

Virginia ABC Overview of Operations

Senate Finance and Appropriations Committee
September 19, 2023

Travis G. Hill, CEO Virginia ABC



www.abc.virginia.gov

Fiscal Year 2023 Snapshot

- **Mission Critical Statistics**

- FY 2023 Gross Sales of \$1,469.3 million
- FY 2023 Profits of \$220.6 million (accrual basis); \$233.8 million (cash basis)
- Total Transfers to the Commonwealth of \$609.7 million (accrual basis); \$622.9 million (cash basis)
- 399 Stores
- Licenses: 20,622
- Total Cases shipped to ABC stores: 6,503,230

- **Operating Expense**

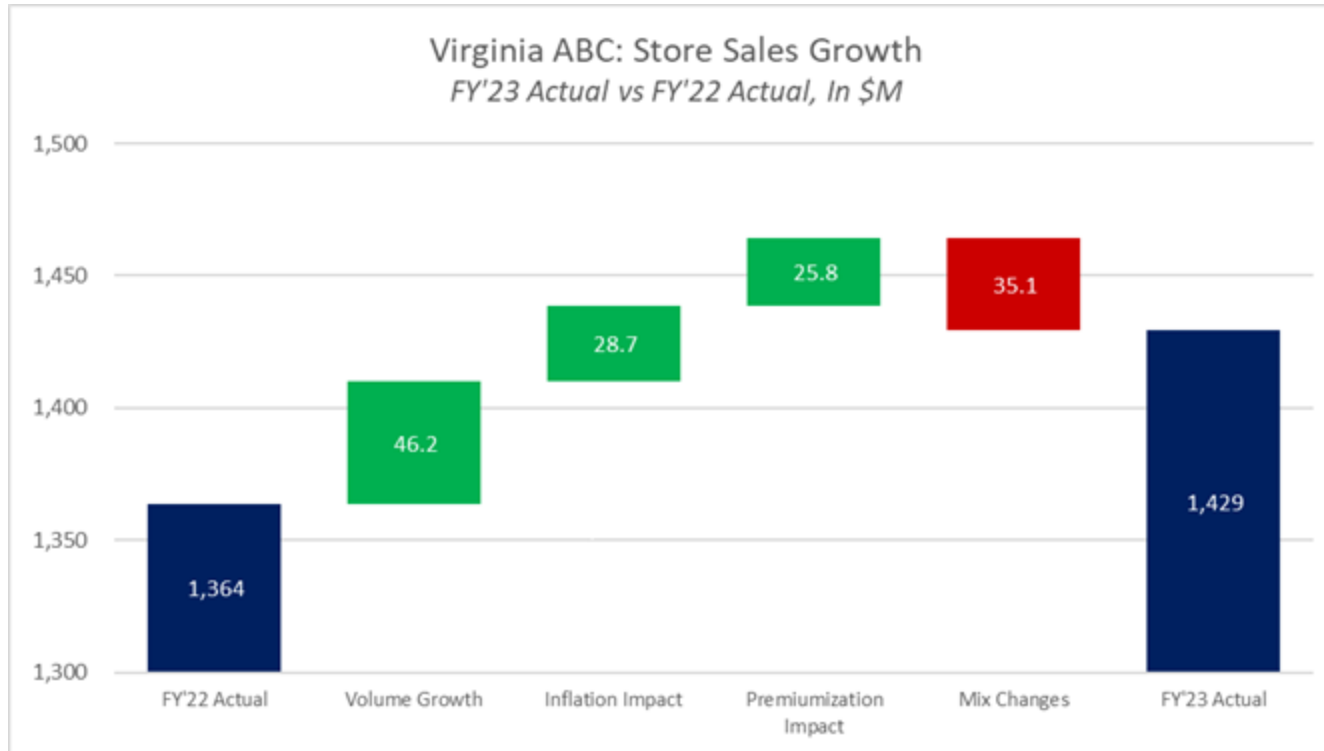
- FY 2023: \$1,005.5 million
- FY 2023 Operating expenses include: alcohol – 69.0%, personnel – 17.8%, contractual charges (freight) – 5.8% and depreciation & amortization (incl. GASB 87 Leasing & GASB 96 SBITA standards) 4.0%

- **Employee Numbers**

- At end of FY 2023 ABC had 4,835 total employees
 - 1,460 full-time employees
 - 3,375 part-time employees

Virginia ABC store sales increased by \$65.6M in FY 2023, or 4.8%

The biggest driver for the increased sales was increased sales volumes, followed by inflation, and premiumization increased versus FY 2022. Product mix was challenging, as consumers traded down to smaller bottle sizes that result in less revenues.

