



# Washington State Liquor Control Board

## I-1183 Implementation: Supplier Weekly Conference Call 11/21/11

### 1. Purpose of the weekly teleconference

- a. Provide updates on plans and progress
- b. Answer questions that were submitted in advance
- c. Focus primarily on divesting our interest in distribution and retail.  
Separate communication forums will address new regulatory programs.

### 2. What has happened so far?

- a. Established project structure
  - i. Margee Thompson will serve as the Project Manager and Pat McLaughlin will serve as the Executive Sponsor for divesting our business activities.
  - ii. An executive steering committee chaired by Pat Kohler will provide oversight to this as well as the project focusing on the new regulatory changes.
  - iii. A very structured project management process will be followed to ensure the most effective balancing of resources and management of critical timelines.
  - iv. A project budget has been established and is fully funded.
  - v. Communications will continue through All Supplier Bulletins in scheduled stakeholder meetings.
- b. Defined core principles for the implementation of I-1183
  - i. Aid the 1,000 employee's who will lose their job to successfully transition into their targeted next step.
  - ii. Facilitate the transition for those contract stores who desire to continue in business under the new licensed model.
  - iii. Ensure an orderly transition from LCB to private distribution and retail operations to minimize negative customer impacts.
  - iv. Continue retail operations through May 31, 2012
  - v. Dispose of all liquor inventory by May 31, 2012
- c. Met with all state store managers and discussed the implications of I-1183, our planned approach for transition, and the resources that will be made available to employees during this process. We also sought to identify and address initial concerns and questions about this process.
- d. Began meetings with contract store managers and discussed the implications of I-1183, our planned approach for transition, and how we

will work with them during this process. We also sought to identify and address initial concerns and questions about this process.

- e. Defined principles for a Supplier Inventory Buy Back Agreement and received initial statements of intent regarding supplier's decision to opt in/out.

### **3. What is coming next?**

- a. Complete meetings with contract store managers by 11/22/11.
- b. Conduct other stakeholder meetings
  - i. Business Advisory Council: 11/29/11
  - ii. DRAW: 11/29/11 (expanded industry members welcome)
  - iii. Tribal Advisory Council: 12/7/11
- c. Evaluate the requested reversal of recent Retail Program Changes as detailed in Purchasing's recent All Supplier Bulletin #2011-13
- d. Begin drafting Supplier Inventory Buy Back Agreement

### **4. Supplier Inventory Buy Back Agreement (SIBBA)**

- a. 33 suppliers provided a statement of intent to either opt in or out
  - i. 30 suppliers have opted in, 3 have opted out.
  - ii. Suppliers accounting for 98% of our case volume have opted in
- b. There are several common areas of interest as expressed by questions that have been submitted. These will be answered during this call.
- c. Draft agreements will be distributed for review on 12/2/11.
- d. Development of the agreements will end no later than 12/14/11.
- e. Agreements will need to be fully executed by 12/28/11.

### **5. Frequently Asked Questions Regarding SIBBA**

1Q. How long will the LCB continue placing orders for supplier products?

1A. If a buy back agreement is established, purchase for listed products will continue as needed to ensure a regular supply for customers through May 31, 2012. Alternatively, purchases will likely cease in late-December 2011 and remaining Board inventory will be depleted in a manner to minimize risk of any surplus.

2Q. When the LCB no longer sells a given product, what other distribution and retailing options remain?

2A. Once the LCB establishes the new rules for I-1183, producers who have a Certificate of Approval can sell directly to licensee's beginning March 1, 2012. Distributors can sell to licensee's beginning March 1, 2012, and private retailers can begin selling on June 1, 2012.

- 3Q. What type of inventory reporting will the LCB provide to the suppliers for product at the distribution center and stores?
- 3A. The monthly bailment reports for inventory at the distribution center will continue to be available through May 31, 2012. There are not recurring inventory reports available to suppliers in terms of product in stores. However, upon closure of each store and completion of the audit, an inventory report can be provided to the supplier.
- 4Q. How much inventory will be returned under the Supplier Inventory Buy Back Agreement?
- 4A. Typically, State stores maintain 14 days of supply on the shelf plus maintain additional back stock. Given the weekly order program and relatively high inventory turns (11) should help keep the volume at manageable levels. We would be seeking to strike that fine line of leaning out the inventory while preventing out of stocks.
- 5Q. How will the suppliers know how much of what inventory is to be returned after May 31, 2011?
- 5A. After an inventory audit is completed at each of the stores and the distribution center, a full detailed listing of products to be picked up by the suppliers will be provided. The supplier will be allowed to inspect the consolidated product at the distribution center before it is picked up by the suppliers designated carrier.
- 6Q. What will happen with inventory under LCB's care that is not in a saleable condition (i.e.: damaged merchandise)?
- 6A. The LCB will assume full financial responsibility for any such products.
- 7Q. How will the returned product be packaged?
- 7A. When possible, the suppliers original packaging will be used. Otherwise, a generic packaging style will be used but will include clearly labeled and bar coded information. Type and quality of packaging will be consistent with the LCB's inbound packaging standards.
- 8Q. Would suppliers be allowed to retrieve bailment inventory from the distribution center in advance of May 31, 2011?
- 8A. Bailment inventory belongs to the suppliers and thus would be available to them for collection before May 31, 2011 if they so desire. However, returning such product could be disruptive to the normal shipping process and would require advance planning and coordination to ensure that store shipments are not

impacted. Monthly bailment reports that detail the specific inventory on hand will continue to be available each month.

