

2016-18 Strategic Plan

Virginia Alcoholic Beverage Control Authority [999]

Mission

The mission of the Department of Alcoholic Beverage Control is to generate a reliable stream of revenue for Virginia and promote public safety through the responsible sale and regulation of alcoholic beverages.

Vision

The vision of the Virginia Department of Alcoholic Beverage Control is to bring good spirits and excellent service to Virginia.

Values

Accountability	We build trust by delivering on our promises
Service	We take pride in our role as public servants and put customers, both internal and external, first in all we do.
Integrity	We are fair, consistent, transparent and treat each other with respect.
Performance Excellence	We are innovative, collaborative and strive to improve every day.

Finance

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.

Biennial Budget

	2017 General Fund	2017 Nongeneral Fund	2018 General Fund	2018 Nongeneral Fund
Initial Appropriation for the Biennium	0	679,243,186	0	695,697,605
Changes to Initial Appropriation	0	1,100,000	0	2,652,236

(Changes to Initial Appropriation will be 0 when the plan is created. They will change when the plan is updated mid-biennium.)

Customers

Anticipated Changes to Customer Base

Current Customer List

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
Adult	ABC Store Customers (annually transactions)	30,000,000	31,000,000	Increase
Adult	Adult aged 21 years and older	6,500,000	6,500,000	Stable
Aged	Senior population (65 years and older)	1,106,894	1,106,894	Stable
Employee	Employees (FT and Part-Time)	3,278	3,278	Stable
Federal Agency	Federal Law Enforcement Agencies	10	10	Stable
Higher Education Institutions	Colleges and Universities	69	69	Stable
Local or Regional Government Authorities	Local public and private law enforcement agencies	328	328	Stable
Local or Regional Government Authorities	School facilities across the state from kindergarten to high school	1,887	1,887	Stable

Organization	Customers for prevention messages	7,898,688	7,898,688	Stable
Organization	Prevention Groups (Community Service Boards and Community Coalitions)	61	61	Stable
State Agency(s),	ABC Stores	364	364	Increase
State Agency(s),	State Government Agencies	37	37	Stable
Wholesale/Retail Trade	ABC Mixed Beverage Licensees	4,000	4,100	Increase
Wholesale/Retail Trade	Businesses licensed to sell alcoholic beverages	18,947	19,500	Increase
Wholesale/Retail Trade	Active Suppliers of Spirits, Wine & Mixers	268	268	Stable
Wholesale/Retail Trade	Vendors and Suppliers other than liquor	2,346	2,346	Stable

Partners

Name	Description
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Agency Goals

• Improve public safety through increased compliance and responsible consumption

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 agency's law enforcement and education and prevention activities support the Governor's Strategic Enterprise Priorities in the area of Public Safety and Homeland Security--protecting our citizens and ensuring everyone lives in a safe community.

Associated State Goal

Government and Citizens: Be recognized as the best-managed state in the nation.

Associated Societal Indicator

Government Operations

Objectives

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

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. 2014 Governor's Strategic Enterprise Priorities supported by this goal include delivering high-quality products and services to customers in a timely manner and encouraging user-friendly on-line services for all citizens.

Associated State Goal

Public Interest: Engage and inform citizens to ensure we serve their interests.

Objectives

» Increase customer satisfaction

Description

Quality customer service for ABC involves many of ABC's service areas. In the area of retail operations, 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 opened seven stores in FY 2014 and plans to open seven more in FY 2015. 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. Over the past ten years, Sunday hours have been expanded and stores with significant evening retail traffic have had operating hours extended to as late as 9 PM. ABC measures customer satisfaction in several areas and continues to remodel stores and expand operating hours where appropriate.

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.
- Continue development of a product knowledge web site and electronic training program that would reward employees for completion.

Measures

- ◆ ABC store density rate based on the population
- ◆ Percentage of stores meeting service standards compliance rate.

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

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. Total revenue contributions to the Commonwealth have surpassed \$1.8 billion in the last five years, and in FY 2014, ABC's sales surpassed \$800 million. 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. ABC's revenue goals support the Governor's Strategic Enterprise Priorities as they relate to customer service and fiscal stewardship. The agency consistently strives to deliver high-quality products and services to customers in a timely manner while managing public resources efficiently and effectively in challenging economic conditions.

Associated State Goal

Government and Citizens: Be recognized as the best-managed state in the nation.

Associated Societal Indicator

Government Operations

Objectives

» **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. Products are stored in a central warehouse at ABC headquarters 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. On average, ABC stores maintain a product service level over 97 percent. This translates into less than a three percent product stockout rate, based on each store's list of products to be sold.

Objective Strategies

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

Measures

- ◆ Cases shipped per warehouse labor hour
- ◆ Product inventory annual turn rate

» **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 and other state agencies on an annual basis. Estimates of these revenue collections are included in the Governor's Annual Estimate of Revenues, and are based on forecasts prepared by ABC.

Objective Strategies

- Develop an operating budget at the beginning of each fiscal year and monitor monthly.
- Add 15 new stores in FY 2017 and FY2018.

Measures

Major 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 or renewal of almost 19,000 licenses for retail establishments to sell wine, beer and spirits. In addition, over 24,000 licenses were issued in FY 2016 for one day banquet and 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. Approximately 70% of agent activity is spent on regulatory compliance, conducting background investigations, license suitability and inspections of licensed establishments. When violations occur or license 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. In FY 2016, the alcohol compliance rate for retail licensees was 91%, an increase from 87% in FY 2015.

