# Oregon Liquor Control Commission
# Retail Innovations Group
# Meeting Minutes
# October 18, 2013

**Members in attendance**:
Patrick Bernards, Steve Brown, Brian Butenschoen, Jay Nelson, Shawn Miller, Bill Perry, Jonathan Polonsky, Paul Romain, James Rhodes, Patrick Sieng, Steve Thomson.

**OLCC staff in attendance**:
Rob Patridge, Farshad Allahdadi, Tom Erwin, Brian Flemming, Merle Lindsey, Michael O'Connor, Laura Paul, Mikhail Men, Christie Scott, Jesse Sweet.

**Guests**:
Duke Tufty, Jason Underwood, Hasina Squires, Joanie Cosgrove, Paul Cosgrove, Maury Hornstein, Jan Nordlund, Laura Pech, Ellen Miller, Steve Marks.

10:10 A.M. - Chairman Patridge called the meeting to order and introductions were made. Farshad Allahdadi presented the follow-up data to requests which were made at the October 4, 2013 meeting.

1. Special Orders: What kind of revenue does the 1200 special order items represent? How much revenue over a five year period?
2. Special Orders: How much revenue does the "per case" surcharge create?

A document was presented which estimates the gross revenue generated from special orders over the past three fiscal years and the revenue generated by the "per case" special order fee. It was noted the revenue seems to be growing each year. The document was presented in dollars, staff will continue to work on translating the information to volume in order to assess if the growth is from more expensive items or larger quantities ordered. The growing trend could be attributed to the vibrant restaurant community in Oregon were chef's are restaurant owners doing creative things such as "mixology" and custom paring food with drinks.

3. Licensee sales: What percentage of sales are license sales?

A document was given which outlines the percentage of licensee sales verses consumer sales at liquor stores. The overall average for the last 44 years is 73.76% consumer, 26.24% licensee, though Mr. Allahdadi said that in recent years the average has been around 75% for consumer sales, 25% licensee sales. Are there any states which have a fixed pricing and still allow a licensee discount?

4. What is the loss of revenue to Calif. border sales?

Mr. Allahdadi stated the cross border impacts have been present since the OLCC's inception and therefore estimating sales losses to California is difficult. If we were to try and estimate a dollar amount, there would be a high error rate. It was noted, there are definitely Oregon residents going to California to purchase some products but there is still growth in Oregon stores along the California border.

5. More detailed break down of agency expenses and credit card fee expenses?

This document was distributed at the October 4th meeting and was offered to attendees who did not receive it at that meeting.

## Retailing of Distilled Spirits:

1. **Consumer Access**:

A detailed break-down of off-premise retail outlets for all 50 states, control and licensed, was distributed. Below is a quick break-down of how Oregon compares to the average control state and the average licensed state.

| | | |
|---|---|---|
| Oregon | 248 retail outlets | 15,660 per one adult |
| Average Control state | 565 retail outlets | 12,182 per one adult |
| Average License state | 2072 retail outlets | 5,108 per one adult |

Chairman Patridge asked staff to outline how the agency currently determines the placement of new retail outlets. Mr. Flemming said GIS applications have been used to compile information for the past six years.
Considerations include many areas such as:

- population density
- population growth
- street access / land use changes
- income levels
- surrounding businesses

Other considerations:

- current agent proximity
- community outcry
- cost to lease in certain areas
- busy metropolitan areas
- satellite stores in remote communities where there is heavier traffic

It was noted when pricing is controlled, there is not much room to increase store density.
Oregon's population is similar to Iowa, Mississippi and Utah. In order to compare these four states, the following items will be added to the off-premises retail outlets document:

- Retail sales agents state employees or private business owners?
- Pricing control policies per state?
- Inventory ownership?
- Allowed beer and wine sold in grocery stores (percentage allowed)?