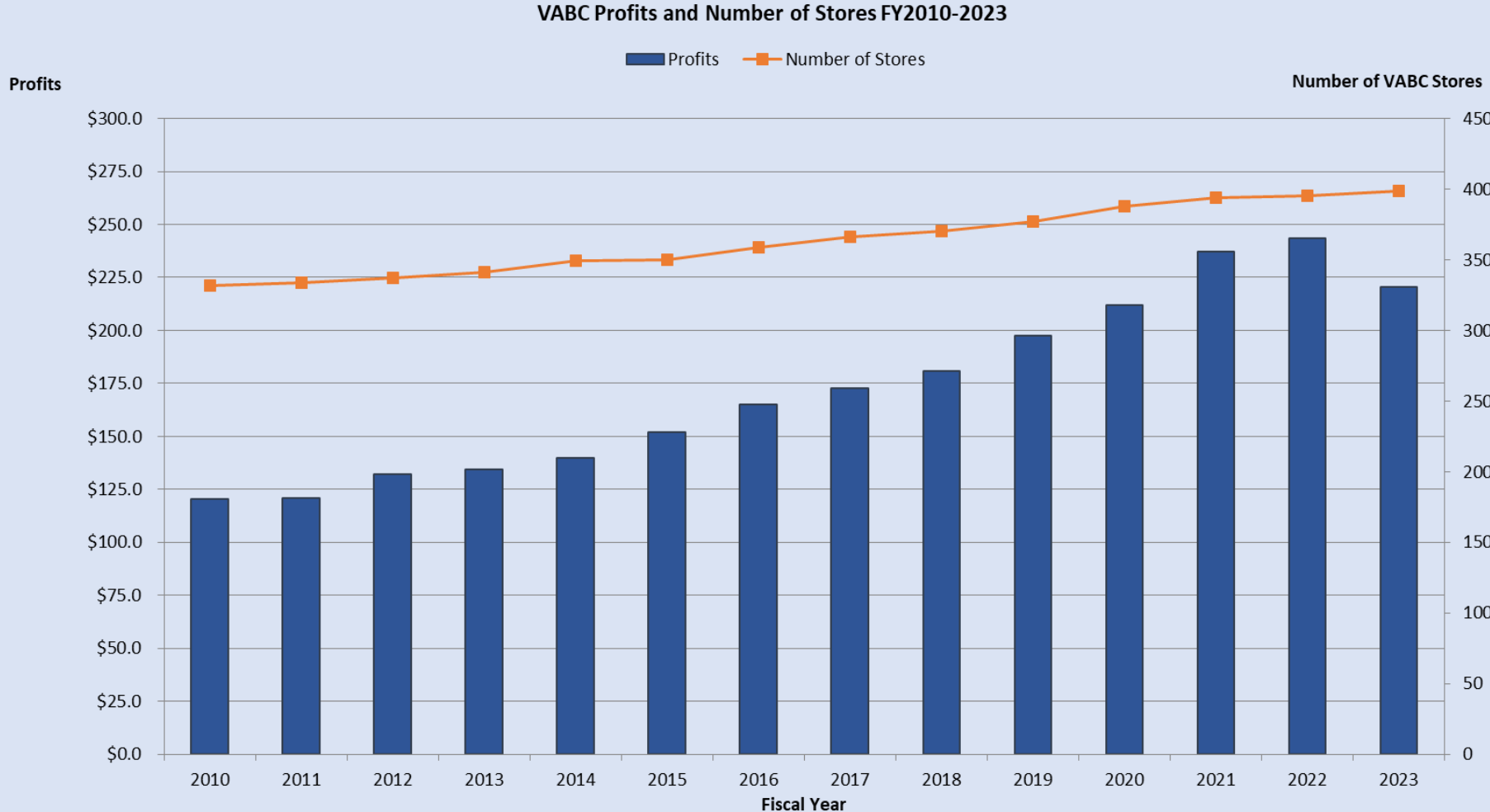


Source: Data Warehouse, excludes distillery store sales

Notes:

- Sales growth in Virginia ABC stores was \$65.6M in FY 2023, or 4.8%, excluding sales in distillery stores
- Volume/Price/Mix analysis identified that the largest driver for growth was increased product volume, driving \$46.2M in growth
- Price impacts delivered \$54.4M in sales growth, \$28.7M from price increases, and \$25.8M from premiumization as consumers choose higher priced products
- The trend of consumers trading down to smaller bottle sizes continued in FY 2023, driving unfavorable mix impacts

Historical Profit Growth



FY 2023 Profits declined by \$23.0M vs. FY 2022 driven mainly by the following:

- \$18.9M Salary and wage increases
- \$15.1M one time gain in FY 2022 on Hermitage Road facility
- \$8.9M Increase in skilled services for IT and other projects
- \$3.6M Other increases

These impacts were partially offset by \$23.5M gross profits from higher sales

Historical Financial Performance

	In Millions				
	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Sales	\$ 1,443.9	\$ 1,376.6	\$ 1,333.6	\$ 1,173.6	\$ 1,054.1
- Excise tax	238.9	227.7	220.4	193.8	174.3
+ Other revenue	28.5	41.5	24.2	20.8	23.3
Net revenue	\$ 1,233.5	\$ 1,190.4	\$ 1,137.4	\$ 1,000.6	\$ 903.1
Cost of goods sold	693.3	660.7	642.9	563.2	504.5
Operation costs	213.2	202.2	177.5	149.9	134.0
Administrative costs	83.1	63.8	62.0	58.5	49.9
Regulatory costs	23.3	20.1	17.7	16.9	17.3
Net Profit	\$ 220.6	\$ 243.6	\$ 237.3	\$ 212.1	\$ 197.4
Net Profit as % of Net Revenue	17.88%	20.47%	20.86%	21.20%	21.86%

Cash Contributions to Commonwealth

Last 7 Years Total \$3.8B

FY 2023 increased \$11 million over FY 2022, \$166 million over FY 2017

Revenue Source	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
ABC cash profit transfers	\$179.9	\$179.4	\$200.6	\$206.8	\$247.3	\$232.3*	\$233.8
State excise taxes	\$154.5	\$160.9	\$174.1	\$193.7	\$220.1	\$227.5	\$238.7
General sales tax	\$43.3	\$45.4	\$48.8	\$57.7	\$73.9	\$67.3	\$69.0
Wine liter tax	\$36.8	\$37.6	\$38.5	\$39.6	\$42.0	\$42.3	\$41.2
Malt beverage tax	\$42.8	\$41.6	\$41.4	\$42.2	\$43.1	\$42.1	\$40.2
Total	\$457.3	\$464.9	\$503.4	\$540.0	\$626.4	\$611.5	\$622.9

*Decrease in FY22 partially attributable to costs of transitioning to new facility, large increase in depreciation from investments and implementation of compensation adjustments.

Exceeding Appropriation Act Profit Requirement

	Actual Profit (Accrual Basis)	Profit Transfer Requirement	Excess Profit Above Requirement
FY 2020	\$ 212,090,014	\$ 194,228,279	\$ 17,861,735
FY 2021	\$ 237,299,273	\$ 228,928,110	\$ 8,371,163
FY 2022	\$ 243,607,393	\$ 231,328,110	\$ 12,279,283
FY 2023	\$ 220,561,526	\$ 181,510,923	\$ 39,050,603
Total	\$ 913,558,206	\$ 835,995,422	\$ 77,562,784

Profit Forecast

GACRE Forecast FY 24 – 29

Virginia Alcoholic Beverage Control Authority

Forecast (FY2024-FY2029) (1)

As of 8/22/2023

(in millions)

	Actual FY2023	Forecast FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Revenue Sources:		<i>Growth Rate</i>					
Alcoholic Beverages (Store Sales)	1,443.9	5.09%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: State Taxes on Spirits & Wine	238.8						
Net Store Sales	1,205.1	1,517.4	1,593.3	1,673.0	1,756.6	1,844.4	1,936.7
		251.3	263.8	277.1	290.9	307.1	322.5
		1,266.1	1,329.5	1,395.9	1,465.7	1,537.3	1,614.2
Other Revenue	28.5	25.0	25.2	25.5	25.7	26.0	26.3
Total ABC Revenue	1,233.6	1,291.1	1,354.7	1,421.4	1,491.4	1,563.3	1,640.5
Cost of Goods Sold:	693.3	728.3	764.8	803.0	843.2	885.3	929.6
Operating Costs:	319.7	318.5	313.4	316.7	320.5	326.1	331.9
Infrastructure Projects (2):			0.9	1.3	2.0	5.4	5.0
ABC Net Profit	220.6	244.3	275.6	300.4	325.7	346.5	374.0
Profit Carryover from Prior Fiscal Year (1)		(0.8)					
GACRE Submission		243.5	275.6	300.4	325.7	346.5	374.0
Less Mandated Appropriation Transfers.		(69.4)	(69.4)	(69.4)	(69.4)	(69.4)	(69.4)
GACRE Net Profits for Distribution		174.1	206.2	231.0	256.3	277.1	304.6
ABC Net Profit as a % of Net Revenue		18.92%	20.34%	21.13%	21.84%	22.16%	22.80%

Notes:

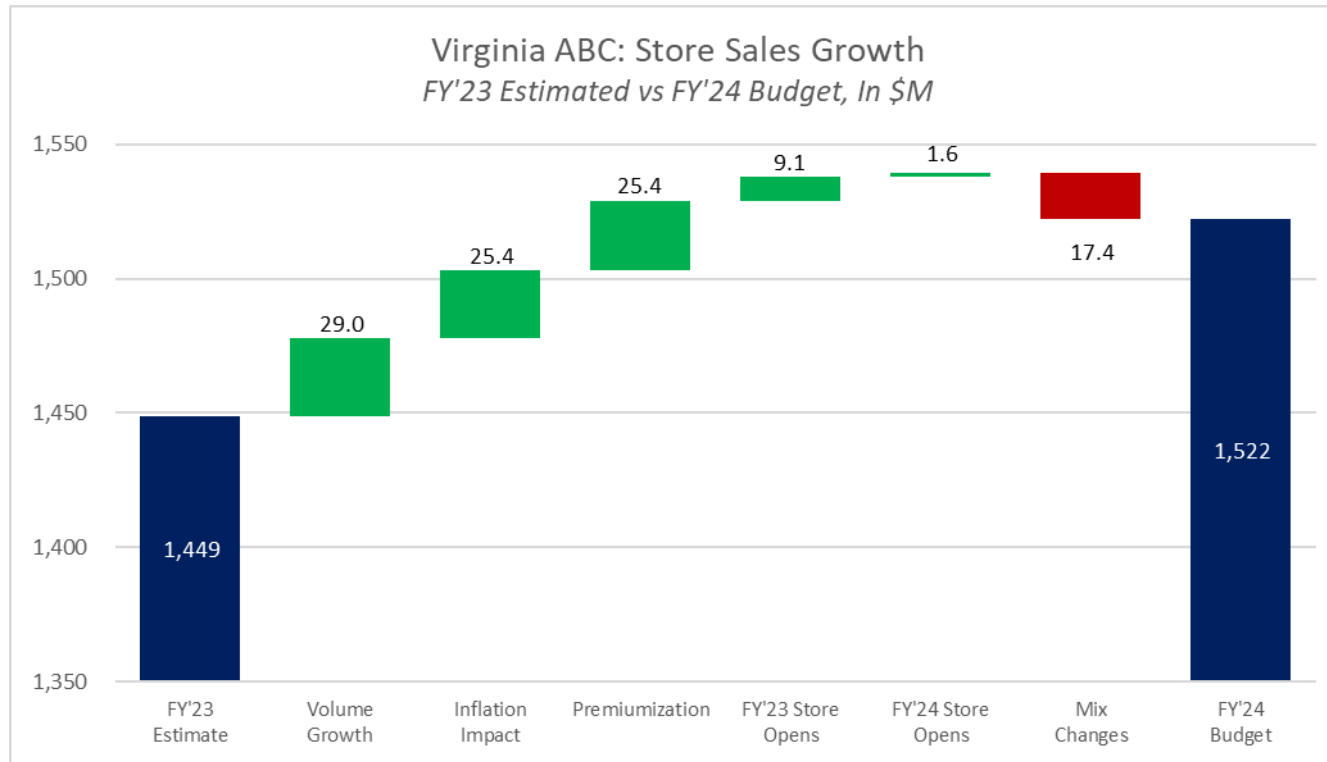
1. Forecast developed on accrual basis. The profit transfer occurs on a cash basis. Variances often occur at year end when ABC has to transfer estimated profits prior to June 30th.

2. Infrastructure projects are ongoing and the depreciation/amortization impact with an increased impact beginning in FY25. These projects include the Inventory Management System FY25, Order Management FY26, Human Capital Management Project FY28 and other internal projects. All live projects as well as projects that will be going live in FY24 were included in the FY24 base budget.



Financial Forecast – Revenue (Sales)

Store Sales Revenues: 5.0% growth in FY'24



Source: SmartView, Data Warehouse, Strategy & Analytics analysis

Assumptions:

Volume Growth – 2.0% increase in bottle volumes

Inflation Impact – 1.75% increase in average bottle pricing

Premiumization – 1.75% increase from consumer price selection

FY'23 Store Opens – Net impact @ \$225K/month, 4 stores

FY'24 Store Opens – \$65K/month, 4 stores, midyear average open

Mix Changes – Ongoing shift into larger sizes, resulting in lower price per liter, and trading down activity into smaller sizes

Risks:

Economic Downturn – spirits industry is recession resilient, but drives consumers down shelf (dep premiumization), purchase larger sizes, and reduced licensee sales from restaurant visit declines

Volume Growth – Volumes have been stagnant across industry post-pandemic, and declined in April; investor analysts recommending “hold” on supplier stocks due to slow/no growth

Additional Expenses Forecast for FY 24 and Beyond

- **Compensation**
 - 5% pay increase for FY24, 1% in FY25-FY26 and 2% for FY27-FY29
 - Store Network Growth Salary and Wage Impact for new store openings reduced from 8 new stores per year down to 4 for FY24-FY29 to align with recent trends
 - Lower costs through employee attrition
 - Lower Retail costs due to efficiencies in the store staffing model
- **Depreciation/Amortization of Capital Projects**
 - Continued depreciation of completed projects
 - Additional depreciation expense due to projected project completions:
 - Inventory Management FY25
 - Order Management FY26
 - Human Capital Management FY 28
- **Cost Reductions**
 - Media spend at 2021 level with close evaluation of need for future promotions
 - Reduction in consulting services due to limited projects in FY24 and fewer IT contractors
 - Reduced recruitment of long-term vacancies outside Enforcement
 - Attrition of unfilled positions as gain efficiencies
- **Cost Increases**
 - Credit Card fee increases due to card brand rate increases and a higher number of transactions
 - Increased outbound freight costs due to higher rates, volume increases and higher fuel costs

