

Virginia ABC

Overview of Operations and Budget

House Appropriations Committee
September 16, 2019



Travis G. Hill, CEO Virginia ABC



www.abc.virginia.gov

Key Concepts

- Revenue from the sales of spirits continues to rise
- Work continues to expand and upgrade key infrastructure
 - Stores and Warehouse
 - IT Systems
 - Transition from VITA
- Challenges remain in technology deficit and staffing
- Focus remains on dual missions of retail and public safety

Current State of the Control State

- **Mission Critical Statistics**
 - FY 2019 Gross Sales of \$1,054 million (up 7.2%)
 - FY 2019 Profits of \$196.7 million (up 9.2%)
 - Retail Licenses: 19,870 (up 3.5%)
 - Total Cases shipped to ABC stores: 5,316,778 (up 4.9%)
 - ABC store underage sales compliance – 99%
 - Licensee underage sales compliance – 87%
- **Operating Expense**
 - FY 2019: \$705.8 million (up 5.9%)
 - FY 2019 Operating expenses include: alcohol – 71.4%, personnel – 16.5%, retail occupancy - 4.9% and contractual (VITA, freight) - 5.8%
- **Employee Numbers**
 - At end of FY 2019 ABC had 3,723 total employees
 - 1,163 full-time employees
 - 2,560 part-time employees

FY 2019 Results

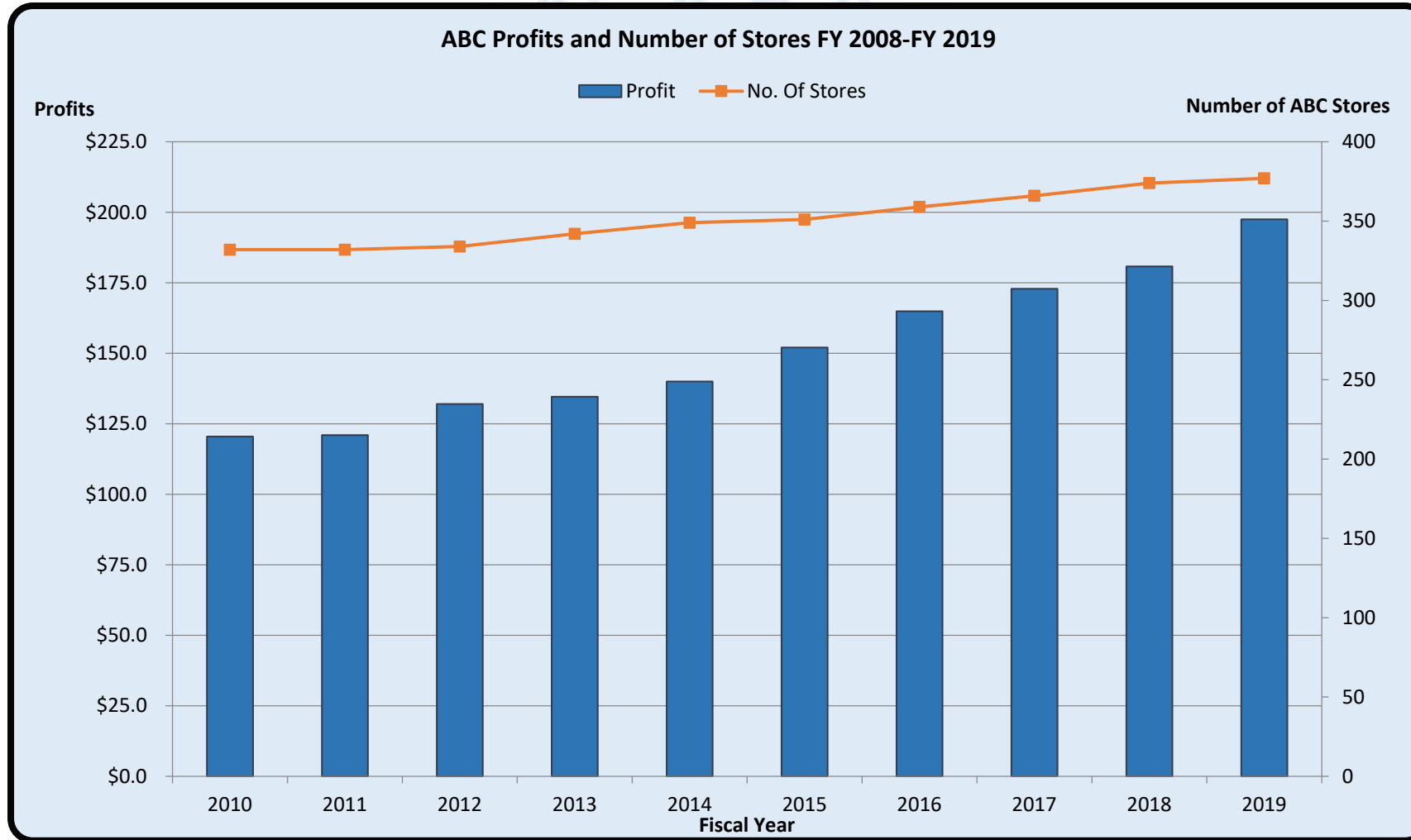
VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY

Contribution Margin - Income Statement (In Millions)

Fiscal Year 2019 - YTD as of 6/30/2019

	FY 2019		FY 2019		FY 2019	FY 2019
	Actual		Budget		Variance	Percentage
Revenue Sources:						
Alcoholic Beverages (Store Sales)	\$ 1,055.3		\$ 1,042.6		\$ 12.7	1.2%
Other	22.1		21.7		0.4	1.9%
Gross Revenue	1,077.4		1,064.3		13.1	1.2%
Less: Spirits Excise Tax	174.3		170.8		(3.5)	-2.0%
Net Revenue	903.1		893.5		9.6	1.1%
Variable Operating Costs:						
Cost of Goods Sold	504.5	47.8%	501.9	48.1%	(2.6)	-0.5%
Variable Administrative Costs	134.0		136.5		2.5	1.8%
Total Variable Costs	638.5		638.4		(0.1)	0.0%
Contribution Margin	264.6		255.1		9.6	3.8%
Contribution Margin as a % of Store Sales	25.1%		24.5%			
Fixed Operating Costs:						
Fixed Administrative Costs	49.9		49.8		(0.1)	-0.2%
Regulatory Costs (Enforcement & Hearings)	17.2		19.8		2.5	13.0%
Total Fixed Costs	67.1		69.5		2.5	3.6%
ABC Net Profit	\$ 197.5		\$ 185.5		\$ 12.0	6.4%