ABC is responsible for a wide range of other compliance activities including 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.

Performance Highlights

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 almost \$900 million dollars in revenues and a host of integrated internal support processes. Contributions to the Commonwealth in FY 2016 totaled \$164.8 million in profit transfers, \$147.8 million dollars in state taxes, \$41.3 million dollars in general sales tax, \$36.2 million dollars in wine liter taxes and \$43.1 million dollars in malt beverage taxes.

Since 2010, compliance rates with youth access to alcohol and tobacco have ranged between 85% and 91%. In ABC stores, compliance rates are even higher, exceeding 97 percent in FY 2016. Related to ABC's regulatory compliance role, the Hearings and Appeals Division collected \$708,050 in civil penalties in 2016.

Most Recent Accomplishments

Fiscal Year 2016 marked ABC's 18th consecutive record-setting year with gross sales of almost \$898 million, a \$49 million increase over last year. Profits also rose to \$164 million, an increase of \$13 million over the previous fiscal year. ABC profits, combined with state taxes, sales tax, and wine and beer taxes, resulted in an all-time high of \$433 million transferred to Virginia's general fund - up \$24 million from the previous year. The eight new stores that opened during the fiscal year generated a total of \$4.3 million in sales.

ABC achieved its first milestone of the Authority Transition at the end of FY 2016 with the completion of the initial phase of the project. Phase 1 involved agency partner, Human Dynamics Consulting, meeting individually with the Board, executive leadership and directors to 1) get a better sense of the agency's objectives, 2) document key roles and responsibilities and objectives, and 3) identify organizational opportunities as a result of the upcoming transition to an Authority structure.

In FY 2016, ABC opened eight new stores resulting in an ABC store being conveniently located within 10 minutes for more than 93% of Virginians. During this time, ABC continued to expand the number of products available for sale in its retail stores, including special orders and products available to order on-line via the agency's newly-redesigned website. In addition to modernizing four stores and expanding three stores, ABC opened an additional Premier store in FY 2016, for a grand total of four premier stores throughout the state (Leesburg, Williamsburg, Richmond, and Virginia Beach). Premier stores feature design themes reflective of the unique characteristics of the stores' locations and incorporate innovative retail space planning techniques. The increase in service quality has generated significant increases in revenues and profitability.

House Bill 896, passed during the 2012 legislative session, allowed the Board to open any ABC retail location on Sunday. In Fiscal Year 2016, all ABC stores were open on Sundays with the exception of three primarily licensee stores. Total Sunday sales increased by \$3.2 million, or 6.5%, from Fiscal Year 2015 to Fiscal Year 2016. A retail division process improvement in the management of closeout merchandise resulted in the movement of over 488,000 bottles, for a total of \$3 million in sales. The number of designated "Special Order Stores" that regularly carry specialty items (previously available only by request) was also expanded in an effort to make them more accessible to customers and to increase sales.

On the marketing front, ABC's new Spirited Virginia consumer-facing brand, promoted through a quarterly magazine, monthly e-newsletters and a social media campaign, was developed as part of the agency's commitment to inform consumers about the wide range of products sold in stores. The e-newsletter has drawn approximately 20,000 subscribers.

ABC's Bureau of Law Enforcement received accreditation from the Virginia Law Enforcement Professional Standards Commission (VLEPSC) in late 2015. Administered through the Virginia Department of Criminal Justice Services, the accreditation process is a thorough inspection and review of agency policies, procedures, processes and operations as defined by 190 stringent standards. With this accreditation, the Bureau joined an elite group of less than 100 accredited law enforcement agencies in the Commonwealth.

Finally, the agency was the recipient of three technology awards in FY 2016. The 2015 VITA Project Excellence Award was presented to ABC for its Point of Sale (POS) Environment Upgrade, a project which began with extensive research in 2013 and was tasked with bringing store point-of-sale systems up to date with modern technology and safety protocols and in line with Commonwealth security requirements. The agency also won the Governor's Technology Award in the Innovative Use of Big Data and Analytics category at the 2016 Commonwealth of Virginia Innovative Technology Symposium (COVITS). The winning project provided ABC cost savings and risk mitigation through the elimination of outdated information technology reporting software. It also reduced paper reports, increased information sharing among divisions, eliminated repetitive work and decreased data request bottlenecks. ABC also won the Web Marketing Association's 2015 Web Award for Outstanding Achievement in Web Development. The agency, in conjunction with its CapTech Consulting partners, won the award in the categories of Government Standard of Excellence and Shopping Standard of Excellence, and was mentioned for the website serving as an outstanding tool for customer service, alcohol awareness and more.

Staffing

Authorized Maximum Employment Level (MEL)	0
Salaried Employees	1037
Wage Employees	2241
Contracted Employees	8

Key Risk Factors

Appropriation Act profit transfer requirements for Fiscal Year 2017 are \$152.4 million. Risks to meeting this profit requirement include economic declines and weather fluctuations, particularly during the holiday season, unforeseen increases in expenses as ABC transitions from a state agency to an Authority, projected increases in expenses in improving information technology infrastructure and related audit points, and the central office and warehouse facility reaching capacity.

The General Assembly approved multiple projects to upgrade ABC's infrastructure and further invest in business operations. These projects include the implementation of retail and marketing strategies to increase customer service and enhance revenue, increased website capabilities, the procurement of a new financial management system, the procurement of a new licensing system, and the upgrade of electrical circuitry in agency facilities. These projects are a considerable undertaking, but are imperative to further solidify ABC as a continued source of significant revenue for the Commonwealth.