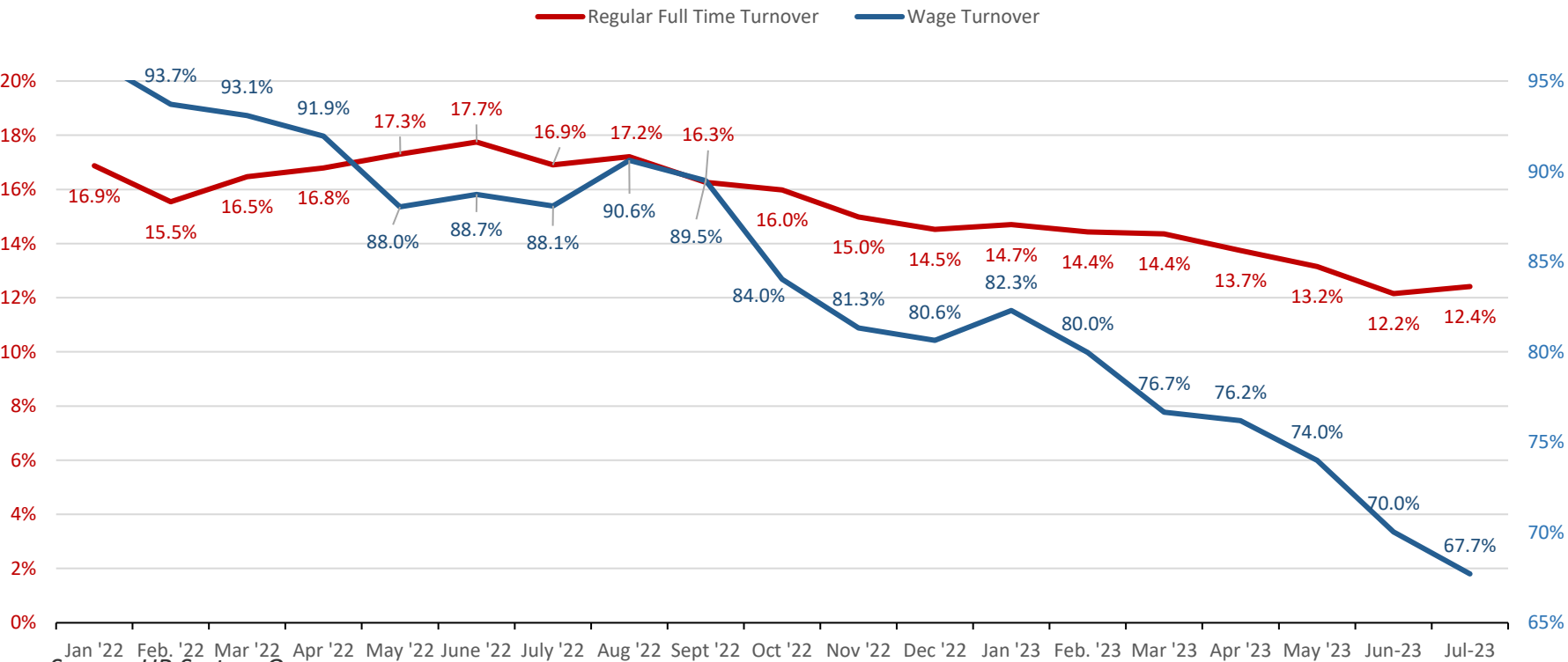
Employee Staffing Trends

	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024 as of 09/18/23
Headcount (Actual, End of Period)				
Salaried - Employees	1336	1389	1460	1462
Hourly - Employees (Expressed as FTE)	2744	2423	2470	2468
Contract Workers (Expressed as FTE)	58	44	40	41
Total	4138	3856	3970	3971
Vacancies Funded in the Budget				
Vacancies Being Recruited				29
Vacancies Not Being Recruited				35
Total				64

Employee Turnover: Wage and Staff turnover improving

Turnover rates for both full time and wage associates are showing a clear reduction trend and are improved versus prior year; full time turnover has increased slightly, but wage turnover has continued to drop.

Virginia ABC Annualized Monthly Employee Turnover, July '22 thru July '23



Source: HR System Query

Notes:

- Notable declines in turnover with initiation of pay actions
- Employee engagement initiatives and other focused efforts have been launched to address employee retention.
- EET continues to send and collect employee life cycle survey data.



ABC IT Modernization

- In 2015 ABC initiated a comprehensive IT Modernization effort to improve aging IT infrastructure that threatened operations and revenue generation
- We have continued to make progress in major systems modernization.
- 71% of ABC systems have now been modernized.

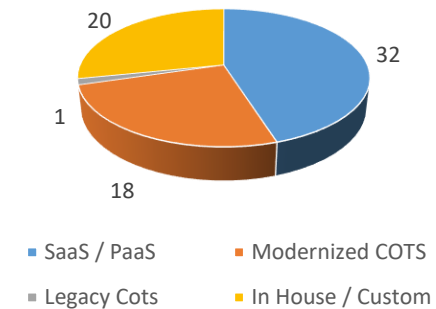
Completed projects

- Licensing System
- Oracle Infrastructure Migration
- Web Design 1.0
- Material Handling / Warehouse Systems
- Point of Sale
- Finance Systems Replacement

Pending/ongoing projects

- Inventory / Order Management
- HR Information System – approved 2021 legislative session
- Web Redesign/eCommerce Program 2.0
- Tax Management

Modernization Status



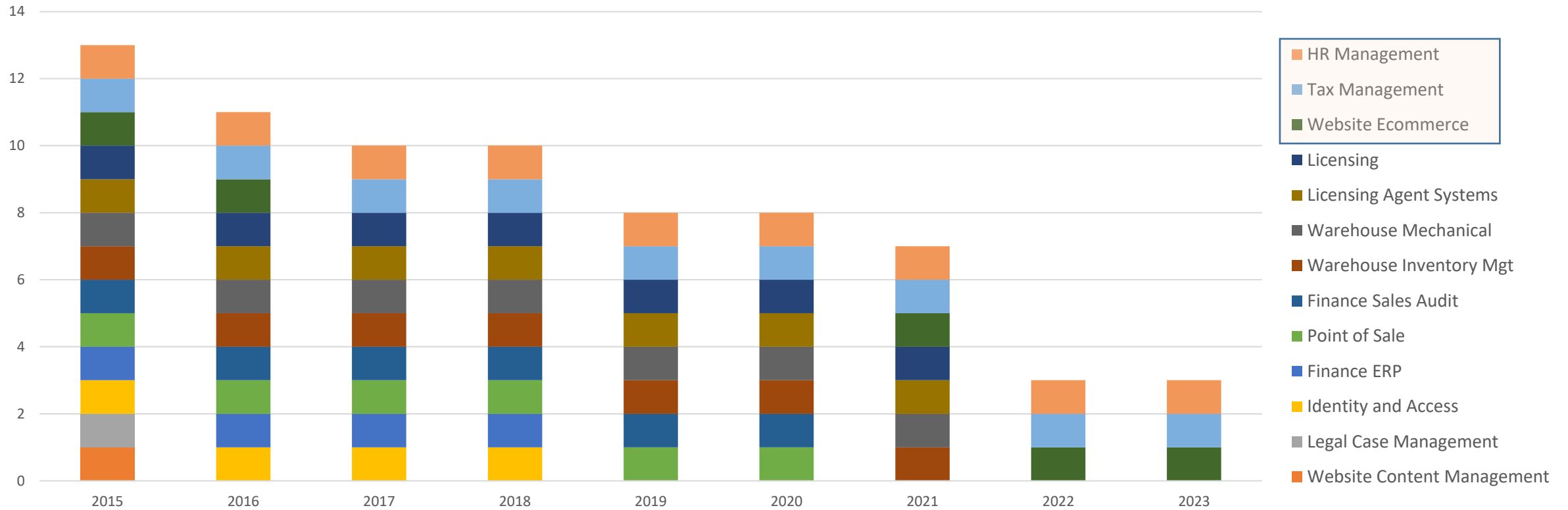
- New strategy is to keep systems current, rather than run beyond end of life. With SaaS solutions preferred.
- Other than the above major projects, there are a large number of smaller migration and support projects to upgrade and replace infrastructure middleware that supports the enterprise scale systems
- ABC Also replaced its entire fleet network and telephone systems in 2021/22, required by and funded within the POS and new Building projects. This is paying off in redundancy everywhere and impressively high enterprise reliability statistics (well above 99.9% enterprise uptime)

