enforcing the state law that prohibits the purchase or possession of tobacco products by minors or the sale of tobacco products to minors. This objective focuses on ABC's efforts to promote zero tolerance for the underage consumption of alcoholic and prohibiting the sale of tobacco products to minors. This objective supports the following agency goals: Goal 1 Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption

Objective Strategies

- § Annually conduct 4,800 alcohol and tobacco underage buyer compliance checks.

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Underage buyer compliance rate for retail alcohol licensees

Measure Class **Agency Key** Measure Type **Outcome** Preferred Trend **Increase** Frequency **Annually**

Data Source and Calculation

Number of Underage Buyer sales divided by the number of total Underage Buyer checks. Source: Data Warehouse

- Underage buyer compliance rate for retail tobacco sales

Measure Class **Other Agency** Measure Type **Outcome** Preferred Trend **Increase** Frequency **Annually**

Data Source and Calculation

Number of Underage Buyer sales divided by the number of total Underage Buyer checks. Source: Data Warehouse

Objective

Reduce administrative processing time for ABC licensee customers

Description

ABC issues licenses to retail establishments and restaurants for the sale of wine, beer and spirits. In addition, licenses are issued for one-time special events to sell wine, beer and spirits. The license process has multiple steps to complete that are required by statutes and regulations for the citizen requesting the licensee, the Special Agents conducting the investigation, and the Licensee Record Management managing the process. Process improvement efforts in the past year identified staffing of licensee technicians as a significant way to improve processing time. ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues. The purpose of this objective is streamlining administrative licensing and adjudication processes while balancing the interests of public safety with customer service.

Objective Strategies

- Add one special agent to the Office of Policy & Planning to improve standard processes for agency customer service and develop a framework for best practices in law enforcement.
- Begin cross training staff to expedite decisions through team editing and distribution of decisions electronically.
- Create more contiguous hearing dockets with less travel time for ABC staff.
- Develop standards and criteria for violation reporting and processing time prior to submission to Hearings.
- Expand the part time licensee technician positions to full time in eight regions.
- Increase the use of settlement options and use of video teleconference hearings.

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Days to process a new retail licensee application

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Number of days from receipt of license application to approval. Source: Data Warehouse

- Days from the date of ABC violation to the completion of the hearings process

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Average time in days totaled for 4 stages from violation to the completion of the hearings process. Source: Data Warehouse

80101: Administrative Services

Description

This service area is defined by the services and functions provided by the following divisions:

- Public Affairs responds to media and citizen comment, communication of information internally and externally and the design, writing, graphics and production of prevention and education materials.
- Human Resources services include hiring, employee evaluation, workers compensation and safety, benefits administration, employee relations, and internal employee training.
- Information Technology Services provides development, maintenance and stable operations of computer systems and timely help desk support for end users.
- Property Management Services includes preventive facility maintenance to protect ABC assets and management of the store leasing process for ABC store locations. Opening of new stores, relocation of stores, and renovation of stores is also a major service responsibility. This division manages environmental policy and the agency environmental management implementation plan.
- Procurement and Support Services includes the purchasing of goods and services for internal operations and the delivery of supplies to stores and central office.
- Policy, Planning & Analysis services include development of store location strategy, agency business plan, customer/stakeholder satisfaction surveys, operational reports and process improvement.
- Financial Management Services is responsible for all fiscal functions including payroll, budgeting, cash receipts, cash disbursements and financial reporting.
- Tax Management section audits and collects the wholesale wine and malt beverage taxes for all wine and beer amounting to over \$74 million per year.
- Internal Audit has agency-wide responsibility for identifying risk, assisting management in developing proper internal controls, conducting agency administrative reviews and investigating all state hotline complaints.

Mission Alignment and Authority

This service area supports the public safety, customer service and revenue focus of the mission through the management of internal support processes.

Customers for this Service Area

Anticipated Changes to Customers Base

This service area supports the work of employees who in turn, support the mission related functions of the agency. Consequently, changes in the customer base in other service areas will have a direct impact on this service area.

