

Virginia ABC

Overview for Senate Finance and Appropriations
Committee

October 15, 2024

Dale F. Farino, CEO



AGENDA

1. Introductions
2. Spirits Industry Trends
3. ABC Efforts to Maximize Profit Transfers
4. FY 2024 Actual Results and FY 2025 – 2026 Financial Forecasts

FY 2025 – 2026 Forecast – Executive Summary

US Spirits Industry Trends

- The US spirits industry year-over-year growth continues to moderate and face strong headwinds for the foreseeable future.
- The factors impacting declining growth include the effects of rising inflation, reductions in discretionary spending, competing alcohol beverage products (Ready to Drink) and cannabis, and generational changes in alcohol consumption and buying habits.
- Industry experts expect spirits sales growth to remain relatively flat.

ABC's Revenue Forecast Changes

- ABC has been monitoring industry trends as a comparative measure and has solicited input from Virginia's spirit suppliers to validate ABC's revenue growth estimates.
- ABC revised the revenue forecasts to reflect flat year-over-year revenue for FY 2025 and 1% revenue growth for 2026, versus the original forecast estimate of 5% compounded growth each year.



Multiple industry suppliers have recently highlighted low growth

Major industry suppliers have recently highlighted lower demand for spirits as contributors to driving spirits sales down.

“The spirits sector – and beverage alcohol – is facing a softening of demand as cost-of-living pressures mount in major consumption markets. The industry is also focused on unwinding inventories in key categories, such as Cognac and Scotch. Many consumers are opting to moderate their alcohol consumption to account for the squeeze on disposable incomes, as well as shifts in lifestyle choices.”

Source: The Spirits Business
<https://www.thespiritsbusiness.com/2024/09/spirits-weather-challenging-economic-climate/>

Headwinds

The alcohol industry faces recent headwinds from various forces including cannabis legalization, preferences of a younger generation, campaigns against alcohol such as dry January...

Source: <https://irishliquorlawyer.com/>

Brown-Forman Corporation (NYSE: BFA, BFB) reported financial results for its first quarter of fiscal 2025, ended July 31, 2024, with net sales decreasing 8% to \$1.0 billion (-4% on an organic basis) compared to the same prior year period.

Net sales in the United States declined 5% (-4% organic) driven by lower volumes in a challenging economic environment, led by Jack Daniel’s Tennessee Whiskey, el Jimador, and Korbel California Champagnes along with the negative impact of JDCC.

Consistent with company expectations, distributors are continuing to target the low end of their normal inventory range as continued high inflation and interest rates are negatively impacting the consumer and the trade.

US Spirits Nielsen Data: Sequentially weaker volumes with sales growth lower at +0.7%

Source: CITI
September 17, 2024

The Spirits market is expected to show a volume growth, at home of -0.2% in 2025.

•Source: [Spirits - Worldwide](#) | [Statista Market Forecast](#)

...two of the headwinds that attributed to the slowdown: the rise of the cannabis industry in the consumer goods space and the lack of the 21-year-old to 34-year-old demographic wanting to drink alcohol compared to older generations.

Source: <https://www.bizjournals.com/>
Stephen P. Schmidt October 4, 2024



ABC's Efforts to Maximize Profit Transfers

1. Strengthening supplier relationships to maximize opportunities for ABC to receive increased volumes of high-demand allocated products. (i.e., Buffalo Trace)
2. Leveraging suppliers' experiences, marketing expertise, and resources for increasing product visibility by creating enticing store displays, promoting bundled cocktail suggestions, and increasing the frequency of in-store tasting events, etc. (i.e., Increasing shelf space for popular products)
3. Streamlined the process for limited allocation products to shorten the time between products arriving in ABC's distribution center and making a sale to customers.
4. Closely monitoring inventory levels to ensure stores are fully stocked and high-demand products are readily available for sale. Empowering store personnel, those closest to our customers, to order products tailored to customer preferences.
5. Retail leaders are collaborating with suppliers and distillers to increase product knowledge (i.e., Shelf talkers and retail "huddle" discussions), and leverage economic contributions to ABC.
6. Collective efforts by all ABC employees to aggressively manage costs and control discretionary spending to minimize the impacts of declining nationwide spirits sales.