Approved Biennial Budget Project Requests Implemented by ABC as of June 30, 2023

General Assembly Authorized Investments	Biennium Budget Period	Actual Incurred Costs Capitalized		Business Value/Impact	In-Service Date	Depreciation and Amortization Expense through FY 2028 (a)								
						FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
License Management System (Including Migration to Cloud Technology)	2015-2016	\$ 8,347,238		<ul style="list-style-type: none">Automated system to manage the licensing function. Replaced aging, unstable technology.Custom built to reflect unique ABC licensing requirements. Modified to comply with License Reform.Created efficiencies and an improved customer (Licensee) experience.Provides ABC Enforcement Agents quicker access to Licensee data.Enhanced public safety.Expedited license fee collection.	1/1/2022	\$ -	\$ -	\$ 834,724	\$ 2,605,953	\$ 1,401,875	\$ 1,401,875	\$ 1,401,875	\$ 700,937	\$ -
	2017-2018													
	2020-2022													
Point of Sale System	2018-2020	\$ 17,292,063		<ul style="list-style-type: none">Created modern and reliable retail point of sale capabilities across all retail locations.Enhanced customer service.	1/1/2021	\$ -	\$ 1,580,830	\$ 3,310,036	\$ 3,458,413	\$ 3,458,413	\$ 3,458,413	\$ 1,877,583	\$ 148,377	\$ -
ABC Headquarters and Distribution Center	2016-2018	\$ 90,622,325		<ul style="list-style-type: none">Modern Headquarter and DC facility designed, built, and scalable to handle increasing bailment and inventory fulfillment requirements for retail locations.Increased efficiencies in getting inventory to stores.Recognized an average 15% increase in outbound case volume versus old warehouse.Contributed to increased in-stock inventory positions.	7/1/2021	\$ -	\$ -	\$ 4,156,771	\$ 4,156,771	\$ 4,156,771	\$ 4,156,771	\$ 4,146,685	\$ 3,039,423	\$ 3,032,391
Financial Management System - BAR	2014-2016	\$ 5,794,860		Replaced 15 year old financial management information systems, creating greater functionality and reliability for managing financial performance.	7/1/19	\$ 827,837	\$ 827,837	\$ 827,837	\$ 827,837	\$ 827,837	\$ 827,837	\$ 827,837	\$ -	\$ -
Total		\$ 122,056,486				\$ 827,837	\$ 2,408,667	\$ 9,129,368	\$ 11,048,974	\$ 9,844,896	\$ 9,844,896	\$ 8,253,980	\$ 3,888,737	\$ 3,032,391
(a) The future year depreciation and amortization reflects the annual expense impact of the authorized investments.														

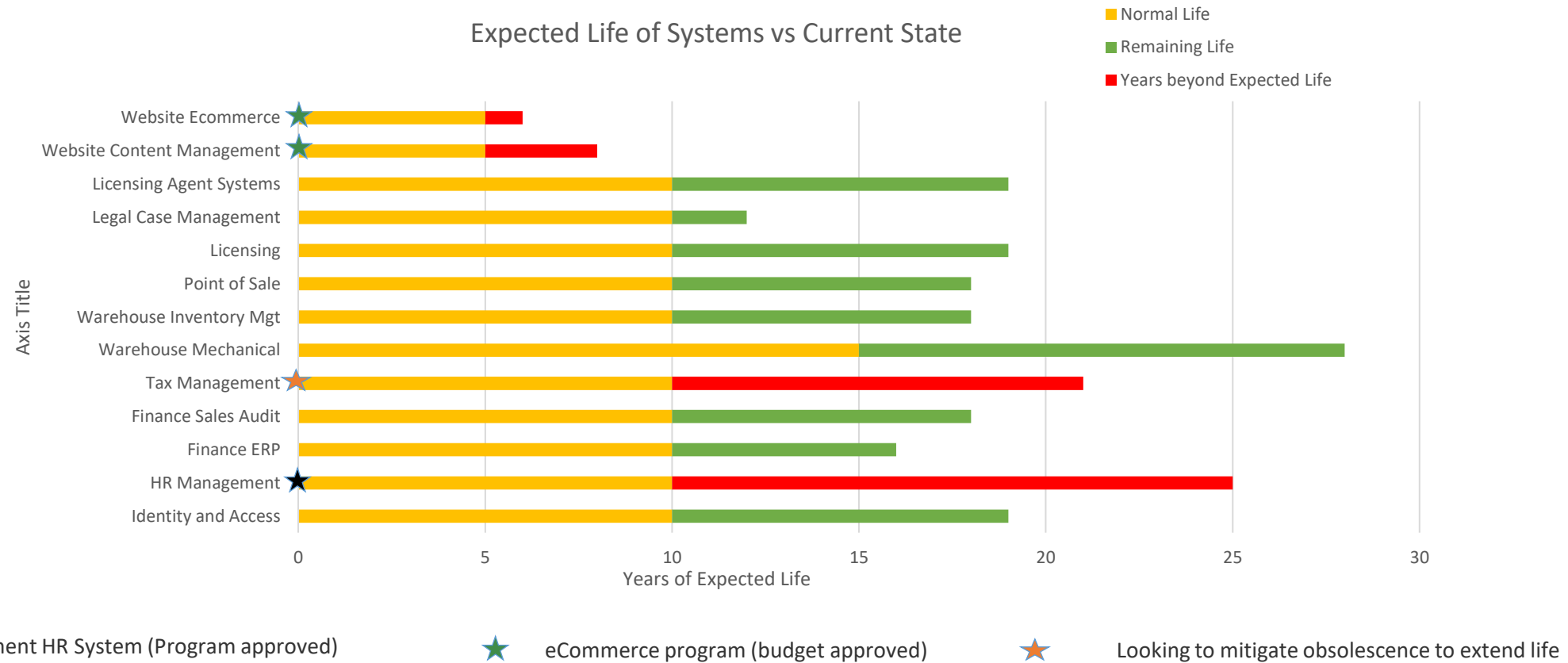
In 2014 ABC's technical debt was huge. Almost every system was beyond its useful life and or obsolete and unsupportable

Number of ABC systems in use beyond their expected life by year



Although only 3 major business functions are beyond end of life, each is composed of multiple parts – HR is 5 systems, Tax Management - 3 systems and eCommerce modernization requires change to most retail and logistics systems

Expected Life of ABC Systems Compared to Current System State



Licensing and Enforcement

- Bureau of Law Enforcement
 - 223 employees
 - 127 sworn staff in 9 regional offices, compliance, training, and headquarters
 - Field agents focus on retail and banquet license investigations
 - Compliance agents handle wholesale and manufacturer licenses
 - 96 civilian staff across licensing & records management, regional offices, and tax management
 - 20,622 total licenses
 - 24,330 one-day banquet licenses
 - Activities include site inspections, application investigations, covert observations, planned operations, public safety and criminal investigations
 - Tax Management responsible for \$85M in excise tax collections
- Hearings Division
 - Adjudicates almost 375 cases annually (average over the past 3 years)
 - Most frequent cases involved underage sales and mixed beverage ratio (§4.1-114)
 - Reforms made as part of Authority transition
 - Average turnaround time for all cases from date received in Hearings to disposition for the past 3 years is 107 days (COVID-19 caused a delay due to work from home orders). Prior to COVID-19 the average turnaround time was 50 days.
 - \$2,056,289.27 in civil penalties collected from 2019 to date.