ABC expects expenses to continue to increase in Fiscal Year 2017. Expenses such as store rents will increase because of contractual escalation clauses and the addition of new stores. Employer portion of health insurance cost will also increase about 9.5% over Fiscal Year 2016. ABC also expects an increase in logistics related expenses, such as additional staff and freight charges, due to the continued expansion of stores and increasing sales volume. The expectation for significant and continued investment in information technology continues as ABC advances existing and future systems and associated infrastructure

Management Discussion

General Information About Ongoing Status of Agency

The Virginia Alcoholic Beverage Control Authority Act of 2015 mandated that ABC transition its operating structure from that of an executive branch agency to a codified Virginia Authority. The authors of the legislation intended for it to permit ABC to provide greater value to citizens of the Commonwealth through enhanced service and profitability enabled by an Authority structure. Per the Act and a subsequent amendment to the law, this transition will begin January 15, 2018 and run through December 31, 2018. As stated in the Authority Transition Act and the strategic plan, the goal of this transformation process is to better enable Virginia ABC to best meet the needs of ABC stakeholders in a more agile, efficient and profitable manner.

With help from the Community College Workforce Alliance, ABC undertook a four-month strategic planning cycle in October 2015. This planning process paired employees with previous experience in strategic planning with division directors to explore strategic opportunities from a divisional perspective. Through stakeholder analysis and environmental scanning, each division identified opportunities to support strategic pillars established by the ABC Board. A total of 71 initiatives with varying degrees of complexity were initially submitted to a committee of six agency senior leaders who evaluated and prioritized the initiatives. The committee selected 41 initiatives to be executed by the agency over the coming two and a half years, assuming funding for initiatives remains a part of the agency's budget.

The ABC Board met with executive leadership to understand top strategic concerns gathered from division directors and established the following strategic pillars to serve as guideposts for the strategic plan:

- Authority: Execute a seamless transition to an Authority structure
- Brand: Develop ABC brand to balance revenue creation and public safety

- Infrastructure: Reinvest in our people, technology and facility infrastructure
- Public Safety: Regulate and educate ABC licensees to ensure public safety
- Sales and Profits: Achieve \$1 billion in sales by the end of fiscal year 2018

Under the Authority Strategic Pillar, ABC expedited an initiative to redesign the organizational structure and processes to assume an effective operating authority structure. It was decided that this procedure would be expedited to a business already under contract with the Commonwealth. Considerations for the restructure include personnel capabilities, potential fiscal and human capital required to achieve goals, and proper planning to communicate with the statewide budget planning process. The agency will be integrating financial management systems to capitalize on efficiency of policy and procedure changes throughout the organization. In compliance with the changes to the Authority Act, the ABC Board will be a part-time board of five members including a Chief Executive Officer (CEO) position.

Under the Brand Strategic Pillar, the agency will continue to develop its brand image through the success of its newly designed website, communicating alcohol education initiatives, and effectively increasing product knowledge by providing distilled spirits expertise to retail store customers. The agency has started brand development by embarking on an exploratory brand research project, scheduled for the summer of 2016. The exploratory brand research will solicit feedback from the agency's various stakeholder groups, to include retail customers, citizens, licensees and ABC employees.

Under the Infrastructure Strategic Pillar, ABC will systematically consider changes in internal structure needed to most effectively and efficiently meet strategic and operating objectives. A Center of Excellence will be created for project portfolio management, policy development, and data analysis. This process will result in more rapidly communicating business decisions. A project management office will be created to be the center of initiation and management of enterprise level IT projects. The central office and warehouse facility are currently nearing the maximum capacity and serviceability. A space utilization project and logistical capacity study was completed in 2016 to find alternative options for the future. Then, the Appropriations Act of 2017 (Item C-52.45) directed DGS and ABC to develop a plan to provide cost-effective, efficient, turnkey options for a new ABC warehouse and administrative offices. The plan may include leasing existing facilities, building new facilities, or renovating the existing facilities. In conjunction with DGS, two Request for Proposals (RFPs) were released on June 9, 2017 with responses due back to DGS by August 11, 2017. The plan is due to the General Assembly on November 1, 2017.

Under the Public Safety Strategic Pillar, ABC will continue to achieve and maintain directives adopted by the Governor. Recommendations that will be executed in the upcoming years include prioritizing regulatory activities with licensees, agent training, maintaining accreditation, increasing higher education outreach, implementing body cameras, and expediting license suspensions in the case of immediate public safety concerns. As of June 2017, ABC has issued a total of 5 summary suspensions that ultimately ended in the voluntary surrender of licenses. The agency's Education and Prevention section will collaborate with the Bureau of Law Enforcement to encourage licensees to engage in responsible serving practices through online training. Additionally, the Hearings, Appeals, and Judicial Services Division will increase the efficiency of Judicial Affairs to more efficiently process cases.

Under the Sales and Profits Strategic Pillar, 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. ABC will increase incremental sales and profits through several changes to include emphasizing special order product management, enhancing the portfolio of existing products for retail stores and the website, and taking advantage of industry trends toward premium products. A comprehensive real estate plan will be updated to ensure the proper number of stores to maximize potential revenue. In the next two years, ABC plans to open 20 new profitable stores in strategic locations to grow incremental sales rather than cannibalizing sales from existing stores.