Retail store displays are being changed to provide more shelf space for popular brands

Before



Tito's Vodka represents over 25% of the total Vodka category sales.

Shelf space was adjusted to nearly double the amount of Tito's products on display.

After



* Data and pictures from Test Store #428 in Virginia Beach.

Innovative Ideas and Supplier Relationships are Paying Dividends



Buffalo Trace Mini's Sales Data November 2023 - September 2024

Product Name	Product Number	November 1, 2023 - June 30, 2024		July 1, 2024 - September 30, 2024		Total Since Available	
		Sales	Bottles Sold	Sales	Bottles Sold	Sales	Bottles Sold
Buffalo Trace	018016	\$ 1,786,416	447,849	\$ 536,239	134,516	\$ 2,322,655	582,365
Buffalo Trace Cream	080000	\$ 402,253	134,572	\$ 41,989	14,043	\$ 444,241	148,615
Total		\$ 2,188,669	582,421	\$ 578,227	148,559	\$ 2,766,896	730,980

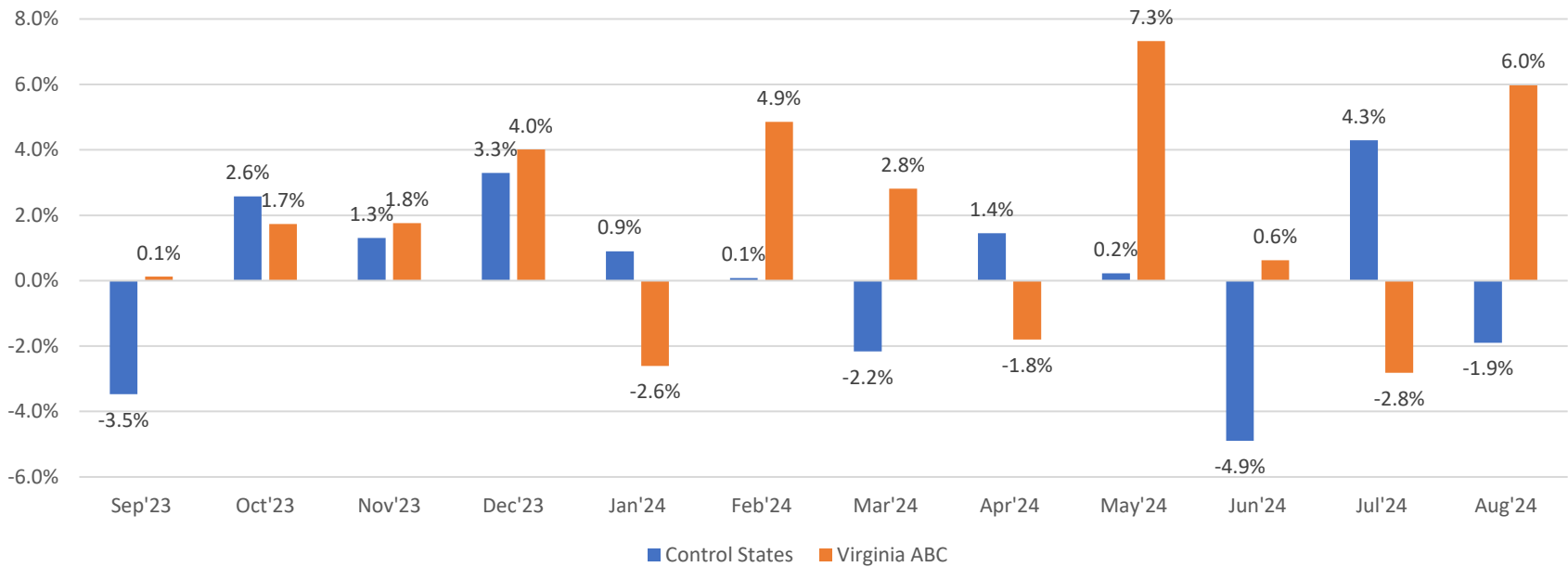
Collaborative relationships with suppliers are leading to increased opportunities to acquire highly sought after products = increased sales for ABC = increased profits to the Commonwealth.