VAL | VIRGINIA ABC LICENSING



Shared Benefits for Licensees & Virginia ABC



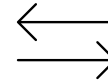
Convenience for Licensees and Businesses

- Available 24/7 whenever and wherever you are
- Greater flexibility for primary business
- Real time accessibility to materials and license information



Virginia ABC Benefits

- Promotes consistency across similarly situated businesses
- Provides a streamlined process for issuing licenses for a wide spectrum of businesses
- Reduces manual process and improves visibility



Perform Business Transactions

- Applications – renewals, modification, surrenders, etc.
- Financial Transactions – payment of all fees, civil fines or penalties, etc.
- Hearings and Appeals – reporting and correspondence
- Training Records – officially record responsibility training such as RSVP and MART



New Licensing and Fee Structure

- Consolidates 152 existing licenses down to 71 in a set of 12 categories
- Reduces complexity and duplicative processes for licensees

VAL Onboarding Approach

VAL System onboarding is complete following a phased approach.

January 2022

VAL back-office module was rolled out to internal Virginia ABC users
Banquets went live

May 2022 to January 2023

Began the onboarding process for existing licensees starting with June 2022 renewals
Onboarded permittees who had previously non-expiring permits
74% of licensees received an enrollment letter to set up their account
Launched a dedicated customer support team to address VAL questions/concerns
Developed a series of videos and PDF tutorials for licensees

April 2023

Complete phased approach for onboarding renewals
Promote VAL for the submission of new license applications
Update licensee communications to focus on increasing utilization of the VAL system

July 2023

Transition to SaaS Solution and Full Managed Services
All licensees received enrollment letter
Working on continuous improvements to the VAL system to address both external and internal feedback



VAL Onboarding Metrics

	Agency objective	Key result	Metric	Baseline	2023 Target	2025 Target	Actual
Make Government Work for Virginians	Licensee/ Permittee onboarding progress	Roll out new online service to current license and permit holder population for application renewal	% of licensees that have been communicated to and received an enrollment letter to set up their account	0%	100%	100%	100%
	Online license renewal processing	Provide new online means for licensees to renew their licenses	% of renewals completed online	0%	30%	45%	36%
	Online banquet application processing	Replace the aging online banquet license system and maintain user base	% of banquet applications completed online	72%	72%	N/A	72%

Data as of 6/30/23

Direct To Consumer Enforcement

- DTC Wine Shipping in U.S. for 2022 was \$4B
- Virginia ABC is partnering with the Virginia authorized common carriers to stop unlicensed shippers shipping into Virginia
 - Illegal shipping is responsible for loss of revenue to Virginia through excise taxes and sales taxes not being collected
- Virginia is in top 10 of DTC shipping states for wine ≈ 174K cases in 2022.
 - 818 Out of State Shippers applications received (Breweries, Wineries, Retailers) since January 2018.
 - 1394 Out of State Shippers as of May 2023.
 - 400 In State Shippers as of May 2023.
- Current enforcement includes review of filed shipper reports, work with common carriers to remove unlicensed shippers from services and outreach to unlicensed shippers to obtain licenses
- Direct-to-Consumer Shipping Unit
 - 4 dedicated FTEs. (1 Supervisor, 2 Analysts, 1 License Technician)
 - Also includes partial use of 1 ASAC, 1 License Technician, 2 Agents, and 1 Attorney
 - Next steps include adding 2 Analysts, 2 Special Agents
 - Target full staffing of 10 FTEs

Retail Operations

Distribution Center & Systems

Freight Way

- Ship 37,000 cases in eight-hour shift
- 315,000 sq ft, expandable to 399,000
- High density storage, 36' clear span
- Inbound receiving doors 10, expandable to 15
- Outbound shipping doors 10, expandable to 15
- Automated dispenser, expandable double capacity
 - Ship up to the top 50 items, two-person operation
- Manual case pick area, expandable by 20%
- Bottle pick area, expandable by 50%
 - Designed to accommodate future DTC shipping, pending future software implementation

Hermitage Road

- Ship 28,000 cases in an eight-hour shift
- 293,000 sq ft, land locked
- Bulk floor pallet storage, 24' clear span
- Inbound receiving doors 7, not expandable
- Outbound shipping 8 doors, not expandable
- High volume pick area, not expandable
 - Ship to 30 items, six-person operation
- Manual case pick area, not expandable
- Bottle pick area, not expandable
 - Would not accommodate DTC shipping

Distribution Center & Systems

Freight Way Distribution Center – Update

Average cases shipped daily in December **28,490** with a peak day of **37,347** (shipped within an eight-hour shift).
Hermitage road peak capacity in an eight-hour shift was **28,000** cases.

Employee Engagement/Turnover

October 1 - December 31			
Type	2022	2021	% Change
Full-time	1.80%	7.14%	-5.34%
Temp	9.84%	25.32%	-15.48%
Part-time	0.00%	31.82%	-31.82%

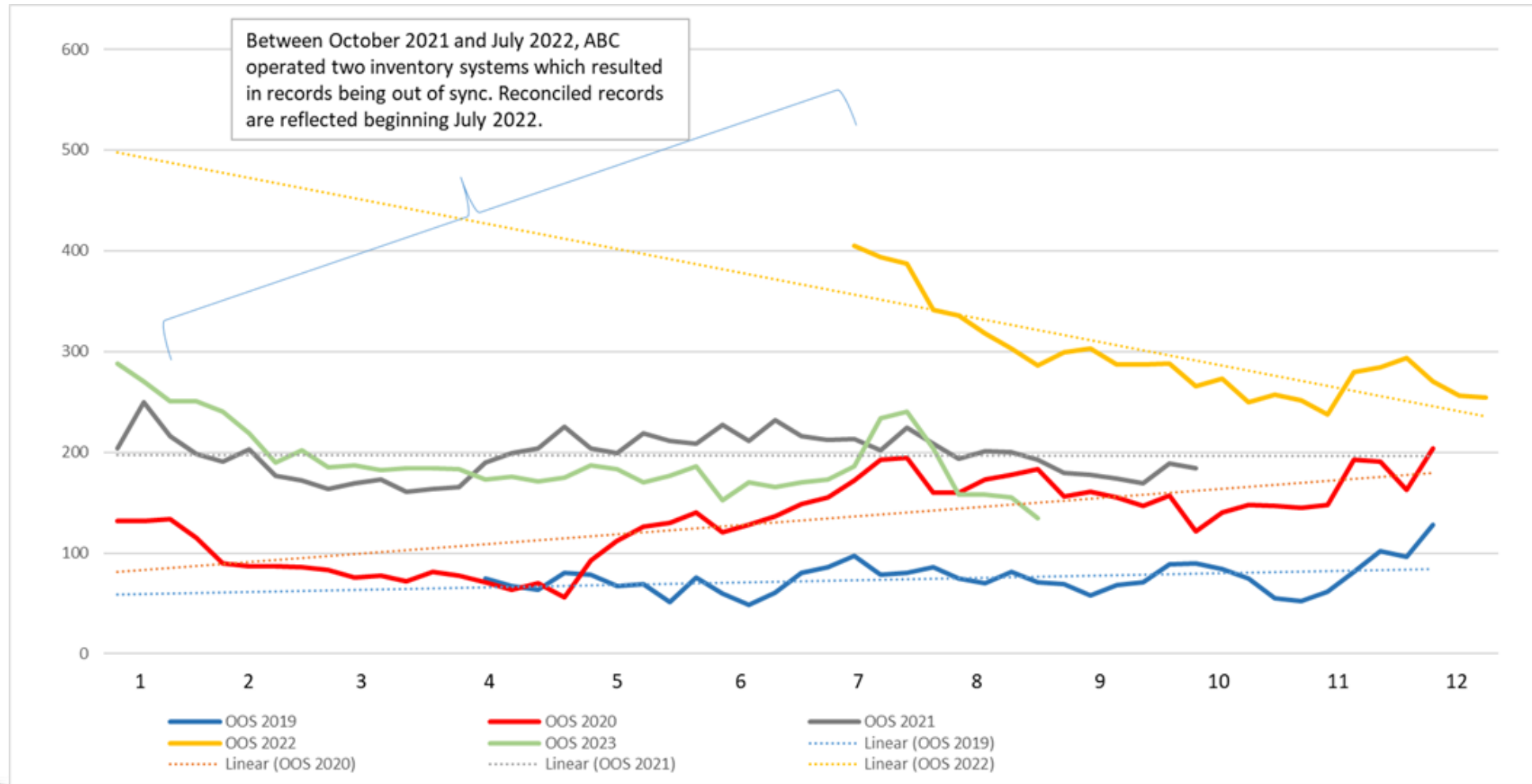
Month	Cases Shipped Daily Avg.	Peak Day
Jan	24,534	34,621
Feb	25,740	31,489
Mar	28,764	36,556
Apr	25,538	30,011
May	24,974	30,753
Jun	25,090	36,093
Jul	25,292	34,323
Aug	23,377	30,802
Sep	25,149	30,623
Oct	25,903	31,400
Nov	26,914	32,698
Dec	28,490	37,347
Average 2022	25,814	33,060