The demographics of ABC's workforce are generally consistent with the overall state workforce. Nearly 76 percent of all employees are over the age of 40, 42 percent are female and 31 percent are minorities. The average age of an ABC classified employee is 48 years old, with an average length of service at 12 years. ABC has a high number of retirement-eligible employees: 106 employees (11 percent of FTE positions) eligible to retire today, 47 employees (5 percent of FTE positions) within the next five years and an additional 63 employees (6.5 percent FTE positions) eligible within 10 years.

The turnover at ABC has decreased over the past two years and is now considerably lower than industry norms. Average turnover for the retail industry is 54 percent; however ABC retail wage positions have a turnover rate of 28.2 percent. Turnover for Virginia's classified employees averages 10.8 percent while the ABC average is 6.7 percent. The reduction in agency turnover is attributed to improved employee morale, access to training, utilization of the agency's Reward & Recognition program, and a shrinking job market outside of ABC. Each year, the agency experiences recruiting challenges for several specific positions. Typically, wage employees for the Stores division are difficult to find and retain. Recently, hard-to-fill classified positions have included IT Programmer/Analyst (Information Technology Specialist II and III), Maintenance Repair Worker (Trade Tech. III), Order Selectors (Stores and Warehouse Specialist II) and Master Mechanic (Trade Tech IV).

One of the most critical drivers of turnover relates to employee compensation. Recent studies have demonstrated that state employees are compensated, on average, 20-25 percent below the private sector in comparable industries. In addition, significant salary compression and inversion situations as well as other internal inequities exist. Both issues have had a significant negative impact on ABC employees, and over 20 percent of all turnover, due to voluntary resignations, is a result of a new job with a higher salary. For ABC, competitors for employment include most retail establishments (store employees), local and federal law enforcement agencies (sworn agents), IT and Fortune 500 companies (IT staff), and other state agencies (Central Office employees).

Current Customer Base

Pre-Defined Customer Group	User Specified Customer Group	Customers Served Annually	Potential Annual Customers	Projected Trend in # of Customers
Wholesale/Retail Trade	Liquor and Wine Vendors	368	368	Stable
Wholesale/Retail Trade	Vendors and Suppliers other than liquor	3,850	3,850	Stable
State Agency(s),	State Government Agencies	37	37	Stable
State Agency(s),	ABC Stores	338	338	Increase
Employee	Employees (FT and Part-Time)	2,505	2,505	Decrease

Partners for this Service Area

Partner	Description
No partners currently entered in plan	

Products and Services

Factors Impacting the Products and/or Services

Increasing population: the continued growth in revenue and profits is directly correlated to store expansion and remodeling with the ability to carry products in demand by consumers. As population and demographics change, store locations will need to adjust accordingly. For example, in Northern Virginia the population is projected to significantly increase which translates to the need for the placement of additional retail stores. New stores are expected to continue to be the cornerstone for sales growth.

Continued funding for new store openings and store modernization is necessary to continue the demonstrated sales revenue increase. Increasing population also impacts regulatory requirements through growth in the number of licensed establishments as well as increasing numbers of legal, underage and irresponsible consumers.

Central agency mandates: compliance and implementation for the Agency Risk Management Internal Control Standards (ARMICS) will require ongoing staff commitment across the agency. Stage 2 documentation for all significant fiscal processes and Stage 3 corrective action plans will take considerable efforts in the next two years. In addition, expenses such as General Assembly mandated pay raises, changes in health care costs, and VITA charges are sources of expense inflation that reduce profitability.

Anticipated Changes to the Products and/or Services

ABC is already using e-commerce to provide web-based application and payment processing for the banquet licensing process. ABC expects to explore the feasibility of additional opportunities such as other license applications, licensee ordering, wine label approval, and retail sales to the public. The primary driver of these e-commerce opportunities will be the financial viability of the proposal taking into consideration process efficiencies and the increased cost of credit card processing.

