

Distribution and Sale of Liquor in Idaho

Follow-up Report
November 2011

Office of Performance Evaluations
Idaho Legislature



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Distribution and Sale of Liquor in Idaho

Follow-up Report

Executive Summary

The Liquor Division has improved its day-to-day operations since the release of our original evaluation report and is continually working to increase profits to the state. The division needs to continue working on its long-term strategies to determine the most appropriate type, size, and location of liquor stores throughout Idaho.

The division has implemented one of our four recommendations and is working to implement another. Two recommendations have not been implemented. These outstanding recommendations relate to requesting zip code information and conducting formal evaluations of state-operated stores.

Original Report Overview

In January 2011, we released an evaluation report on the distribution and sale of liquor in Idaho, which included one recommendation for annual staff training and three recommendations to help optimize state-operated store locations and overall performance.

We also provided several suggestions that the Liquor Division could implement to improve sales, reduce expenses, and increase profits without jeopardizing the state's constitutional mandate of promoting temperance. The following key findings were part of our original report:

- On average, contract stores operate more efficiently than state-operated stores.
- At least 13 state-operated stores could be converted to contract stores with an estimated annual savings of about \$700,000.
- Division expenses increased faster than both sales and net profits from fiscal years 2006 to 2010.
- The division had no formal criteria for state-operated store placement.

- Idaho could maintain similar levels of liquor revenues in a private or semi-private market.

The Division Is Working to Provide Annual Staff Training

Recommendation 2.1: The Idaho State Liquor Division should formalize staff training at least annually to identify and effectively handle intoxicated and underage customers, to stay up to date with new products, and to effectively carry out other customer service job duties.

The recommendation is intended to provide all state liquor division employees with ongoing training to ensure proper handling of intoxicated customers, selling responsibly to customers, and having adequate product knowledge.

The division continues to provide ongoing training opportunities for select staff, such as store managers, but has not made training available to all staff. To implement this recommendation, the division is requesting additional personnel funds in its 2013 budget that would be used specifically for training. The division is also planning to use other personnel funds to hire a training coordinator.

Requesting the additional funds for training is the decision of the Liquor Division and is not the intent of our recommendation. We believe the division should consider pursuing other options to train staff within current resources and suggest the following:

- Offer online training courses that could be developed in house and accessible on the division's intranet
- Have district managers and store managers provide multiple one-on-one training sessions during slower business times

Status: This recommendation is **in process**.

The Division Has Formalized Store Placement Criteria

Recommendation 3.1: The Idaho State Liquor Division should establish formal criteria using data-driven analysis to determine the need for additional state-operated stores and then identify the best locations and size for new stores. Criteria could include several measurable factors:

- *Store size, service area, and customer demographics for existing stores*

- *Optimum distances between other liquor stores required to maximize net profit and customer service*
- *Traffic flows, which include ease of entering and exiting a store's proposed location*
- *Location to other retail stores with comparable hours*

In our original evaluation report, we noted that the division did not have formal criteria when determining the need or location for a new state-operated store. Informally, the division relied on the assistance of real estate agents, looked at maps to find areas not in close proximity to another store, and used a threshold of \$2 million in store sales when deciding the need and location for a new state-operated store. Before the release of our original report, the Liquor Division began working with the Division of Public Works to negotiate leases and to identify potential locations for state-operated stores.

We recommended that the division develop a set of formal criteria to determine the proper location of a new store after first identifying whether a new store is actually needed. We found several instances where an existing store could better serve the community through relocation or expansion rather than adding another store.

The division is now using information from the Idaho Department of Commerce and local highway jurisdictions when considering potential store locations. This information includes surrounding populations, location to grocery stores, financial demographics, and traffic flows during peak selling hours. Once the division has narrowed its search for a new location, several management personnel will provide a score for each location using multiple factors. We believe this approach of working with other agencies and developing a data-driven approach to store location will help ensure that future stores are placed at accessible locations for customers.

Status: This recommendation **has been implemented**, assuming the division continues to refine and reevaluate its criteria for store placement as new stores are considered.

The Division Does Not Plan to Track Zip Codes

***Recommendation 3.2:** The Idaho State Liquor Division should track purchases by customer zip code to determine how large of an area an existing store is servicing and which areas are underserved.*

To assist the division in better identifying store locations, we recommended they collect and track customer purchases by zip code. Zip code disclosure would not

be a requirement of purchase or a means to identify an individual's buying habits, but rather a tool to better identify store locations.

Division officials said that they have created the ability to track this information but decided against its implementation, citing a court case in California that may or may not be applicable in Idaho.¹ Division officials believe that requiring zip code information will have a low compliance rate and a certain number of erroneous responses. To alleviate any low compliance or erroneous response issues, we suggest that the division run a pilot project at select stores for a short time and let the customers know that providing the zip code information is optional. The division can then analyze the data from the pilot project to assess the long-term feasibility of such efforts.

Status: This recommendation has **not been implemented**.

Only 1 of 66 State-Operated Stores Has Been Evaluated

***Recommendation 3.3:** To increase division efficiencies and reduce expenses, the Idaho State Liquor Division should formally evaluate each state-operated store to identify stores that would be more beneficial to the state if expanded, relocated, closed, or converted to a contract store.*

We made this recommendation to ensure that *all* state-operated stores are efficient and are maximizing profits to the state. In our original report, we evaluated a subset of state-operated stores and found an annual savings of almost \$700,000 if 13 stores were converted to contract status. These 13 stores are located in cities that are similar in size and location to cities with existing contract stores. We also found several other state-operated stores that could benefit from an expansion or relocation because they were hard to find, too small, or too close to another store.