Virginia Continues to outpace Total Control States in Growth

The 17 control states in aggregate had 0.16% growth between September 2023 and August 2024, demonstrating that Virginia is not alone in experiencing decelerated growth rates. Virginia ABC's growth during this time of 1.9% was 8.2x higher than Total Control States.

Virginia ABC: Rolling 12 Store Sales Growth versus All Control States



Virginia ABC Exceeded Control State Revenue Growth in 8 of the Past 12 Months



Source: BAR Smartview & NABCA Greenbook



ABC's Ongoing Focus on Managing Costs to Offset Declining Sales

- Reviewing all vacant positions and only backfilling those deemed critical to operations – mainly focused on positions supporting the distribution, retail sales and regulatory functions. *(On June 30, ABC had 229 vacant positions; only 28 were being recruited.)*
- Weekly executive review and approval of all requested purchasing commitments and spending over \$10K.
- Executive review and approval of all lease renewal options. Evaluating opportunities for store consolidation based on factors such as locations in proximity to other ABC stores, population density, historical store financial performance, proposed lease terms, etc.
- Significant year-over-year reductions in advertising and media *(\$2.2M less in FY 2024)*. No demonstrable return on investment.
- Elimination of 29 positions in June and September with reductions in senior leadership (2 Chiefs) and 8 director level positions. *(Full year savings impact for all 29 positions is \$4.1M)*
- Minimal project level investments in software and infrastructure upgrades. (i.e. Software coding changes to enable recovery of approximately \$12M in credit card fees annually will require additional investment – \$ TBD.)



ABC's Cost Management Efforts led to a Net Profit Transfer in FY 2024 Above the Revised Budget Bill Commitment

Total operating expenses (excluding COGS) in FY 24 were \$306.5M or \$12.0M below ABC's original budget due to ongoing expense management efforts initiated to aggressively control expenses and limit discretionary spending.

- \$5.2M Vacant positions (\$2.4M Retail; \$2.1M HQ; \$0.7M Enforcement)
- \$3.3M Lower computer software development costs due to reductions in IT project activity
- \$1.0M Lower fixture costs due to fewer new store openings and remodeling activity
- \$1.6M Lower IT costs (network servers, computer processor rentals, software purchases)
- \$1.0M Reductions in employee training spending – greater emphasis on no-cost training programs

Cost Cutting Actions are not Sustainable Long-Term and Impose Risks to ABC for Employee Retention, Scaling Appropriately and Maintaining Current Technologies

Industry Headwinds are Impacting ABC Retail Location Decisions

All ABC Stores Generate Net Profits

Opportunities to Reduce Operating Costs Without Negatively Impacting Store Revenues are Being Evaluated

- No new store locations planned for the foreseeable future.
- Evaluating options for store consolidations and seeking Legislator feedback prior to finalizing any decisions.
- Modified the lease template to reflect terms that are more favorable to ABC.

FY 2024 Actual Results and FY 2025 – 2026 Forecasts

Virginia Alcoholic Beverage Control Authority FY2024 Actual and FY 2025 - 2026 Forecast

(in millions)