Growing revenues and maintaining accountability and the public's trust continue to be a priority for ABC. The growth in stores and new items continues to produce record levels of sales and revenue contributions to the state. In FY 2011, ABC's sales exceeded \$692 million and total revenue contributions for the state exceeded \$339 million for the first time in ABC's 75-plus year history. At the same time, ABC gives equal weight to maintaining the public's trust through strong internal controls and compliance with generally accepted accounting principles. For the past three years ABC has received one written audit point from APA audits in addition to no repeat compliance issues being reported in the quarterly comptroller's report. For the past several years the agency has maintained 99 percent rate or better for prompt payment of accounting vouchers.

Employee management and development is a critical part of the balanced scorecard is the management and development of the workforce. In this area, ABC's priorities have included, developing better ways to recognize and reward high performing employees, improving diversity, improving the health and safety of ABC's employees, and expanding learning opportunities. As required by the Baldrige criteria, ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses a biennial survey based on a survey of organizational health developed by the state of Texas. ABC supplements this information with employee focus groups that provide further details on issues of importance to employees. In response to an issue relating to communication, ABC started an email bulletin that each employee receives as frequently as weekly.

Listing of Products and / or Services

Revenue growth and internal controls: growing revenues and maintaining accountability and the public's trust continue to be a priority for ABC. The growth in stores and new items continues to produce record levels of sales and revenue contributions to the state and localities. In FY 2009, ABC's sales surpassed \$665 million and total revenue contributions to the General Fund exceeded \$322 million for the first time in ABC's 75-year history. In the last five years, ABC has contributed \$1.7 billion in revenues to the Commonwealth. At the same time, ABC gives equal weight to maintaining the public's trust and protection of agency assets through strong internal controls and compliance with generally accepted accounting principles.

Employee management and development: a critical part of the balanced scorecard is the management and development of the workforce. In this area, developing better ways to recognize and reward high performing employees, improving diversity, improving the health and safety of ABC's employees, and expanding learning opportunities. As required by the Baldrige criteria, ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses a biennial survey based on a survey of organizational health developed by the state of Texas. ABC supplements this information with employee focus groups that provide further detail on issues of importance to employees. The leadership team then reviews employee concerns and issues and develops an action plan for issues that can reasonably be addressed. For example, in response to an issue relating to communication, ABC started an email bulletin that each employee receives and recently expanded the agency intranet to be an active communication and resource tool for employees.

Financial Overview

Budget Component	2013 GF	2013 NGF	2014 GF	2014 NGF
Base	0	34,624,294	0	34,624,294
Changes to Base	0	545,812	0	545,812
Total	0	35,170,106	0	35,170,106

Objectives for this Service Area

Objectives for this Service Area

Objective

Increase transfers of profits and taxes

Description

As an Enterprise Agency, ABC operates much like a private business using performance metrics to monitor activity throughout much of the organization. ABC generates revenues in the form of profits and taxes including, state taxes, sales tax, wine liter tax and malt beverage tax. These funds are transferred to the General Fund, other state agencies and localities on an annual basis. Estimates of these revenues are included in the Governor's Annual Estimate of Revenues, based on forecasts prepared by ABC.

Objective Strategies

- Develop an operating budget at the beginning of each fiscal year and monitor monthly.
- In FY 2013 open 5 new stores and in FY 2014 open 5 new stores.
- Where beneficial to the Commonwealth from a financial and legal perspective, add stores to be open for business on Sunday.

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Amount of profits & taxes annually transferred from ABC to the General Fund.

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

ABC Profits plus state taxes plus general sales tax equals contributions to General Fund.

Objective

Maintain compliance and reduce employee turnover in a manner consistent with applicable state and federal requirements

Description

This is based in the Management Scorecard that grades agencies on six criteria: Human Resources Management, Government Procurement, Financial Management, Technology, Performance Management, Environmental & Historic Resource Stewardship

Objective Strategies

- Annually in October review management letters from the APA audit and implement corrective actions in order to avoid audit points in future.
- Continue to analyze causes of turnover for wage employees through increased exit interviews and revise plans to address priority issues by FY 2011.
- Continue to provide SWAM procurement training and ABC Vendor Fair.
- Provide education for managers about DOA Compliance Report and the significance for compliance.
- Review quarterly DOA compliance report and take immediate corrective action.

