



May 17, 2011

No. 2011-06

TO: ALL SUPPLIERS

FROM: DEBI J. BESSER, C.P.M., DIRECTOR OF PURCHASING

SUBJECT: NEW PRODUCT DISTRIBUTION AND EXIT STRATEGY

The WSLCB has developed a new product distribution and exit strategy which we believe will improve the availability and sales velocity of one-time-only and closed out products, ensuring that stores always have the best selection of products our customers are looking for. Below is a summary of some of the changes that may affect our suppliers.

Changes to our Distribution of One-Time-Only purchases

One-Time-Only (OTO) products will be distributed to stores based on historical sales. Stores will no longer place orders for these items. OTO's include 50 mL products for trial, gift packs, seasonal products, and special editions. Purchasing will determine the appropriate number of cases to buy based on sales volume of the product, or similar products, in previous years with a target of 2 to 3 months sell-through. Upon receipt at the Distribution Center (DC), Purchasing will send quantities out to stores based on each store's sales volume of similar products.

This approach has several benefits:

- 1) There will be even distribution of product to stores with the potential to sell the product. Excessive amounts of products won't be ordered by single stores, limiting overall sales potential.
- 2) Gift packs of listed products will now be offered in all stores that have good sales of the listed product. Stores that may not have ordered gift packs in the past will now offer these to their customers.
- 3) The entire quantity of OTO product will be distributed to stores soon after it is received at the DC, increasing the opportunity for high sell-through.
- 4) Suppliers will no longer need to go into stores and "sell-in" their OTO offerings.

Please note: Stores will not be able to order OTO products, so suppliers should not ask store managers to do so.

Changes to pricing and quantities of OTO Products

In order to run an efficient organization, it is important to ensure that OTO products sell through to our customers within our target timeframes, and that we do not have to reduce the retail price significantly to sell them.

To do this, we are taking a multifaceted approach:

- 1) We are taking a careful approach about the quantities we purchase of OTO products.
- 2) We are implementing a structured retail price reduction strategy for OTO's to ensure that product does not remain in our stores for an extended period of time.
- 3) If we are unsure about the sales potential, before agreeing to purchase an OTO item we may request that a supplier commit to supporting any required price reduction with a Depletion Allowance (DA) if the product does not sell through within the targeted timeframes. The decision by the WSLCB to purchase an OTO and the supplier's decision to offer a DA will remain independent decisions owned by each entity.

Changes to the Product Exit Strategy for Delisted or Discontinued Items

Upon closeout (delisted or discontinued by supplier) of a listed item, if the remaining product in the DC can be sold (based on previous sales velocity) within 30 days, the product will be sent out to the stores that sell the most of that product. If the total amount in the DC exceeds 30 days of supply, the Supplier will be notified to pick up all remaining product in bailment at the DC. Suppliers will need to coordinate with DC Receiving on scheduling. Product needs to be picked up within 30 days of closeout date.

Please note: Suppliers will be required to pick up inventory of discontinued or delisted items upon request per their Bailment Agreement with the WSLCB.

There will also be a reduction in the retail price on the effective date of the closeout. If there is remaining product in the stores after 2 months, the retail price will be reduced further. The price will not be reduced below cost.

Thank you for your assistance in the transition to these new processes. If you have any questions or concerns, please feel free to contact me at djb@liq.wa.gov or 360-664-1668.