Historical Profit Growth



Licensing and Enforcement

- Bureau of Law Enforcement
 - 110 employees
 - 88 sworn agents in 10 field offices across nine regions
 - Field agents focus on retail and banquet license investigations
 - Compliance agents handle wholesale and manufacturer licenses
 - 22 civilian staff in Licensing and Records Management
 - Almost 19,000 retail licensees
 - 24,000 one-day banquet licenses
 - Activities include site inspections, application investigations, covert observations, planned operations and criminal investigations
 - Tax Management responsible for \$80M in excise tax collections
- Hearings Division
 - Adjudicates almost 500 cases annually
 - Most frequent cases involved underage sales and mixed beverage ratio (§4.1-114)
 - Reforms made as part of Authority transition
 - Decreased resolution time by one-third, down to 50 days from 75 days
 - \$610,250 in penalties collected since December 2018, up from \$370,600 in prior year

Enforcement Activities

- Direct Shipping continues to be a focus for enforcement.
 - Unlicensed Shippers — Virginia ABC has identified in excess of 650 Unlicensed Shippers and has developed and implemented a plan to seek compliance and proper licensing of these unlicensed shippers.
 - Virginia ABC is partnering with Virginia licensed common carriers to stop unlicensed shippers from shipping into Virginia.
 - This activity is responsible for loss of revenue to Virginia through excise taxes and sales taxes not being collected.
- During 2019 Virginia ABC is working with stakeholders on License Reform and Modernization.
 - Review includes all manufacturing, wholesale, and retail licenses. Goal is to look for ways of consolidation and simplification of current structure.
 - All fees will also be reviewed.
 - Goal to streamline licenses and produce revenue to support Enforcement
 - Resources challenged due to increasing licensees, complexity of businesses and stagnant fee amounts

Contributions to Commonwealth

Last 7 Years Total \$3B

FY 2019 increased \$33 million over FY 2018, \$130 million over FY 2013

Dollars in Millions

Revenue Source	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
ABC profit transfers	\$134.6	\$140.0	\$152.0	\$164.9	\$171.2	\$180.8	\$196.7
State excise taxes	\$126.8	\$132.0	\$139.8	\$147.8	\$154.4	\$161.5	\$174.1
General sales tax	\$31.3	\$36.9	\$39.2	\$41.3	\$43.3	\$45.4	\$48.8
Wine liter tax	\$34.4	\$34.6	\$35.2	\$36.2	\$36.8	\$38.2	\$38.5
Malt beverage tax	\$42.8	\$43.3	\$42.9	\$43.2	\$42.8	\$42.9	\$41.4
Total	\$369.9	\$386.9	\$409.3	\$433.4	\$448.6	\$467.2	\$499.5



Virginia ABC's 2019 *Revenue Recipe*



\$1 BILLION TOTAL REVENUE!

Did you know?

If Virginia were to replace the millions of dollars generated by Virginia ABC, each household would need to pay another \$129 in taxes.

\$196.7M

Sales Profit

\$223M

Retail Taxes

\$79.8M

Wine/Beer Taxes

**\$499.5M transferred to
the commonwealth's
General Fund**

Where does the General Fund go?

Education	(40.2%)
Health & Human Resources	(31.6%)
General Government	(13.7%)
Public Safety	(9.5%)
Other	(5.1%)

**How does
Virginia ABC
benefit you?**



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Profit Forecast



Financial Forecast – Revenue (Sales)

Sales Forecast – 4.6% increase in FY2020

- Industry growth rates projected at 4.0% for FY2018 – 2021
- The forecast includes adjustments for changes in the number of Friday and Saturday sales vs. Sunday through Thursday sales (calendar impacts)
- Timing of holidays – FY2019 longest possible holiday season; FY2020 shortest possible
- New Store Growth

Store Growth

Store Count at 9/6/19

382

During FY 19 and to date FY 20

- Twelve Stores Opened

- | | |
|------------------------------------|---------------------------------|
| -Loudoun | -Stafford |
| -Lebanon | -Chesapeake |
| -Short Pump Town Center (Richmond) | -Virginia Beach (two locations) |
| -Fairfax | -Alexandria |
| -Winchester | -Norfolk |
| -Henrico | |

- Seven stores Relocated

-Madison Heights, Herndon (two locations), Leesburg, Glen Allen, Louisa, Mechanicsville

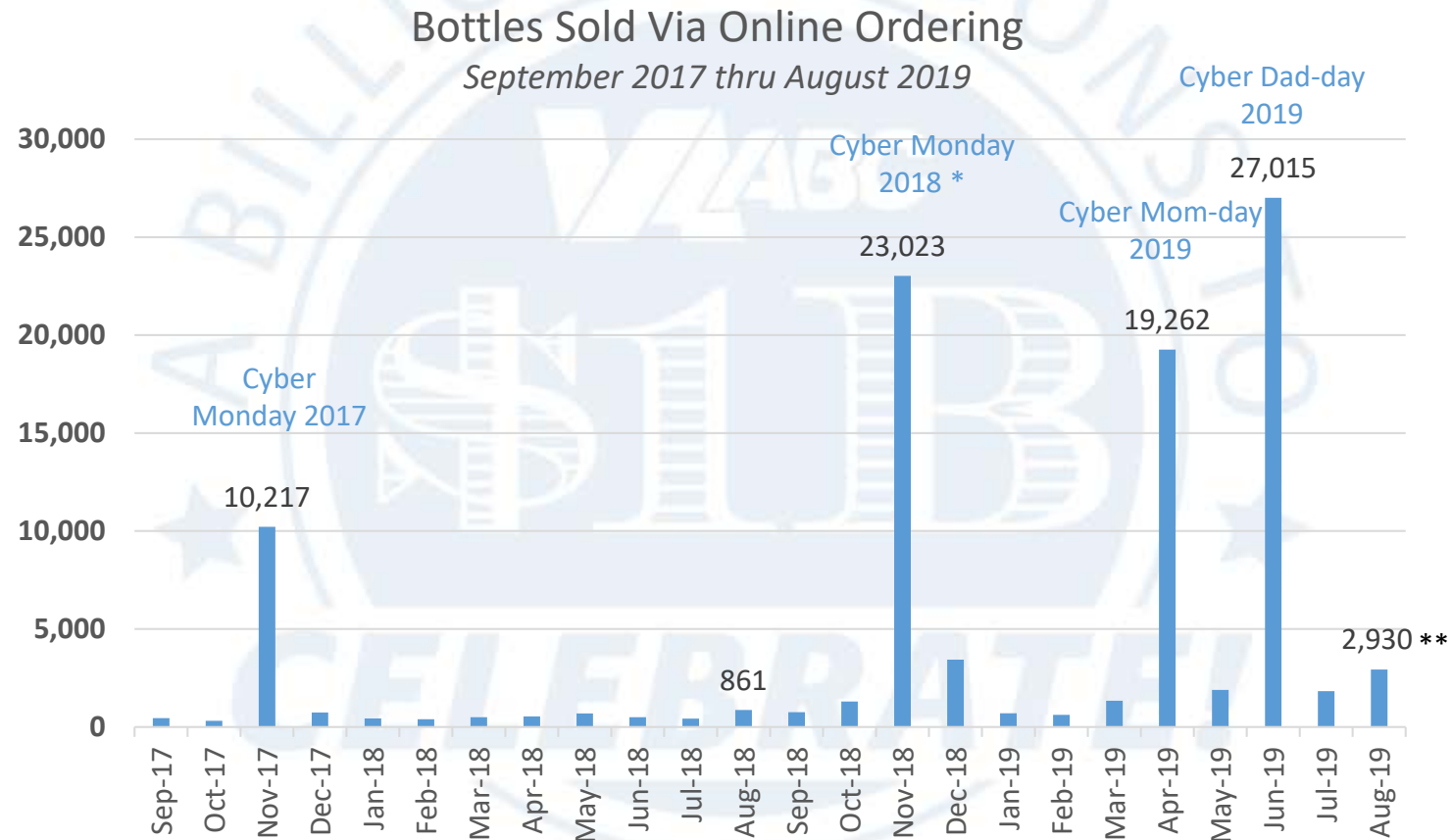
- Three stores Expanded

-Garrisonville, Chesterfield, Sterling

- Five stores Updated

Online Order Growth

Over 100,000 retail bottles sold online in past 24 month (\$3.1M in sales)



* 125% Growth in Online Sales November 2018 vs November 2017

** 240% Growth in Non-Event Online Sales August 2019 vs August 2018

Appropriation Act Profit Requirement

	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>
Profit Transfer Required by Code	104,100,000	115,600,000	120,128,892
Dept of Behavioral Health and Developmental Services	65,375,769	65,375,769	65,375,769
Other State Agencies	187,906	187,925	187,925
Operating Efficiencies	3,864,585	3,364,585	3,864,585
Deferred VRS	500,882	1,001,765	-
2019 Appropriation Act Required Profit Transfer	174,029,142	185,530,044	189,557,171

Financial Forecast – P & L

(\$ million)

	Actual FY2018	Actual FY2019	Forecast FY2020
Revenue Sources:			
	Growth Rate	7.32%	4.49%
Alcoholic Beverages (Store Sales)	983.3	1,055.3	1,102.7
Less: State Taxes on Spirits & Wine	<u>161.0</u>	<u>174.3</u>	<u>180.3</u>
Net Store Sales	822.3	881.0	922.4
Other Revenue	<u>22.3</u>	<u>22.1</u>	<u>22.4</u>
Total ABC Revenue	844.6	903.1	944.8
Cost of Goods Sold:	473.7	504.5	529.2
Operating Costs:	<u>191.7</u>	<u>201.1</u>	<u>225.6</u>
ABC Net Profit	179.2	197.5	190.0

GASB – Standard No. 87

Governmental Accounting Standards Board

- Effective for the Commonwealth and ABC on July 1, 2020 (Fiscal Year 2021)
- Provides a single model for lease accounting across all government entities
- Assumes all leases are **financing** the right to use an asset
- Significantly changes the accounting methodology for leases

Financial Impact of GASB 87

Single Store Illustration

Gainesville, VA

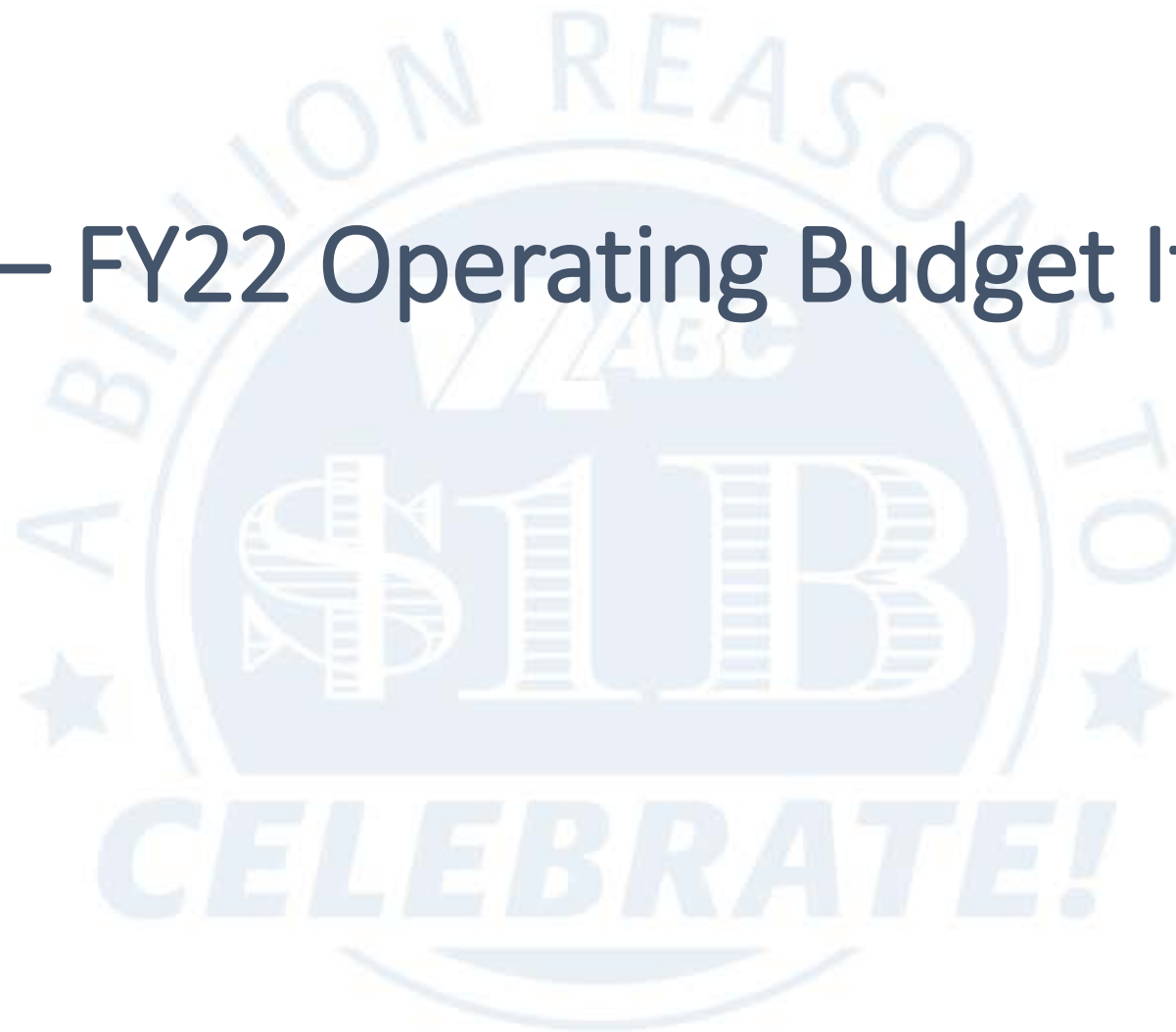
- Opened 3/1/2009
- 5-year lease with 5-year option to renew
- Assume renewal option will be exercised
- Interest rate has significant P&L impact

	Current	3.5%	S/L	Total Expenses after	P & L Impact After
	<u>Rent</u>	<u>Interest</u>	<u>Amortization</u>	<u>GASB 87</u>	<u>GASB 87</u>
FY 2017	\$ 93,509				
FY 2018	\$ 95,379				
FY 2019	\$ 97,286				
FY 2020	\$ 99,232				
FY 2021	\$ 101,217	\$ 11,386	\$ 97,183	\$ 108,569	\$ 7,352
FY 2022	\$ 103,241	\$ 8,158	\$ 97,183	\$ 105,341	\$ 2,100
FY 2023	\$ 105,306	\$ 4,743	\$ 97,183	\$ 101,926	\$ (3,380)
FY 2024	\$ 80,157	\$ 1,198	\$ 72,887	\$ 74,085	\$ (6,072)
	\$ 775,327	\$ 25,485	\$ 364,436	\$ 389,921	\$ -

GASB 87 Impact on ABC

- Financial Management Impact
 - ABC has numerous capital leases, both retail space and equipment
 - ABC Profit will be negatively impacted during first 2 to 3 years of implementation
 - Lease Accountant Position created
 - New Financial System
 - GASB 87 Compliance was a key requirement for the new system.
 - Lease administration becomes an accounting function
 - Must have strong knowledge of Accounting to process the monthly rent payments and other costs such as CAM charges (which are tracked by lease).

FY21 – FY22 Operating Budget Items



FY21-22 Operating Budget Items

- **Cost of Goods Sold** – increased appropriation for purchase of goods sold
- **Line of Credit** – Multiple large projects and need to maintain cash for operating expenses at start of FY
- **New Stores and Store Growth** – Operating costs for new stores (personnel, rent, etc); Additional staffing for store growth
- **Personnel Conversion** – Moving wage to full-time, addressing staff turnover and continued impact of 29-hour rule
- **Warehouse Move** – One-time costs for moving central office and warehouse, including dual operations
- **License Reform** – Change in fee structure to fund modernization of Enforcement operations and enhanced licensee service
- **Store Updates** – Updating stores to include new lighting, shelving and technology for store employees

IT Reinvestment Program



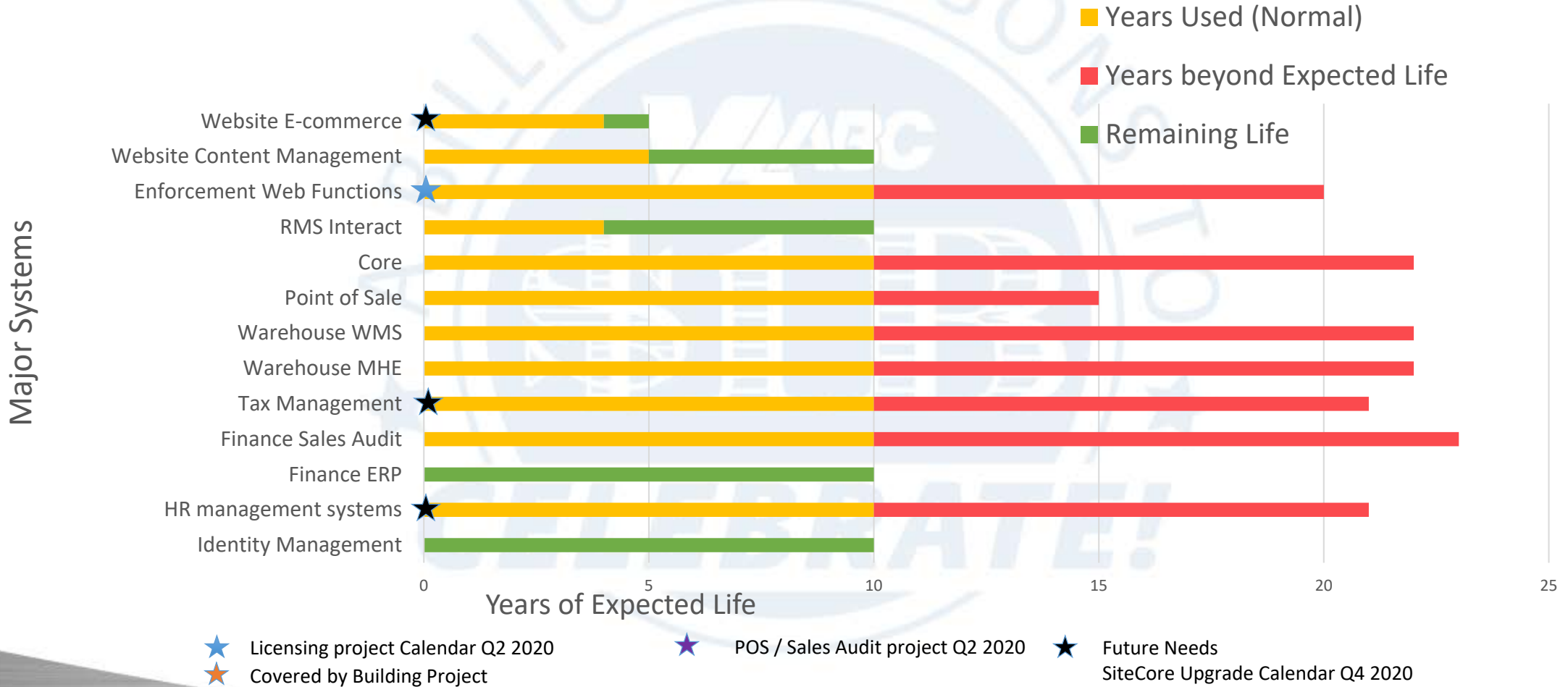
ABC IT Modernization

- Assessment conducted as part of a 2014 review of ABC's Operations determined aging IT infrastructure threatened operations and revenue generation
 - Virginia ABC operating outdated systems that are either out of support or soon to be out of support
 - Several more major systems, while then 'compliant', would become or are deficient – Finance, Point of Sale, Sales Audit, Inventory Management, Tax Management and HR
- Modernization plan presented to Administration and General Assembly in 2015
 - Remediate aging systems and allow for continued revenue growth
 - ABC estimated \$65 million needed over six years for technology upgrades
 - Projects approved in 2015: Licensing, Website, ERP, Approved in 2018: Point of Sale/Sales Audit and Email

ABC IT Modernization Continued

- ABC is clearing VITA security exceptions and APA audit points as they arise
- We are now approximately 20%-30% through the backlog of modernization (Includes approximately 30% migrated off VITA services to date)
- New paradigm is to keep systems current, rather than run beyond end of life.