	Revenue Var. %	Ch. 2 Budget	Variance		Current	Current		Current	Previous	Variance
		Bill	Actual	vs. Ch. 2		Forecast vs.	Forecast			
		FY 2024	FY 2024	Budget	FY 2025	FY 2025	Ch.2 Bill	FY 2026	FY 2026*	
				Bill			Variance			
Revenue Sources		1.4%	2.0%	0.6%			-1.0%			-11.1%
Alcoholic Beverages (Store Sales)		1,464.6	1,472.5	7.9	1,472.3	1,486.6	(14.3)	1,487.0	1,673.0	(186.0)
Less: State Taxes on Spirits & Wine		242.4	243.3	0.9	244.3	246.1	(1.8)	246.7	277.1	(30.4)
Net Store Sales		1,222.2	1,229.2	7.0	1,228.0	1,240.5	(12.5)	1,240.3	1,395.9	(155.6)
Other Revenue		27.4	29.1	1.7	27.1	25.2	1.9	27.2	25.5	1.7
Total Net Revenue		1,249.6	1,258.3	8.7	1,255.1	1,265.7	(10.6)	1,267.5	1,421.4	(153.9)
Cost of Goods Sold		702.6	708.4	5.8	706.5	713.6	(7.1)	713.5	803.0	(89.5)
Operating Costs		307.6	306.5	(1.1)	321.1	320.6	0.5	328.5	318.0	10.5
VABC Net Profit		239.4	243.4	4.0	227.5	231.5	(4.0)	225.5	300.4	(74.9)
Profit Carryover from Prior Fiscal Year		(0.8)	(0.8)	-	3.0	3.0	0.0	0.0	0.0	-
Adjusted VABC Profit Including Carryover		238.6	242.6	4.0	230.5	231.5	(1.0)	225.5	300.4	(74.9)
Net Profit as % of Net Revenue		19.1%	19.3%		18.4%	18.3%		17.8%	21.1%	

* Chapter 2 Bill revised FY 2025 GACRE submission of net profit transfer down to \$231.5M but did not address FY 2026 net profit transfer and left it at the original GACRE submission amount of \$300.4M



Where Does the Money Go?

Virginia ABC's 2024 Revenue Recipe

How does Virginia ABC benefit you?

\$243.4M

Sales Profit

\$313.3M

Retail Taxes

\$79.0M

Wine/Beer Taxes



Health & Human Resources (33.5%)

Education (32.5%)

Transportation (14.3%)

Other (19.7%)

Where does the General Fund go?

\$1.5 Billion

Gross Alcohol Sales
from retail locations

\$389 Million

Taxes Collected by
the Authority

\$33 Million

Regulatory and
Licensing Activities

\$635.7 Million

Total Transfers to
the state

Virginia ABC By The Numbers

At the end of Fiscal Year 2024,
Virginia ABC had:

402 retail stores

4,321 total employees

21,053 Virginia alcohol
retail licensees

\$243.4 Million ABC profit
disbursements

2,945 active items on the
price list

\$1.5 Billion in total gross sales

\$13.9 Billion in contributions
to the commonwealth

Community Health and Engagement - Impact

- ABC's Community Health and Engagement team held its annual Youth Alcohol and Drug Abuse Prevention Project (YADAPP) in July. This is a high school youth-led leadership conference equipping teens with a strategic plan and empowering them to keep their schools and communities alcohol and drug free.
- ABC launched the Virginia Higher Education Substance Use Advisory Council (VHESUAC) Recognition Program, which recognized five campuses, James Madison University, Longwood University, University of Mary Washington, Virginia Commonwealth University and Wytheville Community College, for their implementation of campus-wide substance use education, prevention, intervention and recovery programming.



Appendix

GACRE Summary Forecast (In Millions)

	FY 2024 Actual	FY 2025 Final Budget	FY 2025 Re-Forecast	FY 2026 Forecast	FY 2027 Forecast	FY 2028 Forecast	FY 2029 Forecast	FY 2030 Forecast
Revenue Sources:								
Growth Rate		1.5%	0.0%	1.0%	1.7%	1.7%	2.0%	2.1%
Alcoholic Beverage (Store Sales)	1,472.5	1,494.7	1,472.3	1,487.0	1,512.3	1,538.0	1,568.7	1,601.6
Less: State Taxes on Spirits & Wine	243.3	248.0	244.3	246.7	250.9	255.2	260.3	265.7
Net Store Sales	-243.3	1,246.7	1,228.0	1,240.3	1,261.4	1,282.8	1,308.4	1,335.9
Other Revenue	29.1	27.3	27.1	27.2	27.3	27.5	27.7	27.9
Total ABC Revenue	1,258.3	1,274.0	1,255.1	1,267.5	1,288.7	1,310.3	1,336.1	1,363.8
Total Cost of Goods Sold	708.4	717.2	706.5	713.5	725.5	737.6	752.2	767.8
Total Operating Costs	306.5	319.9	320.0	328.0	321.7	326.7	333.3	338.9
Infrastructure Projects (2)		1.1	1.1	0.5	0.6	3.1	3.2	3.2
Total Operating Costs with Projects Impact	306.5	321.0	321.1	328.5	322.3	329.8	336.5	342.1
VABC Net Profit Forecast	243.4	235.8	227.5	225.5	240.9	242.9	247.4	253.9
Profit Carryover from Prior Fiscal Year (1)			3.0					
GACRE Submission			230.5	225.5	240.9	242.9	247.4	253.9
VABC Net Profit as a % of Net Revenue		18.5%	18.1%	17.8%	18.7%	18.5%	18.5%	18.6%

Notes:

- 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.
- Infrastructure projects include the amortization/depreciation impact of current projects as well as initiatives that will begin in the future, with a greater impact beginning in FY25. These projects include systems that are nearing the end of their life cycle as well as systems that the Authority requires to be compliant. These systems include Sitecore Replacement FY25, Cash Register Replacement FY26, Zebra Update FY26, POS Upgrade FY25, Verifone PCI Upgrade FY25, and several internal initiatives. The FY25 base budget included both live projects and initiatives that will go live in FY25.



Infrastructure Projects Included in FY 2025 – 2030 GACRE Forecast

Project		Description	Fiscal Year Expense Impact					
			2025	2026	2027	2028	2029	2030
1	Sitecore Replacement	Replace the ABC public website foundation with a different platform.	\$ 61,440	\$ 61,440	\$ 61,440	\$ 623,736	\$ 623,736	\$ 623,736
2	Cash Register Replacement	Replace the existing cash register bundle of hardware in all retail stores for maintainability and compliance.	\$ -	\$ -	\$ -	\$ 543,583	\$ 543,583	\$ 543,583
3	Zebra Upgrade	Replace the zebra scanners used in the DC and all retail stores to allow for support of the current and future versions of the Android operating system.	\$ -	\$ -	\$ -	\$ 435,751	\$ 435,751	\$ 435,751
4	Credit Card Recovery	Recovering the credit card fees from customers for ABC financial transactions.	\$ 71,680	\$ 200,680	\$ 322,000	\$ 322,000	\$ 322,000	\$ 322,000
5	Tax Management	Replacing the existing suite of powerbuilder tax management applications with a new consolidated & enhanced one in Java.	\$ 84,736	\$ 84,736	\$ -	\$ -	\$ -	\$ -
6	ACH/Licensee Payments	Granting licensees the ability to pre-pay for MIPS orders using ACH.	\$ -	\$ -	\$ 84,736	\$ 30,000	\$ 30,000	\$ 30,000
7	Retail Alarm Monitoring	Locate and procure the services of a new alarm monitoring service.	\$ -	\$ -	\$ -	\$ 650,000	\$ 650,000	\$ 650,000
8	Point of Sale (POS) Upgrade	Upgrade to the latest version of GK Omni POS with new features.	\$ 122,880	\$ 76,020	\$ 76,020	\$ 76,020	\$ 76,020	\$ 76,020
9	DMW&H Shiraz IndaGo Migration	Upgrade the existing Distribution Center DMW&H shiraz software (EOL) to the new hybrid version with new features.	\$ -	\$ -	\$ -	\$ 92,160	\$ 140,000	\$ 140,000
10	Body Worn Cameras	Purchase body worn camera equipment and implement the evidence software and BWC program in enforcement.	\$ -	\$ -	\$ -	\$ 230,000	\$ 230,000	\$ 230,000
11	Widepoint Interface	Implement a new automated interface between widepoint and BAR to handle invoicing and payments for telecom and utility bills.	\$ 122,880	\$ -	\$ -	\$ -	\$ -	\$ -
12	Performance Evaluation Revamp	Implement a new solution to replace the existing mechanism for completing annual evaluations that will work with the new pay for performance model.	\$ -	\$ 61,440	\$ -	\$ -	\$ -	\$ -
13	Oracle 23 Upgrade	Upgrade the version of oracle database software to the latest version.	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000
14	Verifone PCI Upgrade	Implement verifone solution to obtain PCI compliance for Retail store transactions.	\$ -	\$ 46,632	\$ 46,632	\$ 46,632	\$ 46,632	\$ 46,632
Total Expense Impact			\$ 463,616	\$ 530,948	\$ 590,828	\$ 3,049,882	\$ 3,147,722	\$ 3,147,722