Information Technology

In FY 2016, ABC kicked off the ABC Modernization and IT Reinvestment program which focuses on updating many core legacy systems to improve reliability and flexibility of the enterprise. Over the next five years, several major sequential projects will replace the majority of the agency's technology portfolio with a goal to reduce long-term cost and risk. Large-scale modernization projects currently underway include the implementation of retail and marketing strategies to increase customer service and enhance revenue, the procurement of a new financial system, and the procurement of a new licensing system. ABC continues its focus on expanding online services for additional customer groups, automating manual processes and enhancing e-commerce capabilities. Though a considerable undertaking, these efforts are imperative to solidifying ABC as a consistent source of revenue for the Commonwealth. Furthermore, requirements exist for improving computer security from both administration mandates and external sources such as the Payment Card Industry requirements. 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. Reaching compliance with these requirements has significant cost implications; however severe penalties for violations and infractions.

Estimate of Technology Funding Needs

Workforce Development

ABC has initiated strategic workforce planning that addresses current gaps in the organization's workforce as well meets future staffing demands of the Authority. Approximately 11.2% of ABC employees were retirement eligible as of June 30, 2016 and 22.3% are eligible for retirement within five years. It is believed that there may be significant attrition due to retirements as of the effective date of the Authority transition. The agency will need to take steps to ensure that the necessary organizational knowledge is retained with operational documentation and appropriate cross-training.

The Authority transition gives ABC the opportunity to examine how it compensates its employees. As part of this process, the Authority is exploring compensation methods that tie into individual and organizational performance. Additionally, the agency is exploring government and private industry best practices for compensation, paid time off and holidays. In analyzing workforce needs, ABC has also conducted a salary survey of a cross section of positions to benchmark current compensation levels.

ABC expanded its leadership training to include an exclusive program for supervisors and managers. Following a pilot program for 18 managers in March 2016, the Human Resources Division launched its Supervisor Academy in June. The academy provided participants with the tools and resources necessary to enhance their knowledge and skills in the methods they use to communicate with and supervise others. The LAMP (Leadership and Management Program) program, designed to build leadership skills for current employees who possess the competencies required to perform in key roles and to foster a culture conducive to the agency's forward movement, graduated its fourth annual cohort of participants in 2015.

Physical Plant

The Central Office and warehouse facility currently in use by the agency is nearing the end of its useful life in terms of serviceability and capacity. To prepare options for the future, the agency commissioned a space utilization and logistical capacity study to identify and analyze alternative options for central office and warehouse facility going forward. The study, conducted by F. Curtis Barry & Co., reviewed the requirements for warehouse and central office operations and weighed the options for extending the life of the current facility versus the construction of a new facility. The findings concluded that a new facility would need to consist of more square footage and accommodate modern office and warehousing concepts. The findings also supported language found in the Appropriations Act of 2017 (Item C-52.45) which directed DGS and ABC to develop a plan to provide cost-effective, efficient, turnkey options for a new ABC warehouse and administrative offices.

ABC opened eight new stores in 2016, including one additional premier store for a total of four larger, upscale premier stores. In addition, four stores underwent modernization, three were expanded, and ten stores were relocated. ABC plans to open 20 new profitable stores during fiscal years 2017 and 2018.

Supporting Documents

Title	File Type
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Enforcement and Regulation of Alcoholic Beverage Control Laws [30403]

Description of this Program / Service Area

This service area for ABC is defined by the services and functions of the Bureau of Law Enforcement and License Records Management. For public safety, ABC's strategic priorities have included the 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 113 sworn agents with full police authority, 81 non-sworn/civilian employees, and 20 wage (part-time) employees. Not included in these numbers are ninety eight (98) wage employees serving as Student Undercover Agents (civilian) used for the Underage Buyer Program. The Bureau of Law Enforcement and License Records Management serves customers out of 10 regional offices throughout the state, as well as Virginia ABC's central office located in Richmond. The public safety goal supports the Governor's Strategic Enterprise Priorities in the area of Public Safety and Homeland Security—protecting our citizens and ensuring everyone lives in a safe community.

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.

- ABC issues annual licenses to almost 19,000 businesses and retail establishments to sell alcoholic beverages in the Commonwealth.
- ABC annually issues over 24,000 one-day banquet and special event licenses.
- ABC conducts background investigations to issue over 2,000 new retail, wholesale, and special permit licensees on an annual basis.
- ABC agents conduct training for nearly 2,000 of ABC licensees and servers of alcohol on responsible selling and serving.

ABC monitors compliance of licensees with Virginia ABC laws and regulations and issues violations for noncompliance. 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.

A wide range of other compliance and investigative activities handled by ABC agents include 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 more than 3,700 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.

Mission Alignment

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.

Products and Services

Description of Major 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 issuance of licenses 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.

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.

Anticipated Changes

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:

- A new Licensing System will enhance and streamline the Licensee/Permittee experience as customers will be able to conduct business with us electronically at a time and place that is convenient for them. A new system will support all business processes related to the collection, processing, and regulatory enforcement of licenses and licensees, and will provide a method for licensees and permittees, new and existing, to conduct business electronically with the agency. The new Licensing system will replace several legacy agency systems (e.g. CORE, eLFI (MBAR), Licensee Search, Invize, eBanquet, and regulatory functioning of Case Management System) with a platform that is more supportable, scalable, and accessible on multiple devices.
- Capitalizing on newly developed on-line training for RSVP (Responsible Sellers and Servers: Virginia's Program) and MART (Managers' Alcohol Responsibility Training). Utilizing web technologies redirects agent time for enforcement and investigative work, reducing 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 in content on ABC's website and social media channels 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.