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Mmanagement points assessed by Auditor of Public Accounts audit

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

APA Annual Audit Report

- Number of times ABC is out of compliance on Department of Accounts Compliance Report

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

DOA Compliance Report

- Number of times ABC is out of compliance on DOA Compliance Report

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

DOA Compliance Report

- Classified employee turnover rate

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Number of employees separated in 12 months divided by the number of classified employees in the same 12-month period. Source: Data Warehouse

- Wage employee turnover rate

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Number of employees separated in 12 months divided by the number of wage employees in the same 12-month period. Source: Data Warehouse

80102: Alcoholic Beverage Control Retail Store Operations

Description

This service area aligns with the ABC mission in regards to operating efficient, conveniently located retail outlets, providing excellent customer service and generating revenue for the Commonwealth.

Services Include:

- Operate over 330 retail stores throughout the state, controlling access to distilled spirit products in the Commonwealth.
- Ensure equitable service throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability
- Provide over 3,300 products for sale including non alcoholic mixers and Virginia Lottery tickets.
- Service 4,000 restaurants licensed to sell mixed beverages in the Commonwealth.
- Conduct over 25 million customer transactions generating in excess of \$730 million in sales in FY 2012.

Mission Alignment and Authority

This service area supports the public safety, customer service and revenue focus of the mission through the operation and management of retail stores.

Customers for this Service Area

Anticipated Changes to Customers Base

Of the 5.7 million legal age Virginians, approximately 50 percent consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 25 million customer transactions but it is not possible to know the frequency that individual customers visit and make purchases. As the sole regulatory authority over the manufacture, transportation, distribution, sale and consumption of alcoholic beverages in Virginia, primary customers also include the 4,300-plus restaurants required by statute to purchase distilled spirits from state stores. Population growth, as well as economic factors, influences the growth in the number of licensed establishments

In this service area, a priority for this biennium has been the expansion of the store network. Throughout most of the 1980's and 90's, the number of ABC stores remained constant as the population of Virginia grew. During the last eight years, ABC expanded its network using a sophisticated planning model that uses a combination of geographic, demographic and financial analysis to identify specific locations that can increase service and maximize profitability. Presently, the population served by each ABC store is equivalent to levels in the mid-80's and will continue to improve through the end of FY 2014. By the end of FY 2015, ABC plans to open 20 new profitable stores. At the same time, ABC created a design team to develop a more professional look for existing stores. During the last three years, 7 stores have been opened and 64 modernized or relocated and numerous others have received additional lighting to improve the shopping environment.

Demographic and economic growth is the primary driver of changes to ABC's customer base. In the next 10 years, the census bureau forecasts Virginia to grow over 900,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores. Historically, this growth has been focused between Northern Virginia and Tidewater, leading to a significant expansion of the store network in these areas. Consumption patterns also play an important role in ABC services. The number of distilled spirit products available in the marketplace has grown tremendously in recent years, which is contributing to slight increases in store size to ensure enough space is available to carry products to meet customer demand. At the same time, per capita dollar and volume purchases have increased slightly in recent years and are expected to continue during the planning horizon.

Current Customer Base

Pre-Defined Customer Group	User Specified Customer Group	Customers Served Annually	Potential Annual Customers	Projected Trend in # of Customers
Wholesale/Retail Trade	Mixed Beverage Licensees	4,365	4,365	Increase
Adult	ABC Store Customers (annually transactions)	25,000,000	25,000,000	Increase

Partners for this Service Area

Partner	Description
<i>No partners currently entered in plan</i>	

Products and Services

Factors Impacting the Products and/or Services

Changing Marketplace

The overall retail environment influences the public's expectation of ABC's shopping environment. Survey and comment cards indicate that customer's desire improved lighting and appearance of ABC stores to make them more like a private retail establishment. In addition, the growth in distilled spirit products in the market place means ABC has to adjust the breadth and depth of its product line to meet customer demand and maintain sales growth.

Expense Trends

Like any business, changes in expenses can influence ABC's ability to generate profits. Some expenses such as the purchase of additional merchandise, capital investments in infrastructure, and the opening of new stores can contribute to positive revenue growth and since FY 2007 sales have grown by 31 percent. Other expenses such as General Assembly mandated pay raises and changes in health care costs, mandatory rent escalations, fuel increases, and VITA service 4 percent to 9 percent annually, and similar trends are expected in the future. With this concern in mind, ABC monitors operating expenses closely and has been able to hold its annual expense to sales ratio steady at 20 percent over the last 5 years.

Additional issues relate to the Appropriation Act by the General Assembly, which raises ABC's profit estimates without regard to expense trends or current sales trends and the estimate cannot be reached without increased revenues. Sales in FY 2013 are currently forecast to reach \$758 million, 3 percent higher than 2012, however consumer behavior is very difficult to estimate and forecast, particularly during the holidays in a weak economy. ABC currently estimates total revenue contributions to the state of \$337 million for FY 2011.

Anticipated Changes to the Products and/or Services

ABC expects to continue to expand the number of stores during the biennium to achieve and maintain a one store per 23,000-person ratio. By the end of FY 2011, the number of ABC stores reached 338 and the store network will need to grow by five stores per year to maintain service levels throughout the next biennium. ABC also expects continued growth in the variety of products offered in the marketplace and individual ABC stores that may necessitate slightly larger store sizes in the future.

Workforce Factors

Given the volume of growth expected in the stores, the agency projects additional new classified positions within the next two years and further increases over the next ten years. Wage employees will need to increase to support this growth as well. Succession planning will also dictate how the agency prepares for the 5 percent of retirement-eligible employees who can retire within the next five years, and the 6.5 percent eligible to retire in ten years. Key positions identified for succession planning include Regional Managers (most are expected to retire), Director and Assistant Director positions.

The 2004 General Assembly provided legislative for Sunday sales resulting in 50 ABC stores opening for business on Sundays, beginning July 4, 2004. In September 2007 an additional 37 stores in northern Virginia and Tidewater began Sunday sales contributing to both customer service and increased revenue. As of FY2011, a total of 131 ABC stores are open on Sundays in northern Virginia, Tidewater, and the City of Richmond. As of July 1, 2012, the General Assembly passed legislation expanding the number of ABC stores operating on Sundays statewide. This resulted in increased recruitment and retention efforts, as additional P-14 staff are being used to fill gaps where current employees are unable to work, refuse to work or leave the agency.

Listing of Products and/or Services

ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. ABC expects to utilize software tools specifically tailored to the development and distribution of category management plans. As a result, stores will be able to easily determine where any product they carry is to be placed on the shelf and the number of facings recommended for each product (based on average sales).

E-Commerce

To improve customer service and decrease operating costs, ABC anticipates utilizing electronic commerce technologies for licensee and retail customer orders. According to a statewide survey, more than two thirds of licensees indicated being likely to place orders through an ABC Web application (68 percent), an increase of 12 percentage points since 2002. Citizens were less likely to use the feature to order liquor items (36 percent somewhat to very likely); however, implementation of a web-based solution could be an opportunity to exceed customer expectations for a portion of the agency's vast product line (e.g. Special Order Catalog). Similar to project evaluation efforts agency-wide, a thorough review of requirements, benefits and projected expenses will be conducted in FY 2012 to determine if these initiatives will create a significant return on investment. Currently an on-line licensee ordering system is in production with more than 400 licensees using the system.

Listing of Products and / or Services

Service Area Description This service area aligns with the ABC mission in regards to operating efficient, conveniently located retail outlets, providing excellent customer service and generating revenue for the Commonwealth. **Service Area Products and Services** Include: Operate 338 retail stores throughout the state, controlling access to distilled spirit products in the Commonwealth. Ensure equitable service throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability. Provide over 3,300 products for sale including non alcoholic mixers and Virginia Lottery tickets. Service over 4,300 restaurants licensed to sell mixed beverages in the Commonwealth. Conduct over 25 million customer transactions generating in excess of \$692 million in sales in FY 2011.

Financial Overview

Budget Component	2013 GF	2013 NGF	2014 GF	2014 NGF
Base	0	86,304,002	0	86,304,002
Changes to Base	0	1,634,460	0	3,268,920
Total	0	87,938,462	0	89,572,922

Objectives for this Service Area

Objectives for this Service Area

Objective

Maintain ABC store underage buyer compliance

Description

Increasing the rate of compliance of ABC stores with ABC's ID checking policy and underage sales laws have been a priority because of the high number and frequent turnover of part-time store clerks. To address this issue, ABC utilizes an in-house training program called Retail 101 to provide clerks with training on how and when to check ID's. ABC Special Agents conduct underage buy checks at ABC stores in addition to the Mystery Shopper Program compliance checks. ABC's policy is to request identification when customers appear to be under the age of 30.

Objective Strategies

- ABC agents to train new ABC store employees about underage buyer compliance.
- Annually visit all ABC stores for underage buyer compliance.

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Underage buyer compliance rate for ABC Stores

Measure Class **Other Agency** Measure Type **Outcome** Preferred Trend **Increase** Frequency **Annually**

Data Source and Calculation

Objective

Increase customer satisfaction

Description

Quality customer service for ABC involves many of ABC's service areas. In the stores area, ABC has focused attention on providing convenient retail stores to Virginia's growing population. Using a sophisticated planning model that utilizes GIS mapping technology, ABC has opened 22 stores in the last three years and is planning on continuing with growth in the next biennium (but at a slower rate). ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. ABC measures customer satisfaction in several areas and continues store modernizations.

Objective Strategies

- ABC agents to train new ABC store employees about underage buyer compliance.
- Annually conduct in-store customer surveys.
- Annually visit all ABC stores for underage buyer compliance and customer service delivery.
- By FY 2011, develop training for store employees on customer service and product knowledge.
- Continue development of a product knowledge web site and electronic training program that would reward employees for completion.
- In FY 2011 and FY 2012 open a total of 10 new stores.

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Number of stores meeting service standards compliance rate.

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Number of stores checked divided by the Mystery Shopper Program and the number of stores meeting service standards.

- ABC store density rate based on the population

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Virginia population divided by the number of ABC stores equals population per ABC Store. Source: US Census and ABC New Store Business Plan.

- Overall customer satisfaction with ABC Stores by biennial in-store customer survey results

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Percent of store customers responding "very satisfied" on store survey. Source: Data Warehouse

80103: Alcoholic Beverage Purchasing, Warehousing and Distribution

Description

The primary services for this area center around two main functions: 1) Product distribution including receiving, storing and distributing product through the warehouse, and 2) Product management including product listings, pricing, discounts, inventory management, shelf management and several others.

- ABC manages a 300,000 square foot central distribution center in Richmond and an inventory of over 3,300 products with an average inventory exceeding 250,000 cases and a volume exceeding 3.7 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 12,000 cases with seasonal spikes exceeding 22,000 cases per day during the Christmas holiday season.
- For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 330 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC's warehouse. ABC processes receipts from vendors averaging over 10 tractor-trailer loads per day and processes vendor payments of over \$270 million annually.
- Product Management Services include product pricing, discount programs, vendor promotions, product inventory, merchandising to include shelf management, displays and central inventory management. ABC offer special order services such as in-store specialty item catalogs and special orders for merchandise not carried by ABC.

Mission Alignment and Authority

This service area directly aligns with the ABC mission of controlling the distribution of alcoholic beverages and enforcement of the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco.

Customers for this Service Area

Anticipated Changes to Customers Base

ABC expects to continue to expand the number of stores during the biennium to achieve and maintain a one store per 23,000-person ratio. Currently there are 338 ABC stores. ABC will be opening 20 new profitable stores by FY 2015 to achieve and maintain the ratio.

Population growth is also a driver of changes in customer base. Of the 5.7 million legal age Virginians, 50 percent consume alcoholic beverages and are potential customers of ABC. In the next 10 years, the census bureau forecasts Virginia to grow over 900,000 people. Demographic trends such as the aging of the population may also be a factor in changing ABC's customer base.