- 9Q. What LCB services are included in the reverse logistics program?
- 9A. The LCB will repack all remaining product in the liquor stores, returning it to the DC, consolidate and stage it for supplier pick up.
- 10Q. How much will the per case charge be for the reverse logistics program?
- 10A. The concept is to simply cover the direct expense for actual packaging, shipping, and handling costs incurred. Our current logistics expenses have proven to be quite low in comparison to industry standards. However, at this point in time, it is not possible to provide an actual estimate for the cost of this program. There would be no additional handling charge for those full cases still in bailment at the DC.
- 11Q. Since the TTB has suggested that LCB's proposed payment terms beyond 30 days could be a violation of TTB rules; will it be removed as a principle for the Supplier Inventory Buy Back Agreement?
- 11A. The LCB is giving consideration to the TTB opinion and will also seek advice from our Attorney General.
- 12Q. What is the disposition plan for POS materials and branded decor in the stores?
- 12A. POS materials and branded decor are considered the property of suppliers. It is the LCB's intention to return these items back to the supplier. In the event those items are not collected by the supplier, upon store closure, those remaining items will be disposed of in accordance with LCB policy.
- 13Q. Will suppliers have any ability to work with the LCB to move products at retail to other stores to help prevent out of stocks or rebalance inventory to ensure sell through?
- 13A. Yes, in addition to transfers by store personnel and district managers, suppliers are currently allowed to transfer products between stores. Having said this, out of stocks are not anticipated unless suppliers limit product availability to the LCB.
- 14Q. Would the LCB consider modifying or rescinding the recent retail program changes that phases out special orders, spirit sampling, assigned displays, and temporary price reductions?
- 14A. The LCB instituted these changes as part of their transition plan to divest our interest in distribution and retail which includes managing associated risks such

as excessive inventory. Depending on the level of supplier participation in Supplier Inventory Buy Back program and the details of the actual agreements, these policy changes could be modified.

## **6. Wrap-Up**

- a. The next teleconference is scheduled for Monday, November 28, 2011 at 10:00 a.m.
- b. Meeting minutes for this call will be published on the LCB web site.
- c. This teleconference concluded at 10:47 a.m.

## **7. New Questions Asked during the 11/21/11 Conference Call**

Q. What is a Certificate of Approval?

A. A Certificate of Approval (COA) is a license that grants authority for a producer to sell product in Washington. COA's currently exist for beer and wine and through the Boards rule- making process, will also cover spirits.

Q. Do importers have to have to hold a Certificate of Approval (COA)?

A. The principles and rules associated with a Certificate of Approval (COA) will be clarified as a result of the Boards emergency rule making process. More information will be available soon.

Q. Can importers sell wine and spirits directly to licensees starting December 8, 2011?

A. Importers who receive a Certificate of Approval (COA) from the Board may sell directly to licenses beginning March 1, 2012. More detail about this COA is planned to be addressed during the emergency rulemaking process.

Q. How will new product be introduced to the market after December 8, 2011?

A. Once the LCB establishes the new rules for I-1183, producers who have a Certificate of Approval can sell directly to licensee's beginning March 1, 2012, Distributors can sell to licensee's beginning March 1, 2012, and private retailers can begin selling on June 1, 2012

Q. Are craft distilleries allowed to sell to licensees under 1183? Is there a limit for retail customers?

A. Craft distillery sales to licensees are not limited. I-1183 did not change the limit on retail sales by craft distillers.

Q. Is there any limit to number of distributors in the state?

- A. There is no limit the number of liquor distributors in Washington State.
- Q. Will license applications be public records?
- A. All license applicants and recipients are posted on the LCB website.
- Q. How will the quantity discounts work?
- A. The principles and rules associated with a quantity discounts will be clarified as a result of the Boards emergency rule making process. More information will be available soon.
- Q. When and how will suppliers be able to find out which CLS will be converting to a general liquor retailer?
- A. LCB is currently holding informational meetings with CLS managers. Although most are indicating their initial intent to continue in business, additional information and time is necessary before CLS will know their plans. The Board anticipates this information will not be available before January 2012 but will share the information when it is available.
- Q. Can contract liquor stores currently buy beer and wine from distributors?
- A. Contract liquor stores may buy their beer from the Board and/or distributors. Under contract, they are required to either buy all their wine from the Board or from distributors but not both.
- Q. Will the terms of all Supplier Inventory Buy Back Agreements be consistent?
- A. The LCB intends to use a standard template for the Supplier Inventory Buy Back Agreements.
- Q. Will the state provide statements to suppliers of estimated assessments they will owe?
- A. After an inventory audit is completed at each of the stores and the distribution center, a full detailed listing of products to be picked up by the suppliers will be provided. The supplier will be allowed to inspect the consolidated product at the distribution center before it is picked up by the suppliers designated carrier.
- Q. Will special orders be allowed if the product is covered by a Supplier Inventory Buy Back Agreement?
- A. This decision has not yet been made and will largely depend on the actual terms of the Supplier Inventory Buy Back Agreement.

Q. Will there be any discounts on products in stores?

A. LCB will identify inventory at risk and will use discounting and merchandising strategies as necessary to ensure full sell through of product before May 31, 2011. Inventory at risk will be returned to the DC and consolidated for auction.

**End.**