

MEMORANDUM

TO: Ad Hoc Committee on Liquor Control

FROM: Justina J. Ferber  Legislative Analyst, Council Staff

SUBJECT: **Worksession – Review of Alcohol Control in Montgomery County
Implementation of DLC’s New Ordering and Inventory System**

The DLC Director and staff from the Transform MCG Technology Modernization project (ERP) will brief the Ad Hoc Committee on the implementation of DLC’s new ordering and inventory system that launched February 1, 2015. The Council received complaints from licensees about the difficulties encountered with the new system. The following is the agenda for the meeting:

AGENDA

I. County Implementation of DLC's new ordering and inventory system

George Griffin, Director, Department of Liquor Control
Fariba Kassiri, Assistant Chief Administrative Officer
Karen Plucinski and Michael Ferrara - Transform MCG Technology Modernization
Project and Warehouse Management System (WMS) Module

Also representing DLC:

Edgar Gonzalez, Deputy Director, Department of Liquor Control
Sunil Pandya, Chief of Administration, Department of Liquor Control

II. Next Meeting of the Ad Hoc Committee on Liquor Control - June 12

Materials prepared by Executive staff for the meeting are attached at ©12.

Attached are the following excerpts from OLO Report 2015-6 related to ordering issues:

	<u>Circle #</u>	<u>OLO Report</u>
DLC Administration Division - Ordering	1	pg. 16
DLC Operations Division - Delivery Operations	2	pg. 17
New DLC ERP Warehouse Management System	3	pg. 18
DLC Inventory: Stock vs Special Order	4	pg. 19
Purchasing and Receiving	5	pg. 20
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Wholesale Sales Revenue by Alcohol Type and Category	10	pg. 31

Below are some of the recent survey results from OLO related to ordering issues:

Feedback on DLC's Ordering and Delivery Processes

OLO asked about DLC's ordering and delivery processes, and in both cases responses were most unfavorable about the ordering and delivery of special order products.

DLC's ordering process for beer/wine/spirits works well for my business.

	Agree/ Strongly Agree	Neutral	Disagree/ Strongly Disagree
Stock (n=132)	38%	23%	39%
Special Order (n=125)	23%	13%	64%

The time it takes DLC to deliver beer/wine/spirits after I place an order is reasonable

	Agree/ Strongly Agree	Neutral	Disagree/ Strongly Disagree
Stock (n=132)	54%	20%	26%
Special Order (n=122)	11%	16%	62%

Qualitative Feedback – Licensee Suggestion for Improvement

As with the October survey, OLO included five open-ended response questions asking licensees for any suggestions for improving:

- DLC’s product ordering or product delivery system;
- The supply and availability of alcohol products in Montgomery County;
- DLC’s wholesale pricing;
- DLC’s communications, information delivery, and/or customer service; and
- State and/or County law or policy governing the system of alcohol control and distribution in Montgomery County.

OLO did not publish the entire list of results from the October survey as part of OLO Report 2015-6, but did incorporate responses into the qualitative portion of the feedback chapter and as part of developing the five options for structural change.

At the February 27th worksession, DLC representatives suggested that having specific improvement recommendations from licensees would be helpful. Accordingly, OLO has pulled out all the open-ended responses from the March survey for each question, and can provide them upon request. While many issues are covered in the responses, two topic areas that frequently came up as needing improvement are:

- The new Oracle/iStore ordering system; and
- Ordering and receiving special order products.

One specific issue related to the new Oracle/iStore system identified by licensees is that the automated ACH deductions of funds from licensees’ bank accounts are not matching up with invoices for the products delivered.

The Report Summary and Options for OLO Report 2015-6 is attached at ©11.

This packet contains:

	<u>Circle #</u>
Excerpts from OLO Report 2015-6	1
Summary and Options - OLO Report 2015-6	11
Executive Staff Presentation	12

Chapter 4. Overview of the Department of Liquor Control

The mission of the Department of Liquor Control (DLC) is to “provide licensing, wholesale and retail sales of beverage alcohol products, enforcement and effective education and training programs, while promoting moderation and responsible behavior in all phases of distribution and consumption. The department diligently promotes, enforces and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County’s General Fund.”¹ This chapter provides an overview of the structure and functions of DLC, and describes key policies and practices of the department.

- **Section A** reviews the organizational structure and responsibilities of the Administration; Operations; and Licensure, Regulation, and Education Divisions; and
- **Section B** describes key operational structures, policies, and practices of DLC – including DLC’s implementation of a new inventory and accounting management system

A. ~~DLC Organizational Structure and Responsibilities~~

The Director of DLC (appointed by the County Executive and confirmed by the County Council) leads the organization and provides overall direction, oversight and management for the department. The department is organized into three divisions that report to the DLC Director: 1) Administration Division; 2) Operations Division; and 3) Licensure, Regulation, and Education Division.

~~Administration Division~~ The Administration Division provides internal service and other functions through five sections: administration, financial administration, information technology administration, purchasing, and ordering. The purchasing and ordering sections were moved under the Administration Division during FY15 from the Operations Division. Specific functions within each section include:

- **Administration** – budgeting, human resources, and facilities management.
- **Financial administration** – financial reporting, accounts payable, accounts receivable, and pricing.
- **Information technology administration** – design, operation, maintenance, and protection of all DLC information technology initiatives, systems, and applications.
- **Purchasing** – direct buying of all alcohol product inventory (beer, wine, liquor) for wholesale and retail sales.
- **Ordering** – receiving and placing orders for stock and special order products from County alcoholic beverage license holders. The ordering section was previously referred to as the customer service section under the Operations Division.

¹ https://reports.data.montgomerycountymd.gov/reports/BB_FY15_APPR/DLC

Operations Division. The Operations Division is organized into three sections: warehouse operations, delivery operations, and retail operations. The functions and programs under each section are briefly described below.

- **Warehouse operations** – this section is responsible for receiving, storing, and preparing for delivery of beer, wine, and liquor products sold in the County. All alcoholic beverage products in Montgomery County must pass through DLC’s warehouse, with the exception of some wine and beer from small producers.² The DLC warehouse is split into two sides, with one for beer products and the other for liquor and wine products. The staffing for the warehouse is also split by product type, with a beer warehouse operations team, a liquor/wine warehouse operations team, and an administrative team overseeing the entire operation.
- **Delