

## OFFICE OF THE WASHINGTON STATE LIQUOR CONTROL BOARD MEETING

**December 8, 2004**

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, December 8, 2004 in the Board conference room, 3000 Pacific Avenue SE, Olympia, Washington, by Chairman Merritt Long. Board Member Roger Hoen was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

### **Purchasing Services Division – Implementation of Wine Pricing Strategy**

Heidi Whisman, Acting Director

#### **Background**

The Board approved the Wine Strategy Implementation Plan in July 2004. This five-year plan encompasses seven different strategies to improve the wine program in WSLCB retail outlets, including the following short and long term elements which make up strategy seven, Retail Pricing:

#### **Short Term**

- Complete a pricing analysis on the top 100 selling LCB wines by August 27, 2004 to determine which items are below the market price.
- For those items below the market price the LCB will increase the markup formula on those items to have the LCB retail price reflect the market price.

#### **Long Term**

- Use the LCB market share to determine future consideration for markup increases. If the LCB share rises to over 10% as compared with the private sector a markup price increase will take place.

Regarding the short-term strategy, staff recently completed analysis of the LCB's average retail price for the top 100 selling wines (based on case sales) in comparison to the average market price of these same wines when sold by private retailers. Completion of the price analysis was delayed due to retirement of key staff from the Purchasing Division and competing priority projects.

For the analysis, ACNielsen average prices were compared to the Board's average price for a 52-week period. This analysis showed that on average, the LCB prices were 13 percent lower than the Nielsen price.

As shown by the Executive Summary in "A Comparison of Wine Prices", making price comparisons between the state wine prices and those of the various private

retail channels, with differing business models, is a complex and difficult process that does not provide one absolute conclusion. The same held true for this most recent price comparison conducted by staff.

The following recommendation for implementation of strategy seven is based on this most recent price analysis data, the overall Wine Strategy Implementation Plan and the information used to develop it, the LCB's Strategic and Retail Business plans, and in consideration of all LCB stakeholders.

#### **Goal of Recommendation**

Implement a price adjustment that is in alignment with the Short Term Strategy, allows for a degree of price parity on the top 100 wines sold by both the Board and private retailers, and positions the Board for a smooth transition into the Long Term strategy.

#### **Recommendation**

##### Short Term Implementation

Effective January 1, 2005, adjust retail prices on the top 100 wines to reflect the average market price shown in the Nielsen data.

##### Long Term Implementation

Monitor and review the price adjustment effect on market share, sales, and revenue. If the LCB share rises to over 10% as compared with the private sector a markup price increase will take place.

Ms. Whisman recommended the Board to approve the short and long term implementations.

Board Member Ing moved for approval of the short-term implementation. Board Member Hoen seconded the motion, and it was carried unanimously.

Board Member Hoen moved for approval of the long-term implementation. Board Member Ing seconded the motion, and it was carried unanimously.

#### **Public Testimony:**

Clif Finch, Washington Food Industry, suggested the Board come up with a markup formula that addresses long-term issues.

Holly Chisa, Contract Lobbyist for Alberstons, recommended the Board use posted price as baseline price.

Scott Buchanan, E&J Gallo, expressed his concerned about using ACNielsen average prices and he opposed Wine Strategy #7.

Jean Leonard, Washington Wine Institute, prefers no price increase.

**The Meeting was adjourned at 10:40 A.M.**