



IOWA LIQUOR QUARTERLY

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And Now for the Rest of the Story...

Efficiency is doing things right, effectiveness is doing the right things.

- Peter F. Drucker

Last year, I reported that the Iowa Alcoholic Beverages Division had been selected as one of six "Charter Agencies" by Iowa Governor Tom Vilsack. As a participant in the government "reinvention" pilot project, the Division was granted certain freedoms from the normal bureaucratic "red tape," as well as the ability to run in a more business-like fashion.

Some of the benefits included exemption from across-the-board budget cuts, the ability to hire employees as needed (waiving the state cap on the number of employees) and freedom from burdensome state purchasing requirements. Participating agencies were also eligible for performance bonuses, qualified for innovation project grants, allowed partial non-reversion of unspent appropriations and permitted to retain revenue from the sale and lease of agency assets.

In essence, the Governor afforded the Division the opportunity to operate more efficiently – to do things right – in order to generate more money from increased revenue and savings. As such, it was the Division's commitment to use its Charter Agency status to take the proper initiatives – to do the right things – to more effectively generate revenue and control alcohol.

At the conclusion of its first year as a charter agency, it appears that the Division's first charter initiatives were effective. The Division committed to increasing its revenue and savings from its wholesale operation by \$1.25 million. It met that goal and then some – posting its single largest annual growth rate. An additional \$9 million (for a total of \$49 million) was transferred from liquor revenues over the prior fiscal year – a \$7.75 million increase over the amount pledged – a 28% increase in net revenue.

The Division achieved that gain on sales of \$134 million at wholesale, a growth rate of 10.34% (in dollars) and 7.83% (in cases), compared with last fiscal year's growth rate of 6.5% on \$121 million in sales. While the state of the economy undoubtedly contributed to the increase in liquor sales, a growing consumer trend of purchasing liquor instead of beer was also a likely catalyst. As a Charter Agency, the Division was given the ability to

act efficiently and effectively to accommodate the latest consumer trends. I would like to take a moment to review the results of key initiatives aimed at increasing revenue as well as those geared toward cost savings over the past year.

I. Revenue Growth

The Division took several identifiable steps that contributed to the increase in fiscal year revenue. The success included improved tracking for the Temporary Price Reduction (TPR) program in order to increase investment in supplier-discounted products. It also included increased efforts to work with suppliers to minimize out-of-stock products while maintaining a plentiful stock of the leading brands. Furthermore, because of current consumer trends of consuming higher-quality liquor, the Division aggressively pursued the addition of premium and super-premium products to the Division's product portfolio.

In accordance with the current premium liquor consumption trends, the Division imposed an experimental variable mark-up rate on the vodka category rather than the flat 50% mark-up. As I explained in the February 2004 issue of *Iowa Liquor Quarterly*, odd sizes (e.g. 50 ml, 100 ml, 200 ml and 350 ml) are marked up at 75% of the price paid by the state while popular sizes (750 ml, 1 liter and 1.75 liter) range from a 40% to 60% mark-up in two-point intervals. A principal benefit of the VMR is price compression, which encourages consumers to trade up to top-shelf spirits. While consumers can enjoy premium liquor for a lower price, the "trade-up" behavior allows the Division to collect more revenue without a corresponding increase in consumption. Better to earn 40% on a \$30 sale than 50% on a \$5 sale, for instance. Finally, the program aids Iowa retailers along the state border in their effort to be price competitive with out-of-state liquor stores.

II. Cost Savings

The Division did not just focus on the revenue side of the ledger. As I explained in the last *Iowa Liquor Quarterly* issue (August 2004), the Division was able to save a significant amount of money by handling its own warehouse and distribution duties. After its private vendor, J.A. Jones Global Services, filed for bankruptcy, the

Division resumed control of its state liquor warehouse and distribution service rather than contract them out to an unknown and unproven company. Consequently, the money previously paid to J.A. Jones is now deposited into the state's general fund – all while fostering an environment conducive to innovation and customer service. As I reported last quarter, the move allowed Iowa taxpayers to save at least \$1.5 million over the next two years and, minimally, \$850,000 each year thereafter.

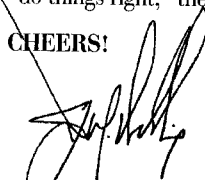
Further initiatives aimed at cost savings will involve the use of technology to reduce operating costs. The Division is working towards establishing an online liquor licensing system, an online liquor order entry system, a sales and inventory management system for the liquor warehouse and a system for electronic beer and wine tax reporting.

III. Closing

The past year for the Iowa Alcoholic Beverages Division, as a Charter Agency, has been a hotbed for innovation and change. The Division has

significantly increased state revenues while, at the same time, achieving major reductions in its operating expenses. Given the freedom to act more efficiently without the restrictions and hassles of clearing bureaucratic "red tape," the Division was able to take initiatives to be more effective at generating revenue and controlling alcohol. In short, given the opportunity to "do things right," the Division was able to "do the right things."

CHEERS!



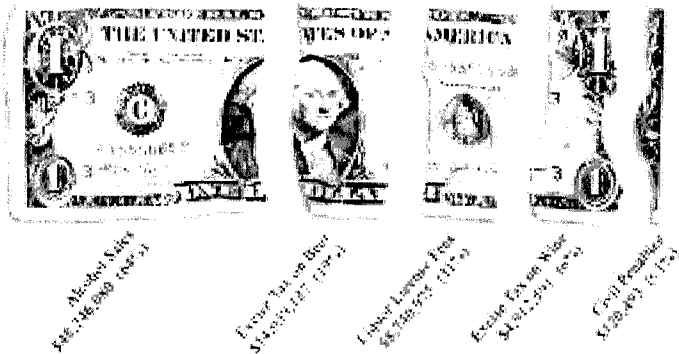
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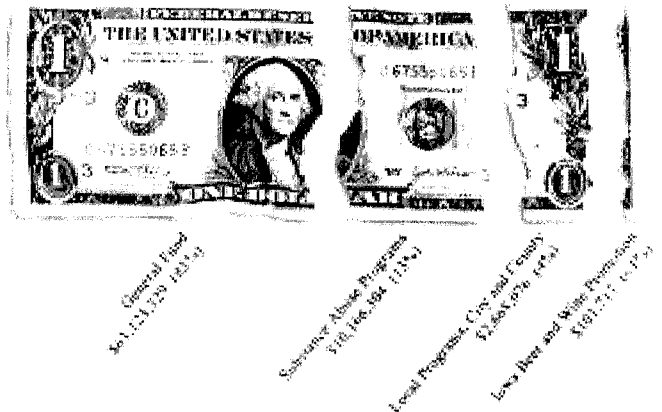
IowaABD.com Web Feature: Fiscal Year 2004 Revenue Generated & Transferred

The Iowa Alcoholic Beverages Division is a unique state agency in that it generates substantial revenue to state and local governments. In fiscal year 2004, the Division generated \$76 million in state funds, representing more than 1% of the state's total revenue.

FISCAL YEAR 2004 REVENUE GENERATED \$76,059,326



FISCAL YEAR 2004 REVENUE TRANSFERRED \$76,059,326



The Iowa Alcoholic Beverages Division transfers all profits and revenue generated back into the state's coffers to support city, county and state programs. In fiscal year 2004, the Division transferred \$76 million to support state and local programs.