Productivity improvements

- Shipped 37,347 cases in an 8-hour shift
- Average cases pick per picker per hour
 - 70 CPH in August
 - 123 CPH in December
- Cases picker per man hour
 - 25.99 August
 - 35.73 December



Out of Stocks 2019 – FY24 YTD



Store Hours

Retail store hours are part of the Authority's focus on maintaining customer service as a top priority.

Store Operating Hour Considerations

➤ **Monthly Labor Hour Allocation**

Stores receive a monthly allocation of labor hours based on the following:

- *Peak Business Hours*
- *Foot Traffic & Sales patterns*
- *Truck Days & No. Cases Received*
- *Licensee Order Volume*
- *Operational Tasks*
- *Annual Local Events*

➤ **Sales Per Labor Hour**

- *Retail & Licensee Sales*

➤ **Store Complexity Scale**

Rating Scale of 1-10 applied to stores that indicates the level of intricacy involved in managing a particular location and the estimated volume of business. Factors that determine a store's complexity rating include:

- *Prior Fiscal Year Sales*
- *Crime Index Within 5-Mile Radius of Store*
- *Fiscal Year Average Bottle Price*
- *Fiscal Year Customer Count*

Operating Hours are Routinely Reviewed to Assess:

- *Changes in customer traffic, sales volume*
- *Ensure staffing coverage during peak business hours by reducing staffing during slower periods*
- *Increase customer engagement to provide upselling opportunities and as a deterrent to theft*
- *Changes within the local economy-business growth, Licensee growth, housing developments, etc.*

Omni –Channel Capabilities

FY = Fiscal Year



- Spring 2020, Virginia ABC began development of scheduled curbside pickup at retail locations
- Provide customer with the ability to get contactless pickup
- Approximately 56% of online orders take advantage of curbside scheduling

Launch Date: 04/04/2020
of stores: 376
Total Orders: 209,210
Total Sales: \$17,907,363
As of 07/31/2023

FY20 – \$ 2.37M
FY21 – \$10.03M
FY22 – \$ 3.17M
FY23 – \$ 2.3M



- Developed option of next-day shipping fulfillment via UPS
- There is a flat fee for next-day delivery
- Safeguards put in place with UPS to assure that IDs were properly checked to prevent underage distribution.
- Customers have ability track orders, choose window for delivery, and must be present to receive them.

Launch Date: 05/28/2020
of stores: 17
Total Orders: 7267
Total Sales: \$742,673
As of 07/31/2023

FY20 – \$0.02M
FY21 – \$0.39M
FY22 – \$0.23M
FY23 – \$0.12M



- Development of same-day delivery via DoorDash began mid-2020
- Prioritized as a cornerstone of eCommerce capabilities
- Piloted in several stages, fulfills orders to customers within a 5-mile radius of the store
- Safeguards put in place to ensure proper ID checks

Launch Date: 07/21/2021
of stores: 283
Total Orders: 53,256
Total Sales: \$3,431,681
As of 07/31/2023

FY20 – \$0.00M
FY21 – \$0.01M
FY22 – \$1.01M
FY23 – \$2.8M

New Licensee - Casinos

- Bristol, Danville, Portsmouth
 - Omni Channel flexibility
 - Direct ship from ABC Distribution Center (DC) available with 2-pallets minimum
 - Bristol – initial stocking order (July 2022)
 - Danville – initial stocking order (January 2023)
 - Portsmouth – initial stocking order (May 2023)
 - Six additional orders through the DC
 - Store fulfillment on orders less than 2-pallets
 - Total Sales - \$1.4M

Retail Theft

- Partnering with law enforcement across the Commonwealth to address rising retail theft.
- Conducted store layout and property review assessments to reduce theft and improve customer and personnel safety. Specific action plans were developed in these markets to slow / mitigate the progression of shrink within each store.
- Retail leadership attends local Chesapeake Police Department CompStat meetings to maintain a collaborative feedback channel between both parties. Communicate with other departments through email and phone almost daily.
- Implemented a High Shrink Action Plan (HSAP) framework segmenting stores into three categories. The goal is to provide customer service while balancing theft mitigation, and to provide a safe shopping and working environment.
 - Stores were analyzed to identify the level of shrink occurring and placed into one of three groups based on the percentage of shrink over the past 12 months. This will be monitored to assure stores Levels are updated to reflect the current theft environment.
 - Level 1: Shrink 0.40% and below = 354 Stores
 - Level 2: Shrink 0.41% - 0.99% = 28 Stores
 - Level 3: Shrink % to sales of 1.0% and higher = 18 Stores

Retail Theft

Prevention Efforts Completed (Level 3 stores):

- ☐ Updated store layouts to move high theft spirits categories to line of site of cash registers, restricted inventory levels in the store and on the sales floor for the top ten high theft products. Inventory in the in backroom moved to less accessible locations.
- ☐ Camera site line and angles adjusted, and all lenses cleaned.
- ☐ Bottle locking devices have been installed on high-theft items provided by suppliers.
- ☐ Additional labor allotment during peak theft periods

Mitigation:

- ☐ CAM-intrusion alarms installed on the interior stockroom access doors at a portion of the locations. Additional CAM-intrusion alarms on back-order.
- ☐ ABC signage and insignias have been removed from the back entrance of stores.
- ☐ Height strips were added to all doors and wide-angle peepholes have been installed.

Retail Shrink (Retail Value)

- ☐ February – August (399 stores) \$645,083
- ☐ HSAP Level 3 stores (18 stores) \$164,160

HSAP Level 3 stores account for 25% of shrink.