Investments Deferred Beyond FY 2030

Initiative	Description
Enterprise Resource Planning (ERP System)	Procure and implement a modern integrated ERP system to replace existing 20+ year old custom-built applications.
Order Management System	Procure and implement a new order management system.
Inventory Management System	Procure and implement a new universal inventory management system.
Human Resources System Replacement	Replace the current custom-built Human Resource Management System with a new cloud-based software platform.
eVA Replacement	Replace eVA with a new procurement, solicitation, ordering and contract management solution.

Bureau of Law Enforcement Summary

Total training hours for sworn officers	4090
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Law Enforcement Activity	
Criminal Incidents	2,559
Arrests	522
Illegal still investigations	1
Inspections of licensed establishments	20,748
Observation of licensed establishments	638
Underage Buyer (UAB) compliance checks (Alcohol)	3,236
Written warning reports	2,472
Written violation reports	712

Tobacco Compliance	
Synar compliance rate %	87%
Total tobacco checks by ABC agents	1,017

Licensing and Licenses	
Retail Licenses granted - active	21,053
<ul style="list-style-type: none"> • Industry 	19%
<ul style="list-style-type: none"> • On Premise 	4%
<ul style="list-style-type: none"> • Off Premise 	34%
<ul style="list-style-type: none"> • On & Off Premise 	43%
New retail, wholesale licenses	2,072
New permits (3)	1,151
Licensed retail establishments (locations)	19,053
Private or corporate owners (BEs)	15,152
One day banquet and special event licenses	25,379
Alcohol compliance rate for retail licensees	87%
Median processing time for new retail applications in days	101
New applications processed	2,446
Walk-in customers	5,725
Renewal processed	19,711
MBAR processed	2,505
FOIA processed	196



Community Health and Engagement - Statistics

Youth Prevention Programming

Elementary School	
Elementary School reach (%) (1)	7.09
Elementary Publications Distributed	20,740
Miss Virginia School Tour	
Miss Virginia School Tour stops	64
Miss Virginia School Tour reach	18,105
Middle School	
Middle School reach (%) (2)	4.56
Middle School Publications Distributed	1,061
Participants Trained	44
High School	
High School reach (%) (3)	12.20
High School Publications Distributed	1,749
Youth Alcohol and Drug Abuse Prevention Project (YADAPP) 2023	
YADAPP participants (4)	71
YADAPP 2023 individuals reached	6,528
Parents	
Parent Publications Distributed	1,294
Power of Parents	
Participants Trained	49
Handbooks Distributed	6,640

Adult Education and Prevention Programming

Institutions of Higher Education	
Institutions of Higher Education reach (%) (5)	100.00
College Publications Distributed	1,446
Higher Education Alcohol and Drug Strategic Unified Prevention (HEADS UP)	
HEADS UP educational materials distributed	6,840
HEADS UP individuals reached	470
Adults 21 years old and older	
Project Sticker Shock	
Project Sticker Shock events	7
Project Sticker Shock participants	84
Project Sticker Shock individuals reached	6,666
Retail delivery customers reached	45,328
21+ Publications Distributed	661
Older Adult Publications Distributed	1,146

Licensee Programming

Licensee Publications Distributed	389
Classroom trainings	53
Classroom training participants	679
Online training participants	21,859
Resources distributed	3,661

Capacity Building Resources

Health Care Professional Publications Distributed	237
Education and Prevention social media reach	142,519

Community Engagement

YADAPP 2023 grants presented (6)	5
YADAPP 2023 grants awarded (\$)	\$1,500
YADAPP 2023 grants individuals reached	828
Alcohol Education and Prevention grants (7)	4
Alcohol Education and Prevention grants awarded (\$)	\$35,785
Alcohol Education and Prevention grants individuals reached	1,034,544
In-Store fundraising events	43
Authority-wide employee volunteering events	8
External requests to use Headquarters meeting space	4

Questions?