Expected Life of ABC Systems Compared to Current System State



Project Appropriations

	Funding 2014	Funding 2015	Funding 2016	Funding 2018	Totals \$'000s	Item	Status
	750				750	Case management	Complete 2016
	463				463	Electrical System	Project Avoided
	3,000	14,100	2,900		20,000	Financial Management System	Project Complete
	1,500	1,700	1,500		4,700	Licensing System	Project underway
		1,100			1,100	Website Phase I/II	Complete Spring 2018.
		2,000			2,000	Tax Collection System	Planned After Licensing
		4,900			4,900	Real Time Inventory	Planned After POS / Warehouse
		600			600	Broadband for Stores	Primarily Complete (26 remain with VITA – in progress)
		2,780			2,780	Inventory Forecasting system	Planned after Warehouse
			200		200	Move Inventory project	Complete 2017
			91		91	Video Conferencing	Retired – Included in O365
				1,240	1,240	Email / SharePoint (O365)	Complete
				15,400	15,400	POS/ Sales audit replacement	In progress. Omni Channel, Loyalty and Mobile will require additional funding to implement
Totals	5,713	27,180	4,691	16,640	54,224	The difference (\$15.01m) is the sum of savings on completed projects, avoided project costs and funds not yet committed to active projects	
Allocated to Projects					39,214		

Financial System Replacement

- Selected Oracle's FUSION product
 - SAAS (hosted) ERP solution
 - Accenture as implementation partner
- Project live 7/1/2019 – status is green - on time scope and budget
- 3 months planned post live Hypercare to 9/30/2019
- Includes Budgeting, General Ledger, Accounts Payable/Receivable, Purchase Ordering (for EVA Orders), Employee Expense Management and Product Master File (for POS and Warehouse)

Licensing System

- Selected Accela's Citizen Portal
- Will support Licensing transactions via web site (instead of office based).
 - Main phase and data conversion nearing completion
 - Demo's to the licensee community have had great reviews so far
 - Target complete of main phase near end of 2019
- Integration work and 'Drive to live' may push live date back to Calendar Q2 2020
 - Negotiating change order for some additional scope items – still within budget

Point of Sale/Sales Audit

- Entirety of ABC's Point of Sale and Sales Audit System is end of life / End of support in early 2020.
 - System handles over \$1 Billion in transactions on 1,000 registers
- Extending current system is not feasible
 - Increased Running Costs, Higher failure rates, Non Compliant with security and PCI standards
 - Shortage of equipment – delay or prevent store openings – Hard to source obsolete components
- Minimum Viable Product Implementation in first phase
 - GK Omnipos (Point of Sale) and SAP CARS (Sales Audit) selected for solution
 - Removes Obsolete systems and will be cloud-hosted. Target phase complete June 2020.
 - Future phases will implement added features (Loyalty, Mobile, Omnichannel)

Point of Sale/Sales Audit Continued

- New system supports modern retailing opportunities (revenue and margin drivers)
 - Multi-channel sales (Ecommerce – order management and customer identity / Loyalty)
 - Real-time inventory
 - Support for customer programs – Coupons, mobile payment, mobile app and ordering etc.
 - More economic sustainable footprint (network and support costs, faster, more flexible model)

Building / Warehouse & Systems

- Warehouse – Out of Space & Out of Date
 - Warehouse is currently over 100% capacity
 - The warehouse MHE (material handling equipment) is near end of life
 - The central office is out of office space and is in need of expensive repairs
- Benefits:
 - Resolve the current facilities capacity constraints and provide modern facilities for office and warehouse
 - Provide the platform to support ABC's continued growth
 - Increased Shipping Capacity
 - Enhanced Ecommerce Capabilities

Building / Warehouse & Systems

- New Property:
 - Pole Green / 295 junction in Hanover; Warehouse (315K Sq ft, up to 5 levels inventory); Central Office (100K Sq ft, 3 levels)
 - Project in progress with target occupancy mid 2021
- Partners
 - H&M is the primary contractor
 - Warehouse Management System will be provided by Manhattan Associates
 - DGS providing resources on Project Management for construction



OFFICE AND DISTRIBUTION CENTER
HANOVER COUNTY, VIRGINIA



Current Warehouse vs. Future Warehouse

Subject	Current Warehouse	New Warehouse
Receiving Doors	7	10, expandable to 15
Shipping Doors	8	10, expandable to 15
Bottle Pick Area	Not expandable	Yes, expandable to double size
Fast Pick Area	top 30 items, requires 6 people to staff	top 60 items, expandable up 120 items, will only require one person per 60 items
Pick Modules	2 lanes deep, limited to solid row of product	4 lanes deep, row can be solid or mixed based on item movement
Odd Ball pick	racking 3 tiers high, pick with cherry picker and motorized pallet jack	flow rack, pick on floor, replenish with cherry picker. Eliminates two cherry pickers and six motorized pallet jacks

- New warehouse is expandable from 315,000 to 399,000 square feet
- Anticipated annual labor savings up to \$500,000

Property Relocation Status Update

- June 2019 - ABC and DGS signed the turnkey Purchase, Sale and Development Agreement (PSDA) with H&M
- July 2019 – ABC Land Purchase



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graph LR; A[Land Purchase] --> B[Start Site work]; B --> C[Complete Design]; C --> D[Project Complete]
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Land Purchase