The division has made progress in how it monitors store performance; however, only one of 66 stores has received the detailed review intended by our recommendation. The division states that it plans to evaluate other stores as their leases expire to avoid premature cancellation penalties. We agree with the division's approach; however, because of time and budget constraints as well as the need for sufficient appropriations, the division should have already evaluated or should be currently evaluating at least 26 stores.² This includes 9 stores we identified in the original report as candidates for converting to contract stores.

¹ The lawsuits challenged whether businesses could legally require zip codes for credit card transactions under California state law.

² Our analysis of state-operated store lease terms shows that leases will expire for 5 stores by December 2011, 11 stores by December 2012, and 10 stores by December 2013.

The remaining stores could possibly benefit from expansion, relocation, or closure.

The state-operated store in Weiser was evaluated by division management and found to be “a suboptimal location for a state store.” However, the division states that converting state-operated stores will reduce the number of liquor products offered, and will reduce sales and temperance. In reviewing the performance of both state-operated and contract stores, we found that contract stores can provide comparable service with a greater net-profit return to the state. Exhibit 1 shows a comparison of four southwest stores: one state-operated and three contract stores. The three contract stores outperform their state-operated counterpart in net profits and per capita sales.

To better understand the effect of carrying a large number of liquor products, we analyzed the sale of 943 regularly listed liquor products and found that carrying more products does not necessarily result in increased sales. In fiscal year 2011, 32 percent of these liquor products accounted for 81 percent of sales.

In regards to the division’s concerns about temperance, a contract store likely has more incentive to sell alcohol responsibly than a state-operated store because law enforcement does not have the capability to restrict sales at a state-operated store which illegally sells to a minor or an intoxicated individual. Contract stores, however, could face hefty financial penalties and lose their ability to sell alcohol if they do not sell responsibly.

EXHIBIT 1 LIQUOR SALES FOR SELECT SOUTHWEST IDAHO CITIES, FISCAL YEAR 2011

	City Population	Liquor Sales (\$)	Net Profit (\$)	Number of Liquor Products ^a	Bottles Sold	Sales Per Capita (\$)
State-Operated						
Weiser	5,472	585,119	183,568 ^b	525	45,967	107
Contracted						
Emmett	5,781	809,396	320,238	386	60,009	140
Middleton	3,994	657,089	264,444	214	64,016	165
Star	2,286	505,745	191,532	244	34,832	221

Source: Analysis of data from the Idaho State Liquor Division and the Idaho Department of Commerce, “Gem State Prospector,” <http://gemstateprospector.com>.

^a Number of liquor products offered with sales of 12 bottles or more from January 2010 to January 2011.

^b The store manager for Weiser splits time between two stores. Personnel expenses were proportionately adjusted to the approximate time the manager spent in the Weiser store.

In light of the recent passage of voter initiative 1183 in Washington to privatize the state's liquor system, it is now even more important that the Idaho Liquor Division evaluate its state-operated stores for operational efficiencies.³ Idaho has benefited from higher liquor prices under Washington's system. With the recent change, however, prices will likely drop in bordering Washington towns, leading to an increase in sales competition and a possible loss in profits for Idaho in the northern part of the state.

To implement this recommendation, the division needs to compare stores in both location proximity and demographics, not just one or the other. Therefore, we urge the division to reevaluate the potential for converting the Weiser store. The reevaluation should include a comparison of the Weiser store with other stores in close proximity, which could include the stores identified in exhibit 1.

Status: This recommendation has **not been implemented**.

The Division Has Improved in Other Areas

Outside of our recommendations, the division has created additional efficiencies in daily operations. The division has strengthened its approach to vendor negotiations, established a tiered structure for product markups, and implemented the following two suggestions that we made in our alternatives to management section of the original report:

- Create and implement electronic bar ordering, which the division estimates will save \$27,000 annually
- Enhance customer service by working on merchandising of products, helping the customers understand product uses, and better identifying product compatibility

³ Private-sector liquor sales in Washington will begin in June 2012.

Office of Performance Evaluations Reports, 2008–Present

Publication numbers ending with “F” are follow-up reports of previous evaluations. Publication numbers ending with three letters are federal mandate reviews—the letters indicate the legislative committee that requested the report.

Pub. #	Report Title	Date Released
08-01	Governance of Information Technology and Public Safety Communications	March 2008
08-02F	State Substance Abuse Treatment Efforts	March 2008
08-03F	Virtual School Operations	March 2008
09-01	Public Education Funding in Idaho	January 2009
09-02F	Higher Education Residency Requirements	January 2009
09-03	Idaho Transportation Department Performance Audit	January 2009
09-04	Feasibility of School District Services Consolidation	February 2009
09-05F	School District Administration and Oversight	February 2009
09-06F	Use of Average Daily Attendance in Public Education Funding	February 2009
09-07F	Child Welfare Caseload Management	February 2009
09-08F	Public Education Technology Initiatives	February 2009
09-09F	Management in the Department of Health and Welfare	March 2009
09-10F	Governance of Information Technology and Public Safety Communications	April 2009
10-01	Operational Efficiencies in Idaho’s Prison System	January 2010
10-02	Increasing Efficiencies in Idaho's Parole Process	February 2010
10-03F	Use of Average Daily Attendance in Public Education	March 2010
10-04	Governance of EMS Agencies in Idaho	November 2010
10-05F	Governance of Information Technology and Public Safety Communications	November 2010
11-01	Distribution and Sale of Liquor in Idaho	January 2011
11-02	Coordination and Delivery of Senior Services in Idaho	February 2011
11-03F	Increasing Efficiencies in Idaho’s Parole Process	February 2011
11-04F	Idaho Transportation Department Performance Audit	March 2011
11-05	Delays in Medicaid Claims Processing	March 2011
11-06	Equity in Higher Education Funding	November 2011
11-07	Idaho’s End-Stage Renal Disease Program	November 2011
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