2. **Delivery to Liquor Licensees:**

- The current system does not require agents to deliver to licensees but this can be a valuable service to offer in order to grow business.
- Agents are allowed to charge for the service, per the retail agent contract.
- All licensees' receive a five percent discount and are allowed to purchase from any liquor store.
- In smaller towns it is more challenging for agents to make deliveries as they generally have less staff and resources.
- It was noted that when 800 ORLA members were asked if they have delivery of distilled spirits, 23 percent responded no.
- A rule change would be required in order to allow licensee's to pay for distilled spirits with a credit card.

3. **Inventory Ownership:**

- Most of the inventory in the warehouse is vendor owned, 30-35 million a month (at cost).
- Approximately 100,000 dollars of warehouse inventories is OLCC owned because it is in transition to the stores.
- 22-24 million a month (at cost) is OLCC owned in retail stores.
- Inventory is turned approximately 10 times per year.
- OLCC encourages agents to carry the top products.
- Staff uses data reports to educate agents for more efficient ordering.
- Agents are required to bank daily and report inventory weekly.
- Stores are audited on an annually basis, at a minimum.
- Product breakage is paid for by OLCC, .049 percent is lost to breakage or shrinkage per year.
- Theft in stores is covered by the OLCC if the agent follows the contract. Last years documented theft was $7,600.

4. **Related Items:**

The current related item list was distributed to the group. The list of related items is amended through the rule process. Chairman Patridge asked what the percentage of income to agents the related items represent.

- Mr. Flemming guessed the average is between 10-20%.
- Cigarettes are usually the largest revenue but have a very low margin.
- OLCC does not require a certain percentage of related items sales verse distilled spirits sales.
- More related items on the shelf equals less space for distilled spirits.
- Increasing related items verse increasing agent compensation formula to allow agents to make more revenue.

5. **Making Oregon Products Available:**

The OLCC is required through statute to encourage Oregon business industry however; the agency needs to be mindful of Interstate Commerce laws.

- Oregon is an easy state to do business in for craft distillers.
- HB 492 allows craft distillers to sell their own products at special events such as farmers markets, festivals, etc.

6. **Pricing:**

A sheet documenting the history of Oregon's pricing since 1952 was distributed. Mr. O'Connor went over Oregon's current pricing formulas, close-out pricing and discounts. One member noted that the price of distilled spirits weights heavily upon how much the state takes in taxes. Staff was asked to research if other control states allow the retailer to set the ultimate price.

- Allow retailers to make their price according to what the market can bare with minimum requirements.

7. **Inventory Requirements:**

There are no requirements in Oregon of what a store must carry however; the agency does encourage agents to carry top selling products. The agency tries to help agents regulate their inventory so there is not a lot of excess inventory or shortages in the stores. Adjustments are made throughout the year to accommodate busy times and slower times. Wholesalers contact agents to promote products, hold tastings (not allowed in many states), help merchandise store shelves, tag their discounted items, build displays to promote holidays and corresponding products. In addition, they spend a lot of time with licensees to promote products.

8. **Split Case Delivery:**

Mr. Flemming stated the repack service is critically important to:

- Small distillers
- Getting new items out into the market
- Benefiting store inventories
- Sampling

Though repack is very labor intensive and expensive, maintaining repack is an investment into small business. There is no charge to the producer. The agency tries to limit top selling items or less expensive products from repack in order to help with efficiencies. Staff was asked to bring the percent to volume for repack.

Mr. Allahdadi said the matrix tool is structured to bring several different alternatives or models for consideration. The group will be sent an electronic version of the matrix, Chairman Patridge asked participants to put in some ideas and send those versions back to Laura Paul at laura.paul@state.or.us for distribution at the October 24th meeting.

**Next Steps**:

- Finish working through the matrix

- Begin writing out different concepts or models to give an update to Commissioners for review.

**<u>Next Meeting Scheduled</u>**:

October 24, 2013
9:30 a.m. to 11:00 a.m.
OLCC Headquarters
9079 SE McLoughlin Blvd.
Portland, OR. 97222

**<u>Note: Time change for November 7, 2013 meeting</u>**

November 7, 2013
10:00 a.m. – 2:00 p.m.
OLCC Headquarters
9079 SE McLoughlin Blvd.
Portland, OR. 97222