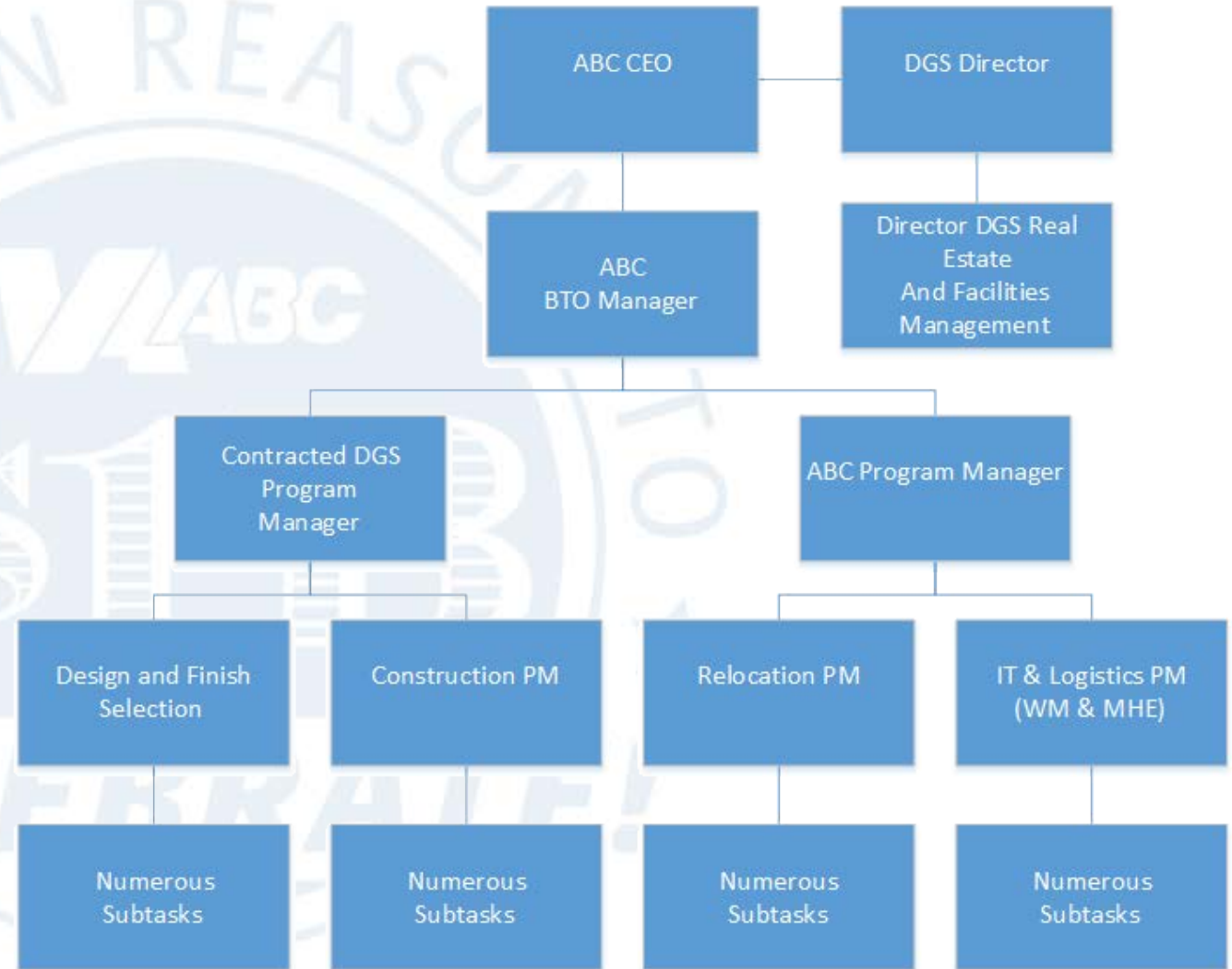
Start Site work

Complete
Design

Project
Complete

Property Team

- **Will continue a strong partnership with DGS**
 - In addition to those listed on the chart, working with DGS' BCOM
- **The ABC Property Steering Committee:**
 - Travis Hill, CEO (ABC Executive Sponsor)
 - Paul Williams, CIO
 - Jerome Fowlkes, CAO
 - Jeff Reeder, CRO
 - Beth Levermore, BTO (ABC Program Sponsor)
 - Mark Dunham, Director of Logistics
 - Susan Johnson, Real Estate & Facilities Director
 - David Jenkins, ABC Program Manager
 - Chris Porras, DGS Program Manager



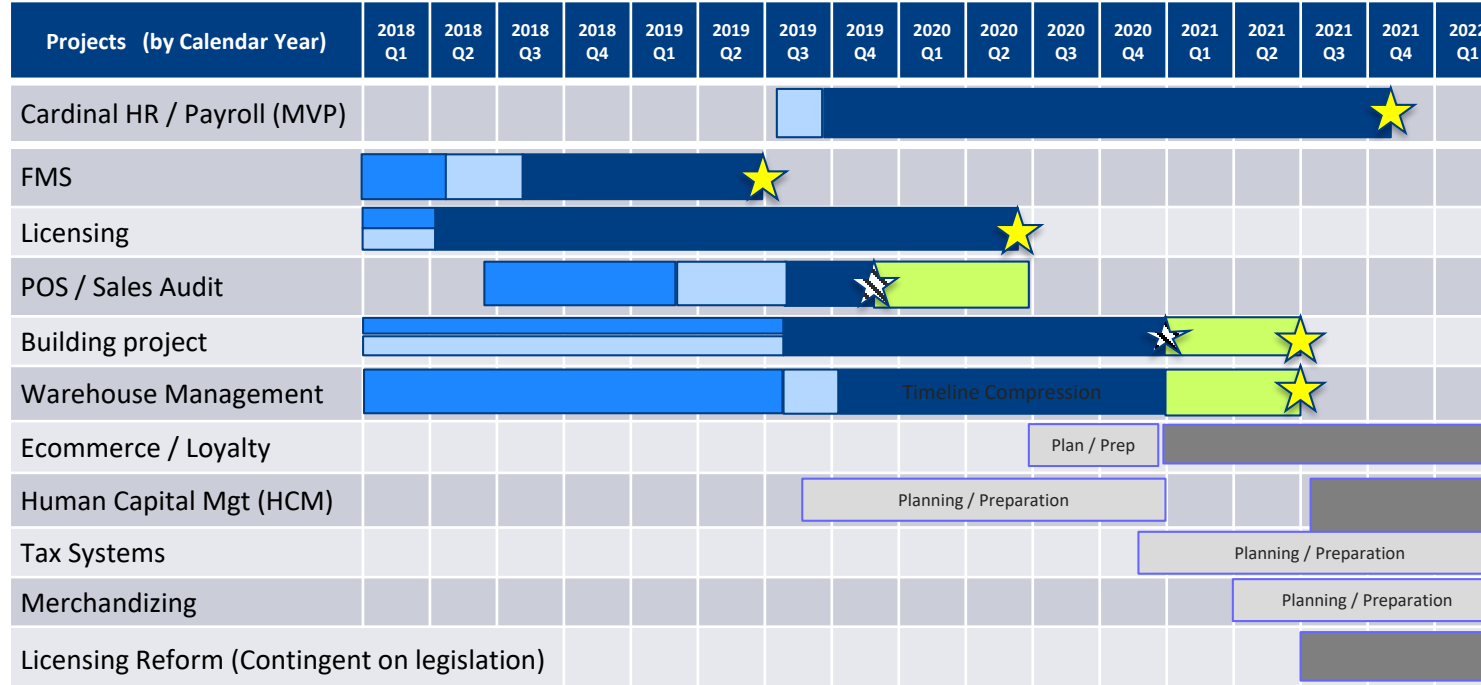
Pending Major Projects

- Modernization projects:
 - Tax Management (partially funded in 2015)
 - Requirements review during 2020
 - Project will take ~ 1 year
 - HRMS
 - Requirements review during 2020
 - Project will take 2-3 years for full implementation
 - Both to begin FY 2022 (after new HQ /warehouse systems)
- Mandated projects:
 - Cardinal HCM Implementation
 - ABC goes with second wave – October 2021 (must be ready by March 2021)
- Growth projects:
 - Order Management, E-commerce Shopping Cart, Direct Delivery Support

Cardinal/ABC ERP-Phase 2

- Will work with Cardinal project team to interface and support new payroll through Cardinal
- Will also use Cardinal for state benefit interfaces
- IT resources will be needed to meet Cardinal project timelines
- Need a more robust ERP/HRMS to meet the requirements of the business
- Envision starting Phase 2 of the ERP replacement with an HRMS project starting 2021 based on internal project timelines
- Savings from ERP phase 1 (FMS) will be applied toward funding the replacement HCM system (ERP Phase 2)

High Level Four-Year Project Roadmap



Notes:

The warehouse project is planned with approximately a 2-year execution period. Because the project did not start last fall, the execution end date has shifted to June 2021.