Current Customer Base

Pre-Defined Customer Group	User Specified Customer Group	Customers Served Annually	Potential Annual Customers	Projected Trend in # of Customers
State Agency(s),	ABC Stores	338	338	Increase
Wholesale/Retail Trade	ABC Mixed Beverage Licensees	4,365	4,365	Increase
Adult	ABC Store Customers (annually transactions)	25,000,000	25,000,000	Increase
Wholesale/Retail Trade	Liquor and Wine Vendors	368	368	Stable

Partners for this Service Area

Partner	Description
<i>No partners currently entered in plan</i>	

Products and Services

Factors Impacting the Products and/or Services

For the warehouse, the most important critical success factors are the capacity to maintain an adequate inventory of the variety of products in demand and the ability to efficiently move the products from receipt to shipment. In recent years, the growth in the number of items available for sale, the increase in sales volume, the increase in number of stores, and workforce issues created significant problems that were impacting ABC's customer service and revenue.

The number of items carried by the Department has almost tripled in the last two decades, growing from approximately 800 items in 1981 to over 3,300 currently. The Department's growth in product lines is consistent with national trends and new items have contributed significant incremental revenues from retail and licensee customers. The dynamic nature of the distilled spirits market is expected to continue as distillers develop more innovative ways to market their product.

The warehouse employs approximately 80 employees, both classified and wage, and continuously recruits for Order Selectors. The warehouse is responsible for "picking" or filling orders by the stores for cases of alcohol, and then loading the trucks for delivery. Turnover is high due to the manual requirements of the work environment and a high level of worker's compensation injuries.

In 2004, ABC utilized a distribution consultant to analyze its throughput and capacity limitations and develop an RFP for racking and automating the 300,000 square foot central distribution center. The system has been operational since August 2005. The new system significantly expands storage capacity for existing and new items and uses automation to improve labor productivity and reduce injuries that result in lost time from work, medical expenses and increasing insurance premiums. ABC continues to maximize through put, square footage for additional products and closely monitoring labor used for distribution.

Anticipated Changes to the Products and/or Services

Virginia ABC projects that the number of products will approach 4,000 in the next ten years as distillers seek innovative ways to expand the marketplace to compete with

beer and wine. By 2014, ABC expects a 40 percent growth in the number of orders and a double digit increase in volume. The automated system currently in use gives ABC the capacity and throughput to meet this increase. ABC welcomes the expansion in products based on the potential for improved customer service and additional profits for the Commonwealth. However, annual increases in product lines translates into an increased emphasis on forecasting, retail space utilization and the ability to meet customer demands for special order items.

Listing of Products and / or Services

The primary services for this area center around two main functions: 1) Product distribution including receiving, storing and distributing product through the warehouse, and 2) product management including product listings, pricing, discounts, inventory management, shelf management and several others.

For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 330 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC's warehouse. ABC houses over 250,000 cases in its Richmond warehouse and ships over 3.9 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 12,000 cases with seasonal spikes exceeding 23,000 cases per day during the Christmas holiday season.

Financial Overview

Budget Component	2013 GF	2013 NGF	2014 GF	2014 NGF
Base	0	393,567,223	0	393,567,223
Changes to Base	0	13,900,000	0	28,400,000
Total	0	407,467,223	0	421,967,223

Objectives for this Service Area

Objectives for this Service Area

Objective

Provide efficient and effective warehouse and inventory management

Description

ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores. ABC maintains a 97 percent plus stock of product inventory in a store. Products are stored in a central warehouse in Richmond and shipped to retail stores throughout the state. Inventory turns measures the number of times capital invested in goods to be sold turns over in a year. Increasing inventory turns reduces holding costs and impacts profitability. Items that turn over more quickly increase responsiveness to changes in customer requirements while allowing the replacement of obsolete items.

Objective Strategies

- Annually improve shipping accuracy
- Develop training program for Store Managers on inventory management

Alignment to Agency Goals

No Agency Goals for this Objective

Measures

- Product inventory annual turn rate

Measure Class Measure Type Preferred Trend Frequency

Data Source and Calculation

Costs of goods sold divided by average inventory. Source: Data Warehouse