

2018-20 Strategic Plan

Virginia Alcoholic Beverage Control Authority [999]

Mission

The mission of the Virginia Alcoholic Beverage Control Authority 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 Alcoholic Beverage Control Authority 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 Virginia Alcoholic Beverage Control Authority (ABC) operates as a component unit of the Commonwealth of Virginia, 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 money in four service 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

	2019 General Fund	2019 Nongeneral Fund	2020 General Fund	2020 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)	32,440,510	32,440,510	Increase
Adult	Adult aged 21 years and older	6,299,254	6,299,254	Stable
Aged	Senior population (65 years and older)	1,271,428	1,271,428	Stable
Employee	Employees (FT and Part-Time)	3,446	3,446	Stable
Federal Agency	Federal Law Enforcement Agencies	10	10	Stable
Higher Education Institutions	Colleges and Universities	65	65	Stable
Local or Regional Government Authorities	Local public and private law enforcement agencies	329	398	Stable
Local or Regional Government Authorities	School facilities across the state from kindergarten to high school	1,807	1,807	Stable

Organization	Customers for prevention messages	8,020,582	8,020,582	Increase
Organization	Prevention Groups (Community Service Boards and Community Coalitions)	75	75	Stable
State Agency(s),	ABC Stores	370	370	Increase
State Agency(s),	State Government Agencies	37	37	Stable
Wholesale/Retail Trade	ABC Mixed Beverage Licensees	5,013	5,013	Increase
Wholesale/Retail Trade	Businesses licensed to sell alcoholic beverages	19,500	19,500	Increase
Wholesale/Retail Trade	Active Suppliers of Spirits, Wine & Mixers	496	496	Stable
Wholesale/Retail Trade	Vendors and Suppliers other than liquor	2,346	2,346	Stable

Partners

Name	Description
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Agency Goals

- **Employee Experience: Be an employer of choice through a positive culture that attracts talent, fosters development, and increases retention**

Summary and Alignment

One of ABC's strengths is its employees. ABC's personnel are exceptionally dedicated and possess a high degree of knowledge. The work environment encourages a work/life balance and offers job security in a family-like atmosphere. A testament to these affirmations is the length of employee tenure, many employees with 30 to more than 40 years of service to the commonwealth and ABC. As many employees become eligible to retire, ABC is taking steps to ensure it will continue to meet its goals and objectives by developing models and tools to provide ample time to forecast the fiscal and human capital needed for the ideal future workforce. This effort will include analyzing ABC compensation strategies, hiring processes and workforce needs in order to attract and retain talent.

Objectives

» Attract Great Talent

Description

Analyze current hiring processes from sourcing to on boarding to attract talent and identify most qualified candidate in an effective and efficient manner.

Objective Strategies

- In order to attract great talent, we will analyze current sourcing, recruiting, hiring, and onboarding processes, including a new strategy that identifies the most qualified candidate and provides an effective and efficient hiring process. This process will also be implemented in projects such as our summer internship program and the employee referral program.

Measures

» Increase Employee Retention

Description

Analyze employee turnover in order to gain a better understanding of the workforce's wants and needs.

Objective Strategies

[Nothing Entered]

Measures

» Pay for Performance

Description

Develop a pay for performance strategy in order to retain ABC's top talent

Objective Strategies

- In order for ABC to remain a competitive employer while also achieving company goals, we need to research a pay for performance strategy to provide performance incentives for employees. By identifying Virginia ABC's compensation philosophy and assessing our performance evaluation process, we can determine how to link performance and pay more closely to promote behaviors and results aligned to ABC strategic goals. Additionally, we need to develop a compensation strategy for retail employees to continue increasing sales through up-selling and increasing the number of items per transaction. Finally, we need a cost model for implementing the revised

payment philosophies.

Measures

» **Recruit and Retain Enforcement Workforce:**

Description

Analyze employee turnover within Enforcement Division and develop hiring strategy to accomplish agency's mission.

Objective Strategies

- We need to attract and retain Enforcement employees, assess reasons for the turn-over rate, and plan for remediation. Ideally, we will be able to increase the ratio of agents to licensees and enhance regulatory training for licensees to reduce the workload on Enforcement agents. We also need to define Enforcement's strategy and philosophy and integrate it into practice and a career development program for our Enforcement employees. Finally, we will work to identify opportunities to use non-sworn personnel to also help decrease the workloads of Enforcement employees.

Measures

» **Strategic Workforce Planning Model and Tool**

Description

Analyze current hiring processes to determine areas of improvement in order to attract new talent which best augments current workforce and will easily acclimate to the Authority's culture.

Objective Strategies

- The authority should retain the necessary expertise to develop an appropriate strategic workforce planning model and tool to accurately forecast the fiscal and human capital necessary to achieve an ideal workforce in the coming years. The model should be comprehensive of the organization and driven by future revenue forecasts with planned organizational objectives. It should factor existing personnel capabilities and be capable of informing requirements far enough in advance to inform the statewide budget planning process. Additionally, all employees should be converted from P-14 to Classified and we need to implement a skills assessment of the current work force to identify employee capacity and strengths.

Measures

» **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.

Measures

- ◆ Classified employee turnover rate
- ◆ Management points assessed by Auditor of Public Accounts audit
- ◆ Number of times ABC is out of compliance on Department of Accounts Compliance Report
- ◆ Number of times ABC is out of compliance on DOA Compliance Report
- ◆ Wage employee turnover rate

- **Brand: Refresh the ABC brand to deliver superior service, revenue creation, and public safety**

- Summary and Alignment**

- Quality customer service for ABC involves many of its service areas. In the retail stores, ABC has focused 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, online customers, vendors, suppliers, citizens, law enforcement and municipalities, in addition to internal employees as customers of each other.

- Objectives**

- » **Brand Architecture**

- Description*

- Develop a retail and corporate brand for the Authority.

- Objective Strategies*

- We will conduct and apply market research to brand a new Retail and Corporate (Communications, Enforcement, EPS, etc.) brand position, using the website, domain, email, and social media communication vehicles to announce changes.
 - Our rebranding plan will include changing the retail environment (What do we want to look like?), assessing store names, and reconsidering employee dress. In order to accomplish this rebrand, we will hire a retail design consultant to help us consider store layout, lighting, shelving, racks, signage, traffic flow, and general aesthetics from both a supplier and employee point of view. Additionally, we will determine how we want to measure employee adherence to the new brand by way of using GoSpotCheck, mystery shopper, etc.

- Measures*

- » **Customer Experience**

- Description*

- Improve customer experience, both internal and external, taking good customer service to the next level.

- Objective Strategies*

- Virginia ABC needs to change from providing good customer service to creating a superior customer experience. This enhanced experience should apply to internal and external customers. For external customers, we will conduct market research to understand what is included in and expected from a superior customer experience. For internal customers, we will create an internal training as well as increased employee training.

- Measures*

- » **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.

• **Infrastructure: Reinvest in our processes, technology and facility infrastructure to create a more efficient and sustainable organization**

Summary and Alignment

ABC is systematically making changes to the internal structure needed to most effectively and efficiently meet strategic and operating objectives. Numerous upgrades to software systems and business processes will enable ABC to behave more like a private business. New facilities for the warehouse and central office are major priorities for this planning period. Further, newer systems will enable more automation, access to data and efficiencies to provide best-in-class internal and external customer service.

Objectives

» **Improve Infrastructure**

Description

Reinvest in our processes, technology and facility infrastructure to create a more efficient and sustainable organization

Objective Strategies

- 1) Point of Sale Update: The current Point of Sale (POS) system will expire in 2020 and will no longer be supported. Current reconciliation applications sitting between POS and Performance do not allow us to aggregate and dimensionalize POS data in a way that provides us with the reporting necessary to understand trends and make data-based decisions. We need to replace the existing POS system by purchasing and implementing a new one which will not only provide us with increased functionality, but will also take advantage of changes in Industry standards and technological advances. This new POS system will also have functionality encompassing reconciliation and will capture the data required for better reporting capabilities. It will also have a loss-prevention tool
- 2) Financial System Integration: The new system will replace core financial functions, budgeting, Accounts Payable, Accounts Receivable, project/dimensional accounting, fixed assets, inventory evaluation, procurement (transition to eVa) and purchase card transition to Bank of America. In addition, many current applications and hardware will be decommissioned as new functionality is delivered to ABC.
- 3) Data Warehouse and Business Intelligence: Virginia ABC has multiple systems for reporting and numerous homegrown structures in place. Creating a central point for all of this information is of high importance, as it provides a single source of the most up-to-date and accurate data available for reporting purposes. In order to better the organization's policies and process as we transition from VITA, we must provide a centralized data source in the form of a reconstructed data warehouse that confirms there is a single version of this data. This will give the ability to evaluate how departments, services, and the organization as a whole are functioning. Identifying trends in data will ensure immediate corrective action occurs to guarantee that production, delivery, or service statistics never fall. By utilizing data to drive business decisions, the organization should show elevation in its overall performance.
- 4) Central Office and Warehouse Move: The Central office and Warehouse move will include office, conference room and parking space constraints and warehouse management and security concerns. There also needs to be a focus on warehouse and inventory management.
- 5) Tax Management System: A new system will allow customers to submit payments, franchise agreements, and labels online. Additionally, product approval analysts would be able to review and make changes to submissions made by customers. This would greatly increase the reliability and integrity of the data being submitted and would reduce the processing time significantly due to ridding the need to mail in documentation and process paperwork.
- 6) Identity Management: We need to implement an LDAP compliant identity management solution that provides standard logging and reporting capabilities to meet the agencies security needs. By being LDAP compliant, this solution should be able to support integration with all standard products the authority will acquire and insulate ABC from upcoming changes with Active Directory as VITA migrates off NG services. This will allow ABC to manage the identity role and lifecycle of all contractors and employees from a single solution with appropriate controls and logging in place. Additionally, there should be separation between internal and external users. Currently, all identities are stored in the same system, sharing internal and external credentials. Additionally, our server environment does not participate in active directory and users have up to 100 accounts and passwords to remember that reset quarterly because they are not tied to a central single identity.
- 7) Store Security: The current Sonitrol contract has expired and we are operating under an emergency contract extension. Equipment currently in stores, the warehouse, and offices need to be upgraded from analog to digital. Such equipment includes cameras, recording equipment, and associated installation.
- 8) Human Capital Management System Replacement: After gathering the requirements, we can begin procurement and start developing a project plan for implementation.

Measures

» **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

» **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.

Measures

- ◆ Days from the date ABC violation/contested application referred for a hearing to the completion of the hearings process
- ◆ Days from the date of ABC violation to the completion of the hearings process
- ◆ Days to process a new retail licensee application

• **Public Safety: Ensure and promote the responsible selling, serving and consumption of alcohol through the education and regulation of stakeholders and licensees**

Summary and Alignment

The public safety goals of Virginia ABC results directly from being the primary organization to regulate the manufacture, distribution, sales, transportation and consumption of alcoholic beverages. This goal is the cornerstone of services to ABC licensees, ensuring compliance with alcohol and tobacco laws particularly for underage persons, and responsible consumption by adults who choose to purchase ABC products. Prevention and education materials, programs and services developed by the agency are provided for all ages.

Objectives

» **Develop an Authority-wide Public Safety Plan**

Description

Develop Key Performance Indicators that measure the effectiveness of the agency's public safety efforts and benchmark accomplishments against industry best practices.

Objective Strategies

- We need to develop an authority-wide public safety plan that aligns with the mission of the authority and covers the breadth and depth of authority public safety efforts (Enforcement, EPS, Hearings, Retail, Marketing, Tax Management, Property, etc.). Also, we will create an internal and external communications strategy for public safety to include social media, authority responsibility initiative messaging, and internal awareness of public safety efforts. This will ensure that key stakeholders have a clear understanding of the authority's current initiatives, future goals, and the potential impacts on the community. To help with informing the public, we will develop a standard curriculum to provide up-to-date, effective, and consistent messaging. Finally, we will implement a licensee needs assessment to determine specific areas of the licensee experience that should be enhanced and then launch the Outstanding Licensee Program.

Measures

» **Implement Executive Order 40**

Description

Complete and maintain the initiatives to implement Executive Order 40.

Objective Strategies

- Initiatives relating to Executive Order 40 need to be completed and those initiatives that have already been enacted will be maintained. We will determine the requirements and timeframe for the completion of outstanding actions and identify if they are still strategic or if they can now be considered operational.

Measures

» **Increase Efficiency of Judicial Affairs**

Description

Restructure and transition changes within Judicial Affairs Division to meet agency's goals and objectives.

Objective Strategies

- Judicial Affairs needs to be transitioned to the Authority structure by implementing solutions to increase efficiencies and revisions to adjust for new authority structure.

Measures

» **Increase Public Safety Data and Measurement**

Description

Conduct a needs assessment on current public safety data to determine gaps and develop solutions to fulfill needed information.

Objective Strategies

- To increase data collected, we will determine key performance indicators that measure the authority's public safety efforts and compare them to industry best practices. Then, we can identify data gaps and solutions to closing those gaps. We also need to streamline data reporting and accessibility, which should be aided by the completion of our implementation of our new Licensing System.

Measures

» **Recruit and Retain Enforcement Workforce:**

Description

Analyze employee turnover within Enforcement Division and develop hiring strategy to accomplish agency's mission.

Objective Strategies

- We need to attract and retain Enforcement employees, assess reasons for the turn-over rate, and plan for remediation. Ideally, we will be able to increase the ratio of agents to licensees and enhance regulatory training for licensees to reduce the workload on Enforcement agents. We also need to define Enforcement's strategy and philosophy and integrate it into practice and a career development program for our Enforcement employees. Finally, we will work to identify opportunities to use non-sworn personnel to also help decrease the workloads of Enforcement employees.

Measures

» **Reduce administrative processing time for ABC licensee customers**

Description

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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

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- Begin cross training staff to expedite decisions through team editing and distribution of decisions electronically.
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Measures

- ◆ Days from the date ABC violation/contested application referred for a hearing to the completion of the hearings process
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- ◆ Days to process a new retail licensee application

• **Sales and Profitability: Achieve \$1.1 billion in revenue while increasing profit margins by June 2020**

Summary and Alignment

The authority structure creates opportunity to improve agility and streamline operations throughout the organization. The agency, as it completes its transition to an authority, has the potential to grow incremental sales and profits through improved special order product management, enhancing the product portfolio for retail stores and the website and taking advantage of industry trends toward premium products. At the same time, ABC gives equal weight to maintaining the public's trust through internal controls and compliance with generally accepted accounting principles and state administrative procedures.

Objectives

» **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.
- Added 5 new stores in FY 2018 and anticipate adding 15 FY2019.

Measures

» **Retail Store and Network Plan of the Future**

Description

Develop the ability to provide Retail Operations with necessary expenditure data to effectively and efficiently manage a retail store.

Objective Strategies

- We aim to open twenty new profitable retail stores in major metropolitan areas to help increase the number of customers served per labor hour. Stores will also be given access to expenditure tracking relevant to them. Utilities, payroll, and inventory CGS Process Improvement. Each store will have a supply budget not to be exceeded, allowing for supplies to be ordered on a shorter basis. By

increasing data access to stores through the transition to eVA, there will be greater visibility into supply ordering and we can also reduce the amount of paper used in transactions such as closing reports and Regional audit needs. We also hope to implement Store Operational Efficiencies by tasking stores to own their expense management. This will be achieved by empowering their decisions with timely sales and expense data, supply budgeting, access to alternative procurement methods, and other means of directly managing store costs. We will be considering the use of equipment such as iPads in stores instead of registers, as iPads can also manage surveys and track inventory through the Next Gen POS project. To reduce shoplifting, we will install a theft sensor system in stores. We will also research how licensees pay now and how we can streamline the payment process by delivering email receipts to reduce paper and cut costs. Finally, we need a new contract with a company or an in-house resource to stamp plans for store layout with regards to lighting

Measures

» 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.

» 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

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 about 19,500 licenses for retail establishments to

sell wine, beer and spirits. In addition, about 27,000 licenses were issued in FY 2018 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 2018, the alcohol compliance rate for retail licensees was 89.6%.

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. In 2018, ABC was named the 2017 "Liquor Law Enforcement Agency of the Year" by the National Liquor Law Enforcement Association.

Performance Highlights

The Virginia Alcoholic Beverage Control Authority 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 \$983 million dollars in revenues and a host of integrated internal support processes. Contributions to the Commonwealth in FY 2018 totaled \$179.2 million in profit transfers, \$160.9 million dollars in state taxes, \$45.4 million dollars in general sales tax, \$37.6 million dollars in wine liter taxes and \$41.6 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 2018. Related to ABC's regulatory compliance role, the Hearings and Appeals Division collected \$558,350 in civil penalties in FY2018.

Most Recent Accomplishments

Fiscal Year 2018 marked ABC's 20th consecutive record-setting year with gross sales of almost \$983 million, a \$43.3 million increase over last year. Profits also rose to \$179 million, an increase of \$7 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 \$465 million transferred to Virginia's general fund - up \$24 million from the previous year. The five new stores that opened during the fiscal year generated a total of \$5.4 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 2018, ABC opened five 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 FY2018, ABC remodeled 19 stores, this includes expansions, modernizations, flooring, etc., and relocated two stores.

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. In FY2018, stores were allowed to open at noon instead of 1:00 p.m. Total Sunday sales increased by \$13 million, or 21.2%, from Fiscal Year 2017 to Fiscal Year 2018. 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" rose from 63 to 65 in FY2018. Gross sales from special order products totaled \$8.6 million accounting for 10.4% of total product 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 34,000 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. The Bureau was named the 2017 Liquor Law Enforcement agency of the year by the National Liquor Law Enforcement Association. The award reflected ABC's response to violent incidents at licensed establishments, its commitment to training and community outreach.

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)	1289
Salaried Employees	1112
Wage Employees	2334
Contracted Employees	44

Key Risk Factors

Appropriation Act profit transfer requirements for Fiscal Year 2018 are \$174.0 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 2019. 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 11.8% over Fiscal Year 2018. 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. The new organizational structure was completed in ____ of 20___. The Authority Pillar was renamed as Employee Experience as the organization's priorities are currently focused on being an employer of choice through a positive culture that attracts talent, foster development, and increases retention.

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.

In FY 2018, the Information Technology Division's major accomplishments for the year involved :

- Transition development and test environments to AISN a third party hosting provider from CESC
- Providing Licensees the ability to pay taxes online via ACH
- Migrating ABC to Microsoft Office 365 for messaging

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 1.3% of ABC employees are retirement eligible as of June 30, 2019 and 4% 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. In FY18, the Supervisor Academy had 68 participants. 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 fifth annual cohort of participants in 2017.

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. in the fall of 2016, 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. Pursuant to the budget language, Virginia ABC worked with DGS to issue an RFP. Following the RFP process and partnering with DGS, Virginia ABC submitted a budget request during the 2018 General Assembly Session. The budget request was approved in the Appropriations Act of 2018 (Item C-51). The approval allows Virginia ABC to pursue the submitted plan to provide newly constructed facilities, to include a central office and warehouse distribution.

ABC opened five new stores in 2018, including a new store in Loudoun County in excess of 6,000 square feet that contains and offers the entire product line supplied by ABC. Additionally, eleven stores underwent modernization, three were expanded, four received new flooring, two stores were relocated and one was closed. ABC plans to open 20 new profitable stores during fiscal years 2019 and 2020.

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 (Bureau) and its license records management division. For public safety, ABC's strategic priorities include the promotion of zero tolerance policy for underage access to and consumption of alcohol and tobacco, the promotion of responsible selling and serving by ABC licensees and the responsible consumption of alcoholic beverages by adults. The enforcement division is the second largest division at ABC, consisting of over 96 sworn agents with full police authority, 49 non-sworn/civilian employees and 16 wage (part-time) employees. Not included in these numbers are 94 wage employees serving as student undercover agents (civilians) employed for the Underage Buyer Program. The Bureau and its license records management division serve customers out of nine regional offices throughout the commonwealth, as well as Virginia ABC's central office located in Richmond.

Service Area Products/Services

ABC's public safety mission results directly from being the primary organization regulating the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the issuance of licenses to retail establishments and restaurants selling 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 a business license application, in addition to a thorough corporate investigation to ensure suitability to be issued an ABC license. Enforcement agents provide guidance and interpretation to licensees to promote compliance and avoid the necessity to take enforcement action. Enforcement agents work with applicants to help identify the most suitable license types and confirm an appropriate business model. Agents conduct inspections of new businesses as well as existing licensees to determine compliance. Observations of licensee operations and investigation of incidents occurring at a licensed establishment or of documents filed with the Authority are conducted by agents.

In FY 2018:

- ABC issued 19,458 annual licenses to businesses and retail establishments for the sale of alcoholic beverages. These licenses and their application fees generated \$14.2 million.
- ABC issued 27,353 one-day banquet and special event licenses.
- ABC conducted background investigations for the issuance of 2,103 new retail, wholesale, and special permit licensees.
- ABC agents conducted training for over 4,000 ABC licensees and servers of alcohol through its RSVP program for responsible selling and serving and its MART program for manager's alcohol training.

ABC monitors licensee compliance 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 involve 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 4,400 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 present 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.

The Bureau was named the 2017 "Liquor Law Enforcement Agency of the Year" by the National Liquor Law Enforcement Association. The award reflected ABC's response to violent crime incidents at licensed establishments, as well as its commitment to training and community outreach serving the agency's stakeholders, law enforcement partners and the community at large.

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.

Products and Services**Description of Major Products and Services**

The public safety mission of ABC results directly from being the primary organization 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.

Products / Services					
Product / Service	Statutory Authority	Regulatory Authority	Required Or Discretionary	GF	NGF
Enforcement and Regulation of Alcoholic Beverage Control Laws	Title 4.1		Required	0	18,673,377

Anticipated Changes

On July 12, 2012, ABC centralized retail applications processing 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 redirect valuable special agent time to more important law enforcement priorities. The license records management division currently has 21 employees in two sections, licensing and records. In FY 2018, the records section served more than 3,878 walk-in customers and handled more than 12,090 telephone calls. Licensing processed 2,122 new retail applications during the same time period.

On January 29, 2018, Virginia ABC kicked off a collaborative effort with a leading software provider to innovate the agency's regulatory licensing and enforcement activities. This project will create a public facing portal for online application and license management of the approximate 19,000 retail licensees and 20,000 one-day special event licenses. The new system will also allow special agents to manage such activities as licensee inspections/ investigations and assists in the issuance of violation/warning reports with mobile solutions giving field staff a new level of flexibility and efficiency. The project is currently in the execution phase and represents a concerted effort involving the Bureau, IT, Communications, Audit, Hearings, Finance, and other ABC stakeholders. With a projected rollout date of January 2020, this new system will consolidate several existing license management and enforcement functions into a single, paperless and customer-friendly system.

In conjunction with other work units—principally the 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 ABC electronically at a time and place that is convenient for them. The new system will support all business processes related to the collection, processing and regulatory enforcement of licenses and licensees. The new system will also 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 ABC systems (e.g. CORE, eLFI/MBAR, licensee search, Invize, eBanquet, and regulatory functioning of Case Management System) with a platform that is more easily maintained by internal resources and one that is, scalable and accessible on multiple devices.
- Newly developed online training for RSVP (Responsible Sellers and Servers: Virginia's Program) and MART (Managers' Alcohol Responsibility Training) will redirect a portion of agent time for enforcement and investigative work. This will reduce the cost required to deliver training and increase standardization of training across the commonwealth.
- Improving enforcement's web presence and communication channels to include digital media. Planned improvements in content on ABC's website and social media channels will clearly identify 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 among internal work units.

The 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 and has prompted improvements in operations protocol, development of procedure manuals, and increase in cross-training of administrative duties and changes in organizational structure. Operational improvements have been made and efficiencies gained as ABC ensures laws and regulations are being followed through internal investigations, audits, compliance reviews and policy development.

In FY 2018, the Bureau completed and released a recruiting video under the auspices of the 21st Century Policing grant awarded last year. The professionally produced video showcases the Bureau's diverse and dynamic workforce while also highlighting the wide array of activities that special agents conduct in furtherance of the mission of the agency. The video was prepared with the intent of showcasing the Bureau, as well as encouraging qualified candidates, including women and minorities, to consider a career in law enforcement as an ABC special agent. The video has been released via social media platforms and shown at various community outreach events.

Factors Impacting

The number of sworn positions remains below 2003 levels, despite a growing population and customer base. Large numbers of retirements, increased per-agent workloads and significant competitive salary issues with other local, state and federal law enforcement agencies have contributed to the shortage of filled sworn positions with the ABC. This shortage negatively impacts the delivery of public safety and the Bureau's

ability to monitor compliance with 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). 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. Filling existing agent positions will 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 help to ensure agent time is primarily spent on investigations and providing customer service to licensees.

Financial Overview

The Virginia Alcoholic Beverage Control Authority operates as a component unit of the Commonwealth of Virginia which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues.

Biennial Budget

	2019 General Fund	2019 Nongeneral Fund	2020 General Fund	2020 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**

With the change to an authority, the agency's strategic plan is organized around the five strategic pillars which identify the organizational priorities.

Employee Experience - Maintain a positive culture that attracts talent, fosters development and increases retention

Strategic workforce planning model and tool: The authority should retain the necessary expertise to develop an appropriate strategic workforce planning model and tool to accurately forecast the fiscal and human capital necessary to achieve an ideal workforce in the coming years. The model should be comprehensive and driven by future revenue forecasts with planned organizational objectives. It should factor existing personnel capabilities and be capable of informing requirements far enough in advance to inform the statewide budget planning process.

Increase employee retention: In order to increase employee retention, Virginia ABC will define the employee lifecycle to better understand employees and their needs throughout their career. By analyzing current employee turnover through the collection of baseline information from exit interviews, an employee engagement survey and other internal resources, ABC can develop new strategies to increase retention, especially in mission-critical positions. ABC will also benchmark employee turnover statistics and identify strategies used at other companies to boost employee retention.

Attract great talent: In order to attract great talent, ABC will analyze current sourcing, recruiting, hiring and onboarding processes, including a new strategy that identifies the most qualified candidate and provides an effective and efficient hiring process. This process will also be implemented in projects such as the summer internship program and the employee referral program.

Pay for performance: In order for ABC to remain a competitive employer while also achieving company goals, ABC needs to research a "pay for performance" strategy to provide performance incentives for employees. By identifying Virginia ABC's compensation philosophy and assessing the current performance evaluation process, the authority can determine how to link performance and pay more closely to promote behaviors and results aligned to ABC strategic goals. Additionally, ABC will develop a compensation strategy for retail employees to continue increasing sales through up-selling and increasing the number of items per transaction while also adhering to public safety priorities. Finally, ABC will develop an appropriate cost model for implementing the revised payment philosophies.

Infrastructure: Reinvest in our processes, technology and facility infrastructure to create a more efficient and sustainable organization

Point of Sale (POS) update: The current POS system will expire in 2020 and will no longer be supported by the vendor. Current reconciliation applications sitting between POS and the financial management system do not allow ABC to aggregate and dimensionalize POS data in a way that provides the reporting necessary to understand trends and make data-driven decisions. ABC needs to replace the existing POS system by purchasing and implementing a new one which will not only provide the increased functionality, but will also take advantage of changes in industry standards and technological advances. This new POS system will also have functionality encompassing reconciliation, better reporting capabilities and a loss-prevention tool.

Financial system integration: The new system will replace core financial functions, budgeting, accounts payable, accounts receivable, project/dimensional accounting, fixed assets, inventory evaluation, procurement (transition to eVa) and purchase card transition to Bank of America. In addition, many current applications and hardware will be decommissioned as new functionality is delivered to ABC, reducing security risks posed by out of date systems.

Data warehouse and business intelligence: ABC has multiple systems for reporting and numerous homegrown structures in place. Creating a central point for all of this information is of high importance, as it provides a single source of the most up-to-date and accurate data available for reporting purposes. In order to better the organization's policies and processes during the transition from VITA, ABC must provide a centralized data source in the form of a reconstructed data warehouse that confirms there is a single version of this data. This structure will give the ability to evaluate how departments, services and the organization as a whole are functioning. Identifying trends in data will provide an opportunity to immediately initiate corrective action to prevent production, delivery or service statistics from falling. By utilizing data to drive business decisions, the organization should show elevation in its overall performance.

Central office and warehouse move: In 2016, ABC worked with outside experts in the logistics and commercial building industries, and concluded a property analysis that examined current facility usage and developed projections for future needs. During the project, building usage, existing warehousing practices and capacity levels were reviewed. Independent consultants evaluated future growth options for the agency and provided recommendations for the best solution that will allow ABC to achieve its goal of \$1.1 billion in sales, in part by opening more stores and providing greater product selection. The report showed that the warehouse is above 90 percent capacity, which is beyond ideal capacity levels (80-85%) for efficiency purposes. The existing space is not sufficient to accommodate growth over the long term. The warehouse is efficiently run; therefore, investments in the warehouse will have limited impact on productivity. Further, the central office is out of office space and in need of expensive future repairs. Ultimately, the recommendation solution was ABC pursue building a new central office and warehouse.

In early 2018, the Governor's introduced budget included language authorizing ABC to continue in its planning and acquisition of a new central office and warehouse. This authorization was based, in part, on the joint report written by ABC and the Department of General Services (DGS) that was delivered to the Governor and General Assembly in early November. Pursuant to the Appropriations Act of 2017 (Item C-52.45), the report outlines the steps taken and recommendations developed to provide cost-effective, efficient, turnkey options for a new ABC warehouse and administrative offices. In developing the plan, ABC and DGS examined leasing existing facilities, building new facilities, or renovating the existing facilities. Responses to two RFPs were utilized to determine the feasibility and cost of various approaches.

In March 2018, ABC passed another important milestone in an effort to obtain a new central office and warehouse. Working with the Department of General Services (DGS), ABC and DGS selected a development company and identified a preferred location. The preferred location was selected based on several factors some of which included employee drive-time, nearby amenities, crime statistics, freight costs, proximity to nearby interstate highways and ease of accessibility for truck traffic. ABC and DGS continue to work with the developer and landowner to formalize a legally binding agreement regarding the proposed site.

Tax management system: A new system will allow customers to submit payments, franchise agreements and labels online. Additionally, product approval analysts will be able to review and make changes to submissions made by customers. This will greatly increase the reliability and integrity of the data being submitted and will significantly reduce the processing time by eliminating the need to mail documentation and process paperwork.

Identity management: ABC needs to implement a Lightweight Directory Access Protocol (LDAP) compliant identity management solution that provides standard logging and reporting capabilities to meet the authority's security needs. By being LDAP compliant, this solution should be able to support integration with all standard products the authority will acquire and insulate ABC from upcoming changes with Active Directory as VITA migrates off Northrup Grumman services. This will allow ABC to manage the identity role and lifecycle of all contractors and employees from a single solution with appropriate controls and logging in place. Additionally, there should be separation between internal and external users. Currently, all identities are stored in the same system, sharing internal and external credentials. Additionally, ABC's server environment does not participate in active directory and users have up to 100 accounts and passwords to remember that reset quarterly because they are not tied to a central single identity.

Store security: The current store security contract has expired, and ABC is operating under a series of contract extensions due to the proprietary nature of the system. Further extensions are likely necessary in order to maintain the system until such time as ABC is able to determine needs and initiate a phase out and replacement of the system. Cameras, cabling and recording equipment currently in stores, the warehouse and regional offices are all built on the proprietary platform and need to be upgraded from analog to digital.

Human capital management system replacement: After developing the requirements, ABC will begin procurement and start developing a project plan for implementation of a human capital management system.

Public Safety - Ensure and promote the responsible selling, serving and consumption of alcohol through the education and regulation of stakeholders and licensees

Recruit and retain enforcement workforce: ABC will focus on the attraction and retention of enforcement employees, assess reasons for a high turnover rate and plan for remediation. Ideally, the authority will be able to increase the ratio of agents to licensees and enhance regulatory training for licensees to reduce the workload on enforcement agents. ABC also needs to define enforcement's philosophy and integrate it into practice and a career development program for enforcement employees. Finally, ABC will work to identify opportunities to use non-sworn personnel to help decrease the workloads of Bureau employees.

Develop an authority-wide public safety plan: ABC strives to develop an authority-wide public safety plan that aligns with the mission of the authority and covers the breadth and depth of authority public safety efforts (Enforcement, EPS, Hearings, Retail, Marketing, Tax Management, Property, etc.). Also, ABC will create an internal and external communications strategy for public safety to include social media, authority responsibility initiative messaging and internal awareness of public safety efforts. This will ensure that key stakeholders have a clear understanding of the authority's current initiatives, future goals and the potential impacts on the community. To help with informing the public, ABC will develop a standard curriculum to provide up-to-date, effective and consistent messaging. Finally, ABC will implement a licensee needs assessment to determine specific areas of the licensee experience that should be enhanced and then launch the Outstanding Licensee Program (OLP). OLP provides an incentive for Virginia ABC licensees to improve their standards of operation to the level of commonly agreed upon benchmarks. OLP also strives to increase communication between Virginia ABC and licensees when it comes to compliance, training and regulatory/legislative matters. Program benefits for licensees include enhanced employee morale, increased customer safety at licensed establishments, decreased violations and incidents in licensed establishments, active participation in periodic Virginia ABC stakeholder sessions, and increased goodwill generated for licensees through Virginia ABC-sponsored promotion.

Implement Executive Order 40: Initiatives relating to Executive Order 40 need to be completed and those initiatives that have been enacted will be maintained and measured. ABC will determine the requirements and timeframe for the completion of outstanding actions and identify ways to implement appropriate operational procedures and policies (e.g. the use of body-worn cameras).

Increase public safety data and measurement: ABC will determine key performance indicators that measure the authority's public safety efforts and compare them to industry best practices. Then, ABC can identify data gaps and solutions to closing those gaps. ABC also needs to streamline data reporting and accessibility, which should be aided by the implementation of a new licensing system. ABC will continue to utilize the quarterly reports initiated under E.O. 40 to inform decisions and provide useful information to the public.

Increase efficiency of judicial affairs: To increase judicial efficiency, the hearings appeals and judicial services division has: (i) expanded the availability of consent settlement procedures to include second and third offenses in all violations other than those involving public safety, fraud, gambling, lewd conduct, or significant tax deficiencies; (ii) converted the offer in compromise option, which was limited to two offers, to a 21 day negotiation period without a limit on the number of offers/counteroffers; (iii) established no cost mediation procedures; and (iv) adopted appeal prerequisites that mirror judicial rules.

Sales and Profitability - Achieve \$1.1 billion in revenue while increasing profit margins by June 2020

Retail store and network plan of the future: Over the biennium, ABC will open 20 new retail stores in major metropolitan areas to help increase the number of customers served per labor hour. Stores will also be given access to expenditure tracking relevant to them, such as utilities,

payroll and inventory costs. Each store will have a supply budget not to be exceeded, allowing for supplies to be ordered on a shorter basis. By increasing data access to stores through the transition to eVA, there will be greater visibility into supply ordering and also reduce the amount of paper used in transactions such as closing reports and regional audit needs. ABC also hopes to implement store operational efficiencies by tasking stores to manage their expenses. This will be achieved by empowering their decisions with timely sales and expense data, supply budgeting, access to alternative procurement methods and other means of directly managing store costs. ABC will consider the use of equipment such as iPads in stores instead of registers, as iPads can also manage surveys and track inventory through the POS system. To reduce shoplifting, ABC will install theft sensor systems in stores. ABC will also research the licensee payment process and develop a streamlined payment process to include delivering email receipts to reduce paper and cut costs. Finally, ABC hopes to add a dedicated resource to provide store layout and interior fixture recommendations, to include lighting, shelving and décor.

Retailing Strategy Plan: ABC's retailing strategy plan, or *omnichannel business plan* is focused on achieving a seamless user experience across all channels relevant to the buyer's journey to enhance customer service and increase sales and profits. This form of a business plan approaches Virginia ABC's ecommerce and store capabilities from the perspective of customers, and seeks the full availability of products, frictionless ecommerce, and a rich, content experience. The omnichannel business plan is based on both consumer and licensee journey maps (inclusive of both online and brick-and-mortar experiences). From these journey maps, capabilities were identified and prioritized in nine broad work-streams: scalability, shopping, payment, fulfillment, order management, accounts, pricing, customer service, and data. These capabilities and priorities provide strategic guidance into the development of ecommerce and a basis for coordination with ongoing projects and retail development.

Brand - Refresh the ABC brand to deliver superior service, revenue creation, and public safety

Brand architecture: ABC will conduct and apply market research to enhance the current brand or create new retail and corporate (Communications, Enforcement, EPS, etc.) brand positions, using the website, email and social media communication vehicles to reference and reinforce any changes.

Rebranding plan: Following a decision on brand architecture, ABC will assess store names and reconsider employee dress and the overall retail environment. In order to accomplish this rebrand, ABC will hire a retail design consultant to help the authority consider store layout, lighting, shelving, racks, signage, traffic flow and general aesthetics from both a supplier and employee point of view. Additionally, ABC will identify how to effectively measure employee adherence to the new brand by way of using technology applications (e.g. GoSpotCheck), mystery shoppers, etc.

Customer experience: Virginia ABC will continue to find ways to evolve from providing good customer service to creating a superior customer experience. This enhanced experience should apply to internal and external customers. For external customers, ABC will conduct market research to understand what is included in and expected from a superior customer experience. For internal customers, ABC will conduct needs assessments and create a more robust internal training process to be reflective of the new authority structure.

Mission Alignment

This service area supports ABC's mission to generate a reliable stream of revenue for Virginia and promote public safety through the responsible sale and regulation of alcoholic beverages.

Products and Services

Description of Major Products and Services

Revenue Growth and Internal Controls

Growing revenues and maintaining accountability and the public's trust will be a priority for ABC. The growth in stores, new items and consumer engagement activities continue to produce record levels of sales and revenue contributions to the commonwealth and localities. In FY 2018, ABC's gross sales increased to \$983.4 million and operating revenues rose 4.6 percent. Since 1934, ABC has contributed more than \$10.4 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 ABC assets through internal controls and compliance with generally accepted accounting principles.

Employee management and development

A critical part of ABC's balanced scorecard approach to operations and performance management 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, an employee suggestion program and utilizes a 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 for 2017 and 2018 saw increased participation rates and overall exposure. The Miss Virginia School Tour continues to see an

increase in participation from elementary schools and elementary-aged after school programs, reaching 27,500 students combined in 2017 and 2018. Virginia ABC's middle school prevention initiative, *Being Outstanding Leaders Together Against Drugs and Alcohol* (BOLT) partnered with three localities reaching 1,100 students and nearly 750 parents and teachers, through a series of regional, one day events promoting peer leadership, drug and alcohol education and lessons about how drugs and alcohol influence youth relationships. The Youth Alcohol and Drug Abuse Prevention Project (YADAPP) has hosted nearly 850 students and adult educators over the past two years with a reach of 31,157 through strategic prevention planning.

Project Sticker Shock continues to raise community awareness about Virginia laws on social providing of alcohol and using a fake ID to purchase alcohol. Over the past two years, 22 groups from across Virginia have held 38 events. The estimated reach for these efforts is over 24,000 individuals. The Higher Education Alcohol and Drug Strategic Unified Prevention (HEADS UP) program now offers free resources including online trainings, promotional materials, educational flyers and trivia cards. In the past year, approximately 91 percent of all institutions of higher education in Virginia engaged with this program. There were approximately 2,770 downloads of free resources and an estimated reach of 21,584 students through the use of HEADS UP materials at campus events. To inform programming, needs assessment data was collected from both four-year and two-year institutions of higher education, and a list of current campus policies and programming on alcohol and other drugs was compiled. In collaboration with the Commission on Youth, these findings informed a recommendation to amend the Code of Virginia to establish a higher education advisory committee. This was signed into law this past year, and the Virginia Higher Education Substance Use Advisory Committee (VHESUAC) is currently being formed. The law tasks VHESUAC with developing a statewide strategic plan for substance use education, prevention and intervention at Virginia's public and private institutions of higher education and with assisting institutions of higher education in developing individual strategic plans by providing networking and training resources.

Virginia ABC's publication series includes specific guides for elementary school, middle school, high school, college student, 21 and older, parent, older adult, licensee and health care provider populations are available and can be ordered (free of cost) via ABC's website. Virginia ABC offers alcohol education and prevention grants to coalitions, law enforcement, nonprofits, schools, colleges and universities, faith-based organizations and prevention-related groups. Applicants must address one or more of the priorities: underage drinking prevention, social hosting or social providing prevention and high-risk drinking prevention. Grant awards are limited to a maximum of \$10,000. Approximately eight awardees are selected each annual grant cycle.

Additionally, 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 sharing resources at all levels, as well as 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 (VDSS), Virginia State Police, Virginia Foundation for Healthy Youth, Virginia National Guard and the Office of the Secretary of Health and Human Services.

Products / Services					
Product / Service	Statutory Authority	Regulatory Authority	Required Or Discretionary	GF	NGF
Administrative Services	Title 4.1, 4.1-101, 4.1-102, 4.1-103.02		Required	0	66,420,441

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 throughout 2018.

Starting on July 1, 2018, ABC implemented previously developed Authority Transition plans by filling all new leadership positions under the reorganization and completed all requirements of the Authority Transition Strategic Plan pillar. With this phase of the authority transition completed, the Authority Transition pillar was replaced with the Employee Experience pillar which is focused on attracting, retaining and developing the organization's talent.

While the Authority transition will be complete on 1/1/2019, Virginia ABC will continue to work to execute on the Authority model in such a way that it achieves the intent of the transition to operate more as a business – responding to challenges and opportunities through streamlined processes and policies and a mindset that embraces change. The Authority will explore new ways to implement its charge to regulate alcohol and sell distilled spirits, utilizing industry best practices and technology. As an independent political subdivision, the Authority will utilize concepts from the public and private sector, seeking efficiencies while maintaining a focus on public service. Fully executed, the Authority will embrace change in the marketplace and place a priority on serving customers, whether at retail or as a licensee, in a fashion that meets expectations and provides a reliable stream of revenue. As execution continues, employees will continue to adjust to the new leadership structure, approach to doing business and assignment of responsibilities. The first year will likely continue to see some transition as employees depart and new employees are hired directly to the Authority.

Other anticipated changes

ABC is already using e-commerce to provide web-based application and payment processing for the banquet licensing process, online education/training, product registrations and product ordering by licensees. ABC expects to explore the feasibility of additional online transaction

opportunities such as retail license applications through the new licensing system and more robust retail and licensee sales via the website. 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 authority'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 organization's growing needs. The Financial Management System (FMS) replacement project was kicked off in earnest at the beginning of August, 2018, though the planning started more than a year prior to the kickoff. ABC is working with Accenture (the consulting firm chosen through last year's RFP-procurement process) to implement a cloud-based Oracle ERP system which will replace the current Performance financial system and interface with several legacy systems. The current project timeline has the new system going live on July 1, 2019.

Factors Impacting

Increasing Population

The continued growth in revenue and profits is directly correlated to store expansion, operating hours, consumer promotions 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 and consumer promotions 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, an increase in the number of legal consumers and the potential for an increase in underage and irresponsible consumers.

Central ABC mandates such as compliance and implementation for the Authority Risk Management Internal Control Standards (ARMICS), PCI compliance and information security will require ongoing staff commitment across the organization. Documentation for all significant fiscal processes, 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 (incurred when financially feasible for ABC), changes in health care costs, and IT outsourcing changes (licensing, VITA, etc.) 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, to name a few. These projects are a considerable undertaking, but are imperative to further solidify ABC as a continued source of significant revenue for the commonwealth. In addition to the projects above and the central office and warehouse move, ABC has embarked on numerous other infrastructure-related projects to include:

- Risk mitigation
- Jira / Rational replacement
- Next generation POS
- Sales audit
- Body worn cameras
- Web services security
- BI program
- Distillery stores
- AIS server hosting
- Identity management
- Retail store portal

Financial Overview

The Virginia Alcoholic Beverage Control Authority operates as a component unit of the Commonwealth of Virginia which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues.

Biennial Budget

	2019 General Fund	2019 Nongeneral Fund	2020 General Fund	2020 Nongeneral Fund
Initial Appropriation for the Biennium	0	64,966,022	0	66,420,441

Changes to Initial Appropriation	0	0	0	0
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Supporting Documents

Title	File Type
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Alcoholic Beverage Control Retail Store Operations [80102]

Description of this Program / Service Area

This service area aligns with the ABC's mission by promoting public safety through the responsible sale of alcoholic beverages by operating efficient, conveniently located retail outlets, promoting excellent customer service and generating revenue for the commonwealth.

Services include:

- Operating more than 374 stores throughout the commonwealth using a sophisticated store location process to maximize customer service and profitability.
- Providing more than 3,102 products for sale including non-alcoholic mixers, wine, Virginia Lottery tickets and Virginia is for Lovers merchandise at select stores. Another 796 special order products and 1,019 special order non-catalog products are also available for sale.
- Servicing the 5,013 restaurants licensed to sell mixed beverages in the commonwealth.
- Conducting over 32.4 million customer transactions annually generating in excess of \$983.4 million in sales in FY 2018.

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.

This service area also supports the delivery of high-quality products to retail and licensee customers in a timely manner and encourages user-friendly online services for all citizens.

Products and Services

Description of Major Products and Services

Service area description

This service area aligns with the ABC mission to generate a reliable stream of revenue for Virginia and promote public safety through the responsible sales and regulation of alcoholic beverages.

Service Area Products and Services

Services include operating more than 374 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 5.2 million ID challenges, provided over 3,102 products for sale including non-alcoholic mixers, Virginia Lottery tickets, and VIFL merchandise; served over 5,013 restaurants licensed to sell mixed beverages in the commonwealth, and processed over 32.4 million customer transactions to generate over \$983.4 million in sales in FY2018.

Products / Services					
Product / Service	Statutory Authority	Regulatory Authority	Required Or Discretionary	GF	NGF
Alcoholic Beverage Control Retail Store Operations	Title 4.1, 4.1-101, 4.1-102,		Required	0	95,712,014

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 FY18, five new stores were opened, with 15 new stores expected to open in the next few years. 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 authority projects additional new classified positions within the next two years and further increases over the next 10 years. An increase in wage employees is needed to support this growth as well. Succession planning will also dictate how ABC prepares for the four percent of retirement-eligible employees who can retire within the next five years. Key positions identified for succession planning include store managers and regional managers.

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 ABC. The 29-hour limitation on wage employees' working hours continues to be detrimental to employee hiring, retention and scheduling. On July 1, 2016, stores began opening one hour earlier at noon and as of January 1, 2017 stores are 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 was rolled out to include enhanced product knowledge training for wage and classified employees. In FY18, retail operations developed a comprehensive product database for all ABC standard products. This database will be available to all store employees to assist with the continual product knowledge training.

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 are also driving changes in ABC's services to both retail and licensee customers. ABC's development and implementation of an omnichannel business plan strives to capitalize on both the growth in the spirits industry as well as the continued increase in mobile commerce.

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 five percent can significantly hamper the authority'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 nine years. Much of ABC's operating expenses are driven by sales volumes, as shown in annual increases of four percent. Most recently, ABC had marginal decreases in two of four main cost drivers as a percentage of sales. In FY 2018, cost of goods sold (as a percentage of sales) for alcohol increased by 0.1 percent, personal service costs had a 1.9 percent increase, Continuous charges had a two percent decrease and contractual services had a 5.1 percent decrease compared to FY 2017.

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 the commonwealth's 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 its data through a business intelligence system.

Additional issues relate to the Appropriation Act by the General Assembly, which can raise ABC's profit estimates without regard to expense trends or current sales trends. Increasing current estimates is not advised due to uncertainty of being able to achieve the additional increased revenue to support more profit taking. Appropriation Act profit transfer requirements for FY 2018 were \$174 million, FY 2019 are 170.7 million and FY 2020 is \$184.9 million

Wage employees and 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, Virginia's Department of Human Resources Management (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 agency 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—2,334 in FY 2018—the proper steps have been taken to reduce work hours and hire additional part-time employees. Retail operations is developing strategies to reduce turnover and increase product knowledge by part-time store employees. Retail operations has maintained a 100 percent compliance rate from FY 2013 through FY 2016 in keeping wage employees below the 29 hour maximum.

Financial Overview

The Virginia Alcoholic Beverage Control Authority operates as a component unit of the Commonwealth of Virginia which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues.

Biennial Budget

	2019 General Fund	2019 Nongeneral Fund	2020 General Fund	2020 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 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 374 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC’s warehouse. ABC houses over 461,000 cases in its Richmond warehouse and ships over 5.1 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 22,000 cases with seasonal spikes exceeding 26,000 to 27,000 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 ABC’s mission to generate a reliable stream of revenue for Virginia and promote public safety through the responsible sale 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 commonwealth.

This service area also measures its productivity through inventory turns. Inventory turns measure the number of times that capital investments in goods to be sold turn over in a year. Increasing inventory turns reduces holding costs and impacts profitability. Items that turn over more quickly also 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 or more in stores, 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 product distribution including receiving, storing and distributing product through the warehouse; inventory management for standard and special order products; and demand planning for over 374 ABC stores.

- ABC manages a 300,000 square foot central distribution center in Richmond and an inventory of over 3,100 products with an average inventory exceeding 445,000 cases and a volume exceeding 5.1 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 22,000 cases with seasonal spikes exceeding 26,000 - 27,000 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 374 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 \$948 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 a special order catalog for merchandise not carried by ABC.

In FY 2018, Virginia ABC Logistics (warehouse) was recognized by *StateWays* magazine for Best Distribution Innovation.

Products / Services					
Product / Service	Statutory Authority	Regulatory Authority	Required Or Discretionary	GF	NGF
Alcoholic Beverage Purchasing, Warehousing and Distribution	Title 4.1, 4.1-101, 4.1-102		Required	0	514,891,773

Anticipated Changes

Virginia ABC projects that the number of products offered will approach 4,000 in the next 10 years as distillers seek innovative ways to expand the marketplace to compete with beer and wine. Annual increases in product lines translate 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 percent capacity, and its automated warehouse system has reached its end-of-life.

Factors Impacting

For the warehouse, the 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 has almost quadrupled in the last three decades, growing from approximately 800 items in 1981 to over 3,100 currently. The agency'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 compensation rates below average market rates, the 29-hour part-time employee mandated work rule, and a warehouse environment that can experience extreme temperatures. To improve employee engagement, warehouse supervisors participated in a seven-month supervisor and team building training program initiated in 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. These include a warehouse employee on-boarding program complete with training and cross training guidelines, a monthly warehouse employee meeting to provide a communication channel, set expectations, and recognize the employee of the month, a cross training plan / career path and new lead measures and KPIs to improve performance.

Warehouse capacity and aging equipment

In 2016, ABC worked with outside experts in the logistics and commercial building industries, and concluded a property analysis that examined current facility usage and developed projections for future needs. During the project, building usage, existing warehousing practices and capacity levels were reviewed. Independent consultants evaluated future growth options for the agency and provided recommendations for the best solution that will allow ABC to achieve its goal of \$1.1 billion in sales, in part by opening more stores and providing greater product selection. The report showed that the warehouse is above 90 percent capacity, which is beyond ideal capacity levels (80-85%) for efficiency purposes. The existing space is not sufficient to accommodate growth over the long term. The warehouse is efficiently run; therefore, investments in the warehouse will have limited impact on productivity. Further, the central office is out of office space and in need of expensive future repairs. Ultimately, the recommendation solution was ABC pursue building a new central office and warehouse.

In early 2018, the Governor's introduced budget included language authorizing ABC to continue in its planning and acquisition of a new central office and warehouse. This authorization was based, in part, on the joint report written by ABC and the Department of General Services (DGS) that was delivered to the Governor and General Assembly in early November. Pursuant to the Appropriations Act of 2017 (Item C-52.45), the report outlines the steps taken and recommendations developed to provide cost-effective, efficient, turnkey options for a new ABC warehouse and administrative offices. In developing the plan, ABC and DGS examined leasing existing facilities, building new facilities, or renovating the existing facilities. Responses to two RFPs were utilized to determine the feasibility and cost of various approaches.

In March 2018, ABC passed another important milestone in an effort to obtain a new central office and warehouse. Working with the Department of General Services (DGS), ABC and DGS selected a development company and identified a preferred location. The preferred location was selected based on several factors some of which included employee drive-time, nearby amenities, crime statistics, freight costs, proximity to nearby interstate highways and ease of accessibility for truck traffic. ABC and DGS continue to work with the developer and landowner to formalize a legally binding agreement regarding the proposed site.

Financial Overview

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Biennial Budget

	2019 General Fund	2019 Nongeneral Fund	2020 General Fund	2020 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**