Effective July 12, 2012, the agency centralized the processing of retail applications from regional offices to the central office in Richmond. The goals of this initiative were to improve processing time, develop standard processing requirements to improve consistency, and to free up valuable special agent time for more important law enforcement priorities. At this point in the program, positions have been hired, duties and procedures have been defined and all application work is processed centrally.

The agency is currently in the process of evaluating proposals to furnish, implement and provide on-going support for a commercial off-the-shelf (COTS) Licensing system. Virginia ABC's current regulatory licensing and permitting solution consists of numerous disjointed, internally developed applications. These applications support Virginia ABC's mission-critical processes for administering Virginia ABC laws with an emphasis on public service and a focus on protecting citizens by ensuring a safe, orderly and regulated system for convenient distribution and responsible consumption of alcohol. A new system will allow Virginia ABC to operate its critical business processes on a modern, scalable, and supported platform.

The Enforcement Bureau continues to maintain the 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. They have been instrumental since the initial accreditation process, while continuing to ensure laws and regulations are being followed through internal investigations, audits, compliance reviews and policy development.

Factors Impacting

The current number of sworn positions remains below 2003 levels, despite a growing population and customer base. Additionally, large numbers of retirements, increased per-agent workloads, and significant competitive salary issues with other local, state and federal law enforcement agencies all impact the delivery of public safety and compliance of ABC statutes. The problems associated with agent turnover are exacerbated considering the extensive field training and ABC law instruction new agents receive upon hiring.

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. Furthermore, a new licensing system will ensure agent time is spent on investigations and providing customer service to licensees.

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. This service area has an appropriation of \$18,426,945 which is 3.1 percent of the total agency appropriation. Biennial Budget

Biennial Budget

	2017 General Fund	2017 Nongeneral Fund	2018 General Fund	2018 Nongeneral Fund
Initial Appropriation for the Biennium	0	18,673,377	0	18,673,377
Changes to Initial Appropriation	0	0	0	0

Supporting Documents

Title **File Type**

Administrative Services [80101]

Description of this Program / Service Area

This service area is defined by the services and functions provided by ten divisions/work units:

The Communications Division serves as an advisor to leadership in maintaining the agency's image and reputation. The division is responsible for internal and external communications, media relations, photography and graphic design. Key functions include producing the annual report, *Spirited Virginia* Magazine and licensee e-newsletter and maintaining the internal SharePoint news page with fresh content. Creative services include developing posters, brochures, booklets and direct mail pieces that support agency initiatives.

Human Resources provides services to employees in the areas of recruitment and selection, safety, employee relations, compensation, benefits, compliance with federal and state laws, policy development, human resource information systems, and training and development.

The Information Technology (IT) Services Division supports the agency mission through the delivery of IT technical services in seven service areas including project management, software engineering, quality assurance, enterprise architecture, enterprise data and reporting, and IT operations and business management.

The Real Estate and Facilities Management Division is responsible for maintaining the agency's central office, warehouse and its more than 364 retail stores. Specifically, the Division administers the retail store site selection process, negotiations, leasing and lease administration, and implements facility management and maintenance of the central office, retail stores/ regional offices; and construction/ fixture installation for new stores, relocations, and modernizations. The division also manages environmental policy and the agency's environmental management implementation plan.

Procurement and Support Services supports ABC's business units by ethically, prudently, competitively and strategically guiding the spending of agency funds for quality goods and services excluding alcohol and real property. The division is also responsible for the agency's records retention and disposition efforts, its supply and equipment warehouse, high volume copying, and mail services.

Policy, Planning & Analysis manages and coordinates the analysis, development and maintenance of agency policies; leads the agency in developing, updating, and reviewing its strategic plan; spearheads internal and external customer satisfaction research; and conducts process improvement efforts.

Education and Prevention Section's mission is to reduce underage and high-risk drinking by building the capacity for communities to educate individuals and prevent alcohol misuse. The section works to accomplish this by providing alcohol education and prevention information through publications and media, strategic planning, trainings, conferences, grants and resources. The section distributes nearly 200,000 pieces of prevention literature annually to licensees, schools, and the general public, and coordinates training for over 2,000 of ABC sellers and servers of alcohol on responsible selling and serving.

The Financial Management Services Division is comprised of Accounting, Accounts Payable, Sales Audit, Financial Analysis/ Budgeting, Payroll and Tax Management. Key functions include financial statements, financial forecasting/budgeting, internal controls, financial reviews, compliance and wholesaler tax collections. The Tax Management section audits and collects the wholesale wine and malt beverage taxes for all wine and beer amounting to over \$75 million per year.

The Internal Audit Division is responsible for developing a comprehensive risk assessment of agency operations and ensuring an adequate system of internal control is established to mitigate and limit identified risk. Internal Audit also has oversight responsibility for the agency's information security function which develops and implements IT security policies, standards, guidelines and procedures.

The Marketing Division is responsible for consumer engagement, product management and merchandising. Consumer engagement includes branding, communications and promotional programs that grow sales while promoting responsible consumption. Product management includes selecting new products, eliminating underperforming products and monitoring product performance. Merchandising includes category management activities, planograms, and in-store promotional merchandising.

ABC's goals in this service area are tied to customer service, fiscal stewardship and cyber security/ upgraded technology objectives of the Governor's Strategic Enterprise Priorities. The agency's education and prevention efforts also help to deliver high-quality products and services to customers in a timely manner while encouraging user-friendly online services for all citizens.

