

Department of Liquor
Control Transition
Document

II. Unit Overviews

The DLC employs fifty-five (55) total staff members. The DLC is comprised of the following units: Enforcement, Licensing, Education, Warehouse & Delivery Operations, Spirits Purchasing, Retail Operations, Financial, and Information Technology (“IT”).

Information Technology (“IT”): The four (4) employees in the DLC’s Technology Unit support the technology functions of DLC divisions as well as the remote Agent cash registers, Agent linkages to DLC software, and wireless connections for our mobile enforcement investigators. The DLC technology team ensures a stable, secure operating environment, maintains software licenses and hardware assets, writes and maintains custom software as needed to support operations.

Financial Unit: A three (3) person team is responsible for accurately and efficiently conducting all department financial affairs. This includes weekly deposits of all receipts from Agency stores and payments to Agents and others. The unit oversees the financial reporting and accuracy of all payrolls and expense reimbursement requests. They support, review and bill for all grant expenses. Accounting shares responsibility for tracking all department assets (except liquor) with IT. The unit manages all non-liquor related contracts and pays for purchases. Other duties include producing monthly financial statements and annual report, ordering all department supplies, and working with the Auditor’s office to complete the annual independent audit and ensuring compliance with state-wide record retention policies.

Spirits Purchasing: The DLC’s purchasing unit oversees the purchase of over 3,000 different spirits in the warehouse. They process special orders and web orders on over 1,300 items, handle all product pricing, and coordinate new listings and delisting of spirits. They work in conjunction with vendors to manage promotional and monthly sale items and closeouts and manage relations with 135 different national wholesalers and 15 Vermont suppliers.

Retail Operations: Made up of 4 staff members this team works directly with our 80 agency retail partners. They help reset stores, check and maintain inventory and generally assist the stores with the goal improving operations. At this time this unit is involved with evaluating all of our retail partners to insure they are meeting prescribed standards.

Warehouse Operations: Warehouse operations are responsible for the receiving of incoming goods and the storage of spirits for distribution to Agency stores. Products are placed in pick locations and readied for orders which are generated from Agency stores. The orders are “picked” using a warehouse inventory management system. Product is loaded according to predetermined routes onto state owned delivery trucks and delivered to our 80 liquor Agencies. Each Agency store receives a delivery weekly or every other week. Inventory in the warehouse is valued at

\$12.5M representing approximately 60,000 cases. The spirits in the warehouse are owned by the wholesalers and held under a bailment agreement with the exception of the Vermont products.

Education Unit: The Education section is responsible for in-person and on-line training for licensees, industry members and members of the general public with regards to the Statutes and Regulations contained in 7 V.S.A. Over 9,000 people were trained in FY 2015 through in-person classes and on-line classes. License-holders and all staff involved with selling of alcohol must have current training and certification every twenty-four (24) months. Training is offered by the DLC via In-Person Seminars or Online Educational programs. Additionally, the DLC offers a training packet containing a DLC-produced DVD and instructional materials which can be purchased and off-site group training can be given by a DLC-certified company trainer.

Licensing: Responsibilities for licensing include issuing approximately fifty (50) different licenses and permits which allow for the manufacturing, possession, sale, storage, distribution and consumption of alcohol and tobacco products. The DLC offers licenses that are full-year, half year or seasonal, and per-event. In FY 2015 DLC issued and renewed more than 12,000 licenses and permits during our licensing year, May 1 through April 30th.

Enforcement: The enforcement division is responsible for state-wide enforcement of Vermont Statutes with particular emphasis on Title 7 and the General Regulations at licensed and permitted locations. Enforcement of Title 7 can also be undertaken at non-licensed or permitted locations when such locations are found to be allowing activities that do not comply with Title 7. The fourteen (14) investigators spend the majority of their time making sure that license holders are current in their certifications and are selling alcohol and tobacco products responsibly. Before a license can be issued, or re-issued, the licensee must meet with an investigator to certify they are compliant with state statutes and regulations pertaining to Title 7. Investigators do surprise inspections and issue administrative tickets which contain a waiver penalty or can be contested before the Board; they investigate complaints from the public, and complete background investigations as requested. Additionally, the Federal Food and Drug Administration ("FDA") has contracted the DLC to do compliance work in the areas of tobacco advertising and youth access to tobacco products.

The DLC contributes all revenues received from fees to the General Fund. In addition, the DLC does not take any appropriations from the General Fund, but rather is a complete enterprise funded department established under 7 V.S.A. 5, §112.

II. Agency Major and Evolving Issues

- The DLC has outgrown its current office and warehouse spaces located at 13 Green Mountain Drive in Montpelier. Both spaces are outdated, overcrowded, inefficient, and in need of expensive repair. A warehouse study determined that a new facility would result in very significant savings in labor and equipment costs. The DLC is working to relocate to improve efficiency and accommodate its growing needs. The Department is going to issue a request for information with the goal of issuing a request for proposals in the first or second quarter of 2017.

- The DLC is running its business operations on an ancient and outdated point of sale system (POS). The present system is nearly 20 years old. It is being maintained by purchasing used equipment off of EBay and as a result the Department is unable to add any new agencies. This system is so antiquated that it is nearly impossible to get useful data about sales trends and inventory levels. The DLC has an RFP out to purchase a new, updated system capable of meeting the modern demands of DLC operations.
- Redrafting of Title 7 and the General Regulations to bring them into line with more modern times and create a simplified statutory scheme.