Manhattan (the software provider for Warehouse Management) estimated that execution was possible in a 12-month sprint.

Product master file will go live 7/1/19 and we will continue to work on enabling components to maintain the timeline. First consumers of Product Master will be POS, Sales Audit and SEIS



Major capability Backlog / Future Projects

Project	Status	Size	Est Start Date
Cardinal Payroll / HR	DOA Executing	Large	2019
Building Move program	ABC Executing	Very Large	2019
New Warehouse management / Inventory	ABC Executing	Very Large	2019
Loyalty System	Post POS	Large	2021
Licensing Study / reorganization	Research	Unknown	2021
New ABC HCM solution	Research	Very Large	2022+
Retail Staff Planning / Timekeeping	Post HCM	Large	2022
New Merchandizing Solution	Post Move	Large	2022
POS Phase 3, Omni-channel and Mobile (Shopping cart, Order Mgt, Web Phase III)	Post POS Live	Large	2022
Home Delivery	Research	Large	2023
Replace Tax management Systems	Research	Large	2023

EO19 / Migration from CESC

- EO19 – Cloud Service Utilization and Readiness
 - ABC is well positioned to migrate as MOST applications are web based/run on Virtual hosts
 - O365, ERP now SAAS hosted. New systems all planned to be hosted at AISn or Azure
 - BUT not everything is 'Hostable'
 - Warehouse (low latency – controllers need to be physically near plant)
 - Retail: significant customer facing hardware and systems
- ABC will be a 'Hybrid' business – Some SAAS, some Azure/AISn hosted and some residual, local systems
- CESC Data Center Migration
 - ABC is targeting being out of CESC by June 2020 (prior to ABC HQ move)
 - Incremental approach to migration
 - Retire systems being replaced — POS, Reporting, Core
 - Rehost persisting systems — HR, MIPS, Account central, web site
 - Infrastructure preparation for ABC HQ move
 - Telephony, Network, Identity
- ABC does not anticipate significant new capital projects will be required to migrate out of CESC. Some dual encumbrance costs are expected as new hosts and services are acquired and commissioned before old hosts are retired – offset by reduced VITA costs

Migration from CESC for ABC

Item	Covers	Amount (\$'000)	Projects	Timing	Comment
Storage and Compute: (60 servers still in CESC, plus associated storage)	Move remaining production systems to AISn / Azure. Costs are for 6 months parallel running	250	File Shares Databases and Applications	Complete June 2020	Near cost neutral 2020 if done early enough
	Migrate Case Management from CESC to SAAS	150	RMS data migration (Core to RMS) RMS Hosting	Complete by Q1 2020	Small investment < \$250K (migration costs)
Network management	Store Wide Area Network ~ 400 stores	1,400	Included in POS Budget	Complete June 2020	Slow roll starting late 2019. Saves \$600 per site / month
	Regional Offices – phones, network	40	Small effort and \$ each	No hard ETA (Charlottesville done)	
	HQ – Need to have parallel services during migration	200	Migrate off COV	Q1 2021 or sooner (may be better sooner)	Funding (mostly) in building project
Laptops	Provisioning, Identity, Anti Virus, Support (full helpdesk functions)	120	Stand up ABC capabilities on O365 / Enterprise Security	Slow roll starting August 2019	Needed for POS. Other dependencies for completion
Telephony	VOIP / Efax everywhere – retire old hardline fax machines	100	Line and number conversion per site	Start with POS roll out. HQ / regionals second. Prefer complete by 12/20	Equipment largely included. Conference, specialty and some conversion cost
Totals		2,260	ABC anticipates the unbudgeted cost will be covered by reduction (\$860K) in 2020 VITA costs / services and be mostly complete by end June 2020		

Savings From VITA Costs Reinvested:

Item	Annual Costs in \$'000s			Notes	
	Current / prior		New		Net Savings (Est)
	VITA	ABC Direct	ABC Direct		
ABC Dev / Test environments –Moved to AISn in FY 2019	220	0	100	120	Reduced 60 servers at CESC. Now hosted at AISn, added Licensing systems
Licensing COTS solution + depreciation	150	25	400	(225)	Home grown CORE – small third party software cost. New solution support includes maintenance
Performance ERP - Oracle	180	60	2,000	(1,760)	Performance ERP - end of life (few features, low support cost – replaced with feature rich, modern, SAAS based ERP). Includes depreciation over 5 years
POS (and WAN for Stores)	3,200	1,400	3,000	1,600	Most savings on Store network, Smaller savings on POS hardware. Sales audit goes from Custom to COTS
Hosting RMS Interacct	120	105	105	120	Current RMS support costs include hosting (not used today)
Phone Migration to VOIP	1,450	0	600	850	Will roll through FY 2020 reduces per line cost by ~ 50%
PC's and Desktop support	2,635	500	1,921	1,214	PC support significantly lower cost and simpler –merge POS and standard support functions
HQ support and circuits	628	0	48	580	One circuit at HQ is \$48K / GB / Month. Moves to \$3K / Gb / Month
Warehouse management	50	400	1,600	(1,150)	MIPS is home grown. Moving to Manhattan COTS
Other systems	1,369	600	2,300	(500)	Several smaller custom and COTS applications
Totals	10,002	3,090	12,074	1,018	Modernization cost increases offset by lower cost infrastructure. HR and Tax modernization not included

FY 2019 Operations



2018 Holiday Campaign

- First-ever statewide advertising supporting promotional offers throughout the holiday season (October 22-December 31) - utilizing Radio, Television, Digital and Social Media
- Advertising featured promotion-specific content and a core campaign focused on gift giving and entertaining.
- Promotional campaign included Door Busters, Spirited Thursdays, Black Friday and Cyber Monday
- Goals
 - Short term: “call to action” to increase holiday sales
 - Long term: increase consumer awareness and consideration of Virginia ABC and spirits when choosing beverages
 - Continue to change consumer perceptions of Virginia ABC

2018 Holiday Campaign Results

- Overall
 - Campaign generated \$7.5M incremental revenue, \$4M in incremental profit
 - Over half of revenue lift, \$4.435M, attributable to media support
- Door Busters
 - Generated incremental revenue of \$680K
- Spirited Thursdays
 - Generated incremental revenue of \$817K
 - All events well exceeded 500% growth target
- Black Friday
 - Generated incremental revenue of \$1.2M
 - Baskets above \$100 increased 32%
- Cyber Monday
 - Generated incremental revenue of \$329K
 - Orders increased 60% from 3K to 4.9K

2018 Holiday Campaign Results

Campaign sales success reinforced by customer survey results – customers visited more, bought more and indicated they will visit more in the future.