Mission Alignment

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

Products and Services

Description of Major Products and 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 2016, ABC's gross sales increased to \$898

million and operating revenues rose 5.7%. Since 1934, ABC has contributed more than \$9.5 billion to the Commonwealth's general fund to support state services, including substance abuse prevention and treatment. 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, ABC seeks to develop better ways to recognize and reward high performing employees, improve diversity, improve the health and safety of ABC's employees, and expand learning opportunities. ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses tools such as surveys, process improvement forums, and utilizes the SharePoint communication platform. The leadership team reviews employee concerns and issues and develops an action plan for issues that can reasonably be addressed.

Education and Prevention

Education initiatives this year included the Youth Alcohol and Drug Abuse Prevention Project (YADAPP), which hosted nearly 500 students and adult educators. The Miss Virginia School Tour continues to increase in participation from elementary schools and elementary aged after school programs, reaching 19,000 students in 2016. Virginia ABC began a middle school prevention initiative, *Being Outstanding Leaders Together Against Drugs and Alcohol* (BOLT) in 2015 promoting peer leadership, drug and alcohol education, and how drugs and alcohol influence youth relationships. Project Sticker Shock continues to communicate Virginia laws on social providing and using a fake ID to purchase alcohol to the general public and licensees. 12 groups from Central, Eastern, Southwestern, and Northwestern Virginia participated. After assessment and consultation, the Higher Education Alcohol and Drug Strategic Unified Prevention (HEADS UP) Program was developed to provide need based services to campuses. The program will provide Virginia colleges and universities with strategic planning, training and resources to fulfill the mission of eliminating underage and high-risk drinking. A brand new publication series was developed with specific guides for Elementary School, Middle School, High School and College students. Additional guides were created for the 21 and Older, Parent, Older Adult and Licensee populations. All print materials can be ordered via ABC's website and many are available for download in a PDF format. Virginia ABC began offering Alcohol Education and Prevention Grants during fiscal year 2015. Coalitions, law enforcement, nonprofits, schools, colleges and universities, faith-based organizations and prevention-related groups are encouraged to apply. Applicants must address one or more of the priorities: underage drinking prevention, social hosting or social providing prevention, and high-risk drinking prevention. Grant requests are limited to a maximum of \$8,000. Approximately eight awardees are selected each annual grant cycle.

The Virginia Office for Substance Abuse Prevention Collaborative (VOSAP) is facilitated by Virginia ABC. The mission of VOSAP is to support positive youth development by providing strategic statewide leadership, fostering collaboration and the sharing of resources at all levels, and providing tools and training to practice evidence-based prevention. In addition to Virginia ABC, the VOSAP Collaborative is comprised of representatives from the following: Behavioral Health and Developmental Services (DBHDS), Criminal Justice Services, Education, Health (VDH), Juvenile Justice, Motor Vehicles (DMV), Social Services, Virginia State Police, Virginia Foundation for Healthy Youth, Virginia National Guard and the Office of the Secretary of Health and Human Services. Through media campaigns and collaborations with the Department for Aging and Rehabilitative Services, the Geriatric Mental Health Partnership, VDH, DBHDS, and DMV's Mature Driver Committee, the Alcohol and Aging Awareness Group provides information regarding the dangers of alcohol and medication misuse among older adults.

Anticipated Changes

Transition to an Authority Structure

The Virginia Alcoholic Beverage Control Authority Act of 2015 mandated that Virginia ABC transition its operating structure from that of an executive branch agency to a codified Virginia Authority effective July 1, 2018. The legislation encourages Virginia ABC to operate more like a business and achieve efficiency in its operations. Due to passage of SB 1287 in the 2017 General Assembly session, the department and authority will co-exist beginning January 15, 2018 which will allow employees to be transitioned to the authority in waves, rather than all at once. ABC is initiating strategic workforce planning that assesses where there are current gaps in the organization's workforce and initiate a plan of how to meet future staffing demands of the Authority. The Authority transition also provides ABC the opportunity to examine how it compensates its employees, including exploring compensation methods that tie into individual and organizational performance. With the exemption from the Virginia Public Procurement Act under the Authority structure, ABC is looking to move from a rules-based system with mandatory source requirements to a system that enables ABC to negotiate best benefits for the organization.

ABC is already using e-commerce to provide web-based application and payment processing for the banquet licensing process, on-line education/training, product registrations, and ordering of products by licensees. ABC expects to explore the feasibility of additional online transaction opportunities such as retail license applications and more robust retail sales to the public. In addition to customer service enhancements, the drivers of these e-commerce opportunities include the financial viability of internal process efficiencies, the increased cost of credit card processing, and incremental revenue creation.

Currently, the agency's 17 year old general accounting ledger system is supported by a third party company that has been sold several times in the past 10 years, making it an unstable option for long-term financial reporting and management. It is also a dated system that has reached its end-of-life, and needs to be upgraded to maintain viability and to keep up with the Agency's growing needs. ABC is currently soliciting proposals for a commercial off-the-shelf (COTS) software solution and associated system implementation services. The ideal solution will integrate the multiple internal and external systems that collect data, with the new system collecting that data and integrating it into financial statements.

Factors Impacting

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 such as compliance and implementation for the Agency Risk Management Internal Control Standards (ARMICS) and Information Security will require ongoing staff commitment across the agency. Documentation for all significant fiscal processes and IT security vulnerabilities, and 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.