III. Inter-Agency Issues

The DLC works closely with the Department of Health on alcohol and tobacco issues.

IV. Key Decision Dates

- July 2017 on RFP contractor for new POS system.
- Warehouse/Office RFP first or second quarter of 2017

V. Legislation

- Redrafting and modernization of Title 7 as required by the statute.
- Tobacco related legislation to end free tobacco sales licenses and to create a licensing scheme that better addresses underage smoking.

VI. External Group and Organizations

- Local Control Commissioners
- Town Clerks
- Alcohol and tobacco groups

VII. General Information

VIII. Anything Else

In 2015 the Department went through some very significant turmoil which resulted in the departure of the long serving (18 years in that position and over 30 years in the Department) and underperforming commissioner. An interim Commissioner was brought on and he worked to stabilize the Department. In the first quarter of 2016 a new management team consisting of a Commissioner and Deputy Commissioner were hired. The Commissioner, Patrick Delaney, come from Utah and has extensive experience in the beverage alcohol industry including owning and operating his own company. The Deputy Commissioner, Gary Kessler, is an attorney and has 29 years of experience in state government as a prosecutor and senior manager. Gary also has experience owning and operating several businesses. The goal for the new management team was to scrutinize every aspect of the Department's operations and work to improve and modernize them. In the first 8 months' significant changes have been made and many more significant changes are in process.

Here is a brief 8-month summary of the major changes:

Our Objectives

- a. To examine all aspects and functions of the Department and make changes to maximize efficiency and modernize operations.
- b. Bring a new perspective to business operations.
- c. Provide the legislature and citizens of Vermont with compelling reasons to maintain the control state model.
- d. Improve the performance and profitability of the Department.

After evaluating the Department's business model, we initiated significant changes in the following operational areas:

Ordering

- e. Discontinued vendor managed inventories-which resulted in an average of 80 OOS per month.
- f. Implementing bailment replenishment ordering.
- g. Created 4 listing categories.

Warehousing

- h. Re-configured our existing too small and inefficient 30,000 sq. ft. facility to add capacity for 250 additional product locations.
- i. Re-classified our warehouse employees to raise wages with the goal of improving retention which has been a chronic problem.

Distribution

- Reviewing and evaluating our delivery routes and frequency of agent deliveries to find new efficiencies.
- Improved our inventory management by implementing a shipping manifest program in retail.
- Implementing new technology to expedite and improve the accuracy of product delivery to retail agents and support month end inventories by our retail coordinators.

Retail

- Re-wrote our agent contracts and renewed for only one year while we evaluate each agent.
- Reviewed and strengthened bonding requirements for all agents to avoid losses to the Department.
- Created objective agency evaluation criteria and are evaluating agents on these criteria.
- Created new signage to standardize our retail band image.
- Creating standard SKU count and shelf schematics for standard store size foot prints.
- Finalizing accepting American Express in our agency stores.

Marketing

- Hiring a new Marketing Director
- Modifying our existing primary marketing vehicle 802Spirits magazine from quarterly to monthly.
 - Changing publication frequency to monthly will allow us to list and highlight sale products and pricing.
 - Compare Vermont sale pricing to our neighbor NH which shows Vermont products often cost less.
 - Wider distribution footprint to include all of southern VT which is presently lacking. Also adding north-western MA and eastern NY.
- Identifying other means for creating a positive image of the Department and our work to encourage Vermonters to do business in the state:
 - A lottery for limited in demand products with proceeds going to do some public good.
 - Holding grand openings for new and reconfigured stores.
 - Issuing media releases to highlight compliance and enforcement efforts.
 - Taking credit for the money contributed to the state General Fund.

Programming

- Discontinued two-week programs
- Re-allocated state programming dollars to support 50% of products, versus 20%
- Decreased the total number of deals to increase levels of supplier support for a smaller universe.

New product listings

- Decreased the number of annual listing meetings from eight to four.
- Maintained the same amount of potential SKU listing opportunities.
- Created a new limited listing status to provide more listing opportunities and promote brand development.
- Discontinued de-list rebuttals.

Licensing & Regulation

- Working to update and modernize existing rules, regulations and statutes to better meet present needs.
- Working to simplify and consolidate licenses and license requirements so they can more easily be understood and complied with.
- Working on a new online licensing system (working with the Secretary of State)

Enforcement & Compliance Assistance

- Working to identify strategic focus areas that will have the largest impact on reducing DUI related injuries and deaths.
- Working with licensees to help them operate in compliance with the regulations and statutes.
- Working on new ways to prevent youth smoking with the Department of Health and anti-smoking advocates.

IT

- Virtualization of Sequoia our very antiquated IT system
- Updated and greatly improved Department website
- Scan gun project for retail delivery and inventory
- Chip card reader rollout
- POS project

The End Game

Increase profitability through better investment of our resources and new efficiencies.

Stimulate sales growth by recapturing Vermonter's business by educating the public about how doing business in our state benefits their communities and our state and can save them money.

Building off the NH model we are working to attract business to Vermont stores from our higher priced neighbors in MA, NY and Canada. Our stores not only offer lower prices but much greater choice of product.

Re-image the Department in the eyes of the public.

Re-invigorate supplier interest in doing business in

Vermont. Level the programming playing field.