Training & Execution:

- ☐ Customer engagement expectations training.
- ☐ Theft reporting & when to call 911 and non-emergency line guidance training.
- ☐ Crime reporting criteria & "How to be a Good Witness" training.
- ☐ Shoplifting, robbery, and burglary procedures were revised to reflect the new reporting criteria.

Pandemic Impacts on Alcohol Use

- U.S. consumption of alcohol, which had already been increasing for years, accelerated during the pandemic as Americans grappled with stress and isolation.
 - 17% increase spirits (high-end and ready to drink categories)
 - 1% increase each for beer and wine
 - Americans could not spend on vacations & restaurants so spent on stocking the bar
- According to data from the Centers for Disease Control and Prevention (CDC), In 2021, 54,000 Americans' primary cause of death was alcohol-related
 - Largest increase is among 25-44 year olds
 - Correlation between a state's alcohol sales and alcohol-related deaths
- Highest alcohol consumption since 1988 (measured by gallons sold)
- The 2021 National Survey on Drug Use and Health indicated that nearly 9 in 10 U.S. adults of drinking age reported drinking the same or less than they did before the pandemic.
- Driven by spirits sales and loosening of rules during the time of the pandemic
- Many Americans are rethinking their relationship with alcohol, as new research has also punctured the myth that drinking alcohol in moderate amounts is good for one's health.
- Decrease in alcohol consumption by underage drinkers, as well as the recognition of dry Januarys and the rising popularity of nonalcoholic alternatives,

The Washington Post
Democracy Dies in Darkness



Alcohol consumption surged during the pandemic – and deaths followed

U.S. consumption of alcohol, which had already been increasing for years, accelerated during the pandemic as Americans grappled with stress and isolation

By [Caitlin Gilbert](#), [David Ovalle](#) and [Hanna Zakharenko](#)
July 13, 2023 at 6:00 a.m. EDT

Note: This source equates alcohol sales with consumption

Virginia was 1 of 3 states that had *no change* in per capita ethanol consumption from 2020-2021

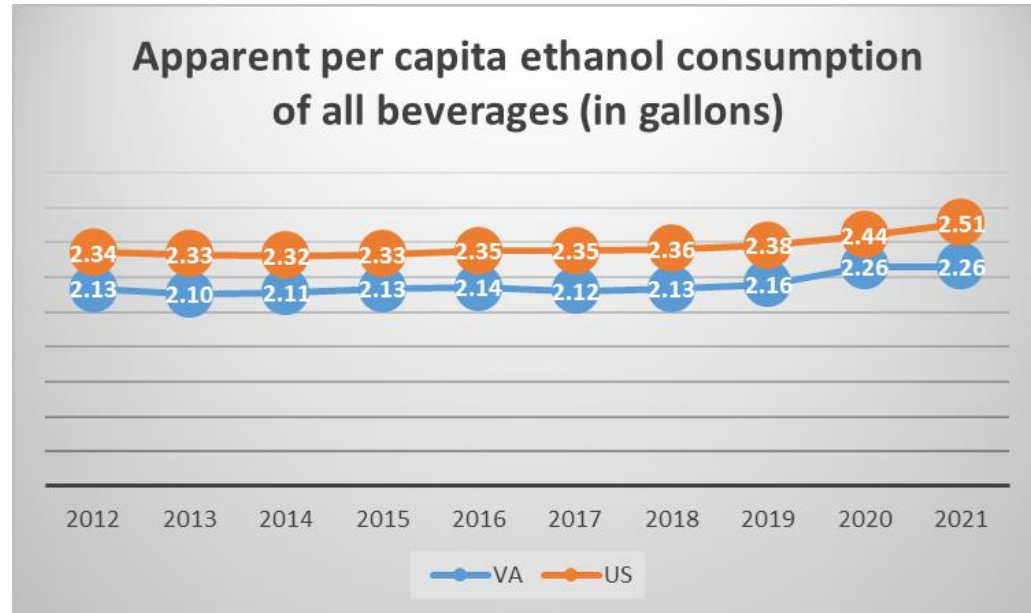
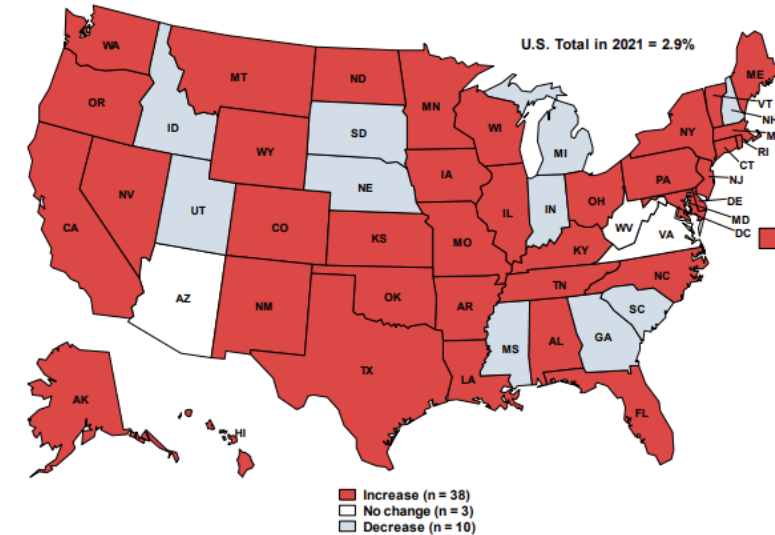


Figure 5. Percentage change in total per capita ethanol consumption by State, United States, 2020–2021



The US saw a **1.71%** change from 2012 to 2019 and a **5.46%** change from 2019 to 2021.
Virginia saw a **1.41%** change from 2012 to 2018 and a **4.63%** change from 2019 to 2021.

Generational Trend Impact on the Alcohol Industry

- The rise of mindful drinking is driven mostly by younger generations, with youth drinking being in decline across most high-income countries.
- **Gen-Z drink on average 20% less than millennials**, who also drink less than the previous generation, mainly because of an increased awareness of the dangers and effects of alcohol and the rise of health-consciousness as a lifestyle.
- **86% of Gen-Z consumers believe that their mental health is as significant as their physical health when considering drinking alcohol.**
- **The rise of health and wellness** has driven younger consumers to moderate their alcoholic consumption on average and **become more sober curious.**
- The **non-alcoholic category** is expanding thanks to both higher demand and innovation within the space, with volumes **expected to grow by 25% between 2022 and 2026.**
- The **non-alcoholic category surpassed \$11 billion in 2022**, driven by the demand for non-alcoholic beer, wine, spirits and ready-to-drink products.
- IWSR data indicates that **82% of non-alcoholic drinkers also consume alcohol**, highlighting that it is more about moderate consumption rather than complete abstinence.

Non-alcoholic beverages, by the numbers

31% Projected consumption increase of low and no-alcohol beverages internationally by 2024

3% No and low-alcohol market share within international beverage alcohol market in 2020

92% Beer & cider's share of no and low-alcohol segment internationally

Source: International Wine and Spirit Research report from February 2021



QUESTIONS