Aging Infrastructure

The General Assembly approved multiple projects to upgrade ABC's infrastructure and further invest in business operations. These projects include the implementation of retail and marketing strategies to increase customer service and enhance revenue, increased website capabilities, the procurement of a new financial system, and the procurement of a new licensing management system. These projects are a considerable undertaking, but are imperative to further solidify ABC as a continued source of significant revenue for the Commonwealth.

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. This service area receives an appropriation of \$37,382,199, which is 6.4 percent of the total agency appropriation.

Biennial Budget

	2017 General Fund	2017 Nongeneral Fund	2018 General Fund	2018 Nongeneral Fund
Initial Appropriation for the Biennium	0	64,966,022	0	66,420,441
Changes to Initial Appropriation	0	0	0	0

Supporting Documents

Title **File Type**

Alcoholic Beverage Control Retail Store Operations [80102]

Description of this Program / Service Area

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:

- Operates more than 364 stores throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability;
- Provides over 2,729 products for sale including non-alcoholic mixers, wine, Virginia Lottery tickets, and Virginia is for Lovers merchandise. 229 special order products and 1,248 special order non-catalog products are available for sale;
- Services 4,600 restaurants licensed to sell mixed beverages in the Commonwealth; and
- Conducts over 30 million customer transactions annually generating in excess of \$900 million in sales in FY16.

The 2014 Governor's Strategic Enterprise Priorities supported by this goal include delivering high-quality products and services to customers in a timely manner and encouraging user-friendly online services for all citizens.

Mission Alignment

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

Products and Services

Description of Major Products and 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

Services include operating more than 364 retail stores throughout the state and controlling access to distilled spirit products in the Commonwealth; ensuring equitable service throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability. Store personnel conducted approximately 4.5 million ID challenges, provided over 2,729 products for sale including non-alcoholic mixers, Virginia Lottery tickets, and VIFL merchandise; served over 4,600 restaurants licensed to sell mixed beverages in the Commonwealth, and processed over 30 million customer transactions to generate over \$900 million in sales in FY16.

Anticipated Changes

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. In FY16, 8 new stores were opened, with 10 new stores expected to open in FY17. ABC also expects continued growth in the variety of products offered in the marketplace, as well as continued expansion of special order stores with dedicated special order sections, thus necessitating 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. An increase in wage employees is needed 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 store managers, Regional Managers, and Director of Retail Operations.

The 2004 General Assembly provided legislation 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 FY14, all ABC stores are open on Sundays with the exception of one. This resulted in increased recruitment and retention efforts, as additional wage staff were used to fill gaps where current employees were unable to work, refused to work or left the agency. The 29-hour limitation on wage employees' working hours continues to be detrimental to employee hiring, retention and scheduling. On July 1st, 2016, stores began opening one hour earlier at noon, and are now also open on New Year's Day when they were previously closed.

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). In FY16, Retail Operations developed a Suggestive Selling video that is mandatory training for all Retail employees. In FY17, a comprehensive Customer Service Training program will be rolled out to include enhanced product knowledge training for wage and classified employees.

E-Commerce

To improve customer service and decrease operating costs, ABC redesigned its website to provide additional product information, quicker access to store information, and provide ecommerce transactions for a limited selection of special order products. Features of the new website resulted from previous statewide surveys of retail and licensee customers. Currently an on-line licensee ordering system is in production with more than 1,000 licensees using the system, and retail customers have the ability to order and pay for products from the warehouse and stores through ABC's website.

Factors Impacting

Changing Marketplace

The overall retail environment influences the public's expectation of ABC's shopping environment. The growth in distilled spirit products in the marketplace means ABC has to adjust the breadth and depth of its product line to meet customer demand and maintain sales growth. The impact of digital commerce and access to information and products via mobile devices is also driving changes in ABC's services to both retail and licensee customers.

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 impact revenue growth. Other expenses such as General Assembly mandated pay raises and changes in health care costs, mandatory rent escalations, fuel increases, and VITA service increases of more than 5 percent can significantly hamper the agency's ability to grow profits year over year. 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. Much of ABC's operating expenses are driven by sales volumes, as shown in annual increases of about 5.0%. Most recently, ABC had marginal decreases in three of four main cost drivers as a percentage of sales. In Fiscal Year 2016, Cost of Goods Sold (as a percentage of sales) for alcohol decreased by 0.6%, Personal Service Costs had a 2.1% decrease, Continuous Charges had a 1.1% decrease, and Contractual Services had a 0.9% increase compared to Fiscal Year 2015. The increase in Contractual Services is a result of increases in VITA Infrastructure costs in Fiscal Year 2016.

Like many agencies, ABC is faced with an aging infrastructure and growing business needs for technology. In the coming biennium, critical Law Enforcement, Warehouse and Retail Operations system replacements and upgrades will be required along with upgrades to comply with state information security and payment card standards. At the same time, ABC continues to evaluate the potential processing efficiencies of electronic document management and the value of leveraging agency data through a business intelligence system.

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. Current estimates cannot be reached without increased revenues that are potentially not achievable. Appropriation Act profit transfer requirements for Fiscal Year 2017 are \$152.4 million.