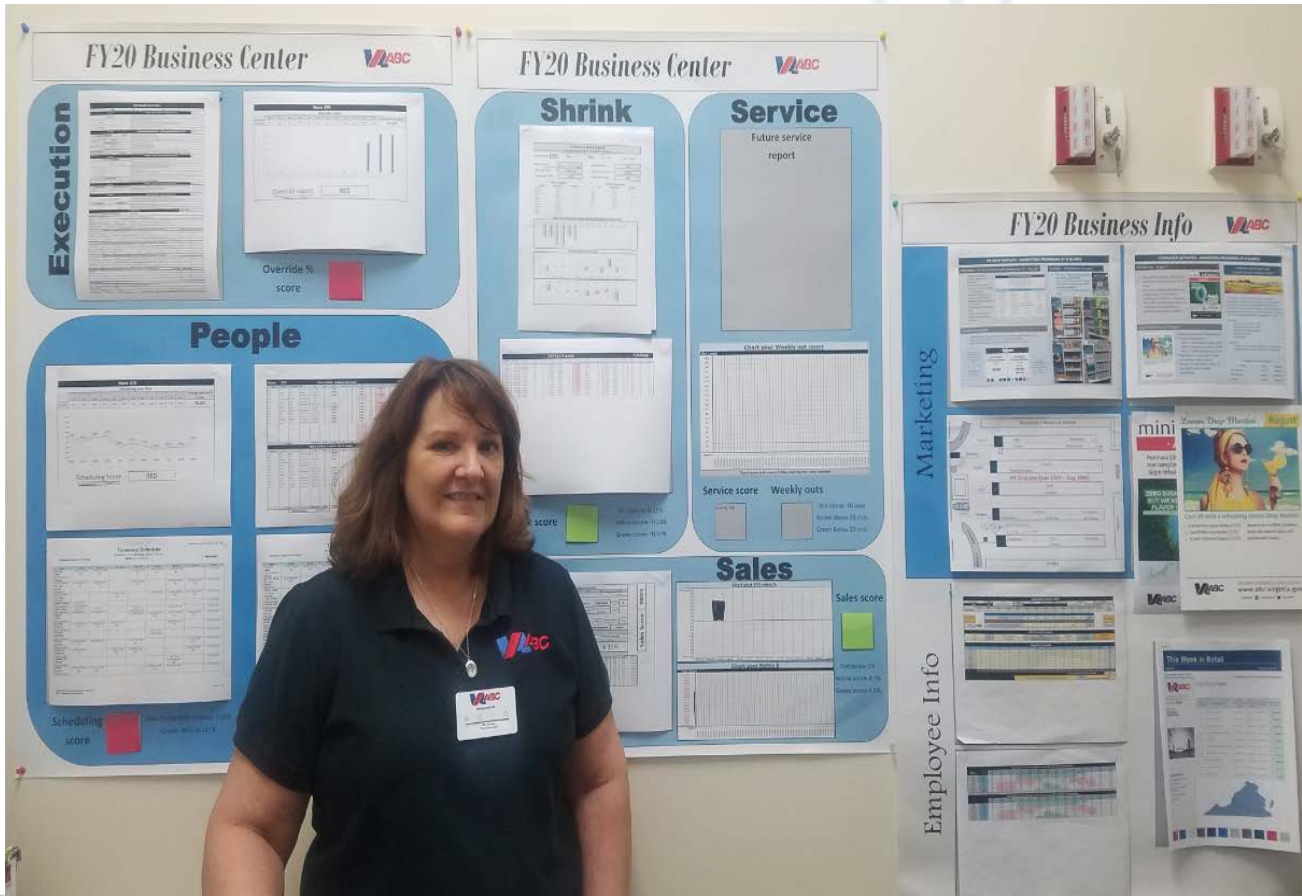
	Do Not Recall Holiday Campaign	Recall Holiday Campaign	Difference
# ABC visits during campaign	1.1	1.9	72%
Bottles purchased during the campaign	2.6	3.5	35%
Say they visited ABC store more often during the campaign than they did a year ago	7%	21%	+14 pts
Estimate their purchases were more than last year	12%	28%	+16 pts
Made purchases at ABC for gifts	28%	38%	+10 pts
Attribute increased ABC purchase to having more parties	15%	45%	+30 pts
Will visit ABC more often in the future	6%	17%	+11 pts



2019 Campaign

- Build on 2018 success
- Continue successful programs
 - Statewide media support
 - Door Busters – November 1-3
 - Six Spirited Thursdays – November through December
 - Black Friday
 - Cyber Monday
- New programs
 - Virginia Spirits Thursday – September 5
 - Spirited Bourbon Day – September 19
 - Spooky Spirits Thursday – October 24
 - Web coupon – October 17
 - E-coupon December 26
 - Programmed merchandising starting October 1

Business Center in Retail Stores



Data updated weekly provides up-to-date reports specific to each store in these categories:

1. Operational Efficiency (Execution)
2. People (Staffing needs, Scheduling and 2 weeks schedules posted)
3. Shrink (Inventory adjustments, Cashier analysis and YTD Physical Inventory results.
4. Performance Score Card (KPI)
5. Sales charted weekly by Management to engage them in the results.
6. Marketing news
7. Central Office communications
8. KPI reporting on each Cashier efficiency and effectiveness.

Retail Efficiency Developments

- **T- Day Process-** Implements a stocking process that is done daily in every store and therefore eliminates out of stocks if the product is in the building, while also alerting central office to items that are out of stock to assure fulfillment in a timely manner.
- **Truck Day Process-** Efficiency from back door to sales floor touching product maximum of twice with an organized and methodical approach to how it is placed on the sales floor during the unload process. Increases availability on shelf of high demand items for customers.
- **Scheduling Matrix-** Utilizes sales data and demographics of each store to calculate the optimum labor needs and staffing requirements. Seeks to optimize store staffing for that individual location.

Retail Efficiency Developments

- **SKU Optimization Pilot** – Exploring concept of utilizing space to sales ratio to clear non productive product from a store to make room for new and more high demand product. Individual to each store based on that customer base. Possible expansion depending on results.
- **Monthly Marketing Program Execution**- implemented time to start and path to follow with all signage and pricing. Cut the time needed to complete the monthly set up in half.
- **Electronic Customer Survey**- Real time feedback enables us to adjust and address concerns quickly.

Thank you



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