



Washington State
Liquor Control Board
3000 Pacific Ave. SE Olympia WA, 98504

November 16, 2011

No. 2011-12

TO: ALL SUPPLIERS

FROM: PAT MCLAUGHLIN, DIRECTOR OF BUSINESS ENTERPRISE

SUBJECT: PRINCIPLES OF SUPPLIER INVENTORY BUY-BACK AGREEMENT

Background

I-1183 essentially calls for the LCB to divest its interest in distribution and retail operations by May 31, 2012. This includes eliminating all liquor inventory assets. The LCB has consulted with industry to identify the most feasible options to allow for liquor products to remain in the retail stores for the maximum period allowed by I-1183 while ensuring the LCB's ability to comply with the requirement to dispose of all liquor assets on May 31, 2012. The concept of a supplier inventory buy back agreement is being proposed as a solution to balance the competing interests.

Purpose

The purpose of the Supplier Inventory Buy Back Agreement is to promote an orderly transition of retail operations from the LCB to the private sector while ensuring compliance with I-1183 requirements and minimizing risk to the State.

Planned Approach

This document is being distributed to all liquor suppliers on record on November 16, 2011 for immediate review and comment. Because of the accelerated timeline associated with the implementation of I-1183, the Supplier Inventory Buy Back Agreement's need to be written and fully executed by December 18, 2011. Suppliers are being invited to submit their written comments to the concept as outlined in this document no later than November 18, 2011. Once comments are received and evaluated, the actual Supplier Inventory Buy Back Agreement will be written and then distributed. In the event a supplier does not choose to participate in the Supplier Inventory Buy Back program, the LCB will implement action plans to minimize the risk of any remaining inventory on May 31, 2012.

Core Principles

1. The Supplier Inventory Buy Back Agreement will cover all products purchased by the LCB from the supplier.
2. The LCB will continue to maintain the existing shelf schematic in State stores and product availability in all stores for products covered by a Supplier Inventory Buy Back Agreement.
3. The title of all products under each Supplier Inventory Buy Back Agreement and still in the LCB's possession either at its distribution center or any of its State and Contract stores shall transfer back to the supplier at the close of business on May 31, 2012.
4. After retail stores close and inventory audits are completed for each location, the LCB will repack products covered by a Supplier Inventory Buy Back Agreement and arrange for transport to the distribution center. Products returned from all stores will be consolidated and staged for supplier pick up. All repacking will be done in accordance with documented standards.

5. The LCB will provide a list of products and quantities to be picked up, and will provide a claims process for short, mislabeled, or damaged products. The supplier or their authorized designee will pick up all products under their Supplier Inventory Buy Back Agreement within 10 business days of written notification by the LCB.
6. The LCB will require extended payment terms for product purchases after February 29, 2012 in order to create the basis for an offset on any product to be sold back to suppliers unless alternative timelines have been agreed to by both parties.
7. The supplier buy back price will be based on the LCB's purchase price as of January 1, 2012 plus a per case fee to cover LCB's costs of the reverse logistics program.
8. The LCB will assume responsibility to care for and protect the suppliers' inventory after the point of title transfer until the supplier is required to retrieve such inventory at the distribution center.

Please submit written comments to the concept as outlined in this document and indicate your intention to participate in or opt out of such program, no later than close of business on November 18, 2011 to Pat McLaughlin at pdm@liq.wa.gov.