Wage Employees & 29-hour per week Cap

Under the Affordable Care Act, employers are required to offer health care insurance to employees who work 30 hours or more per week. As a result, in January 2013, DHRM advised agencies to begin limiting the number of hours worked by the Commonwealth's part-time work force. As ABC prepared to comply and to continue adequately staffing retail stores, the Department adjusted weekly schedules by increasing hours for part-time employees who work less than 29 hours, reducing hours for those who work more, and hiring additional part-time employees.

Given the agency's large number of part-time employees, 2,325 in FY15, and 2,421 in FY16 - the proper steps have been taken to reduce work hours and hire additional part-time employees. Strategies to reduce turnover and increase product knowledge by part-time employees in stores are currently being developed by Retail Operations. Retail Operations has maintained a 100% compliance rate from FY 2013 thru FY 2016 in keeping wage employees below the 29 hour maximum.

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. This service area has an appropriation of \$90,572,922, which is approximately 15.4 percent of the total agency appropriation.

Biennial Budget

	2017 General Fund	2017 Nongeneral Fund	2018 General Fund	2018 Nongeneral Fund
Initial Appropriation for the Biennium	0	95,712,014	0	95,712,014
Changes to Initial Appropriation	0	0	0	552,236

Supporting Documents

Title	File Type
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Alcoholic Beverage Purchasing, Warehousing and Distribution [80103]

Description of this Program / Service Area

The Logistics Division, which includes warehouse operations, inventory control and transportation, special orders, store stocking and business/system support, is responsible for the effective and efficient distribution of alcoholic products to all ABC stores.

For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 364 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC's warehouse. ABC houses over 445,000 cases in its Richmond warehouse and ships over 4.5 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 18,500 cases with seasonal spikes exceeding 23,000 cases per day during the holiday season. These numbers will only increase with additional new stores and a growing population.

Mission Alignment

This service area directly aligns with the ABC mission to generate a reliable stream of revenue for Virginia and promote public safety through the responsible sale and regulation of alcoholic beverages. 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. Products are stored in a warehouse at its Central Office in Richmond and shipped to retail stores throughout the state.

Inventory turns measure 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. On average, the goal for stores is to maintain a product service level over 97 percent. This translates into less than a three percent product stock out rate, based on each store's list of products to be sold.

Products and Services

Description of Major Products and Services

The primary services of this service area include: 1) Product distribution including receiving, storing and distributing product through the warehouse, 2) inventory management for standard and special order products, and 3) demand planning for over 364 ABC stores.

- ABC manages a 300,000 square foot central distribution center in Richmond and an inventory of over 3,200 products with an average inventory exceeding 445,000 cases and a volume exceeding 6.5 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 18,500 cases with seasonal spikes exceeding 23,000 cases per day during the holiday season.
- For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 364 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 18 tractor-trailer loads per day and processes vendor payments of over \$540 million annually.
- Product Management Services include item setup, product pricing, product inventory, and central inventory management. ABC offers special order services such as in-store specialty catalogs and special order catalog for merchandise not carried by ABC.

Anticipated Changes

Virginia ABC projects that the number of products offered will approach 4,000 in the next ten years as distillers seek innovative ways to expand the marketplace to compete with beer and wine. Annual increases in product lines translates into an increased emphasis on demand planning, forecasting, retail space utilization, and the ability to meet customer demands for special order items. ABC is pursuing approval to build a new warehouse to support growth and revenue increases. The current warehouse is above 90% capacity and its automated warehouse system is at "end of life".

Factors Impacting

For the warehouse, the most important critical success factors are the capacity to maintain an adequate inventory of a 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.

Increasing Product Assortment

The number of items carried by the Department has almost tripled in the last three decades, growing from approximately 800 items in 1981 to over 3,200 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.

To meet future customer demands, improve inventory in-stock position, and inventory turns, the Demand Planning Team is revamping the demand planning process and updating current software settings. Supplier collaboration and planning is a key component to ABC's continued success.

Workforce

Warehouse employees receive, put away, “pick” or fill store orders for cases of alcohol, and then load the trucks for delivery via a contract carrier. Warehouse employee turnover is high due to several factors contributing to low employee engagement; insufficient supervisory and leadership training to motivate and manage a multi-generational workforce, 29-hour part-time employee mandated work rule, and the warehouse environment is not climate controlled (hot in the summer and cold in the winter). To improve employee engagement, warehouse supervisors are participating in a seven month supervisor and team building training program beginning January 2017. The program is designed to develop a cohesive team of supervisors to coach and mentor warehouse staff in a positive and encouraging manner creating a relationship driven management model. Several new processes have been implemented to improve employee engagement and retention; 1) a warehouse employee on-boarding program complete with training and cross training guidelines, 2) a monthly warehouse employee meeting to provide a communication channel, set expectations, and recognize the employee of the month, 3) a cross training plan / career path, and 4) a new lead measures and KPI's to improve performance.

Warehouse Capacity and Aging Equipment

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 and has significantly expanded storage capacity for existing and new items and has used automation to pick and ship orders for the past decade. In fiscal year 2017, ABC has exceeded 90% of its storage capacity. In the next biennium, ABC is pursuing requirements and approval to invest in a new warehouse supporting the agency's growth and the Commonwealth's revenue goals.

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. This service area has an appropriation of \$441,567,223, which is approximately 75.1 percent of the appropriation for this service area.

Biennial Budget

	2017 General Fund	2017 Nongeneral Fund	2018 General Fund	2018 Nongeneral Fund
Initial Appropriation for the Biennium	0	499,891,773	0	514,891,773
Changes to Initial Appropriation	0	1,100,000	0	2,100,000

Supporting Documents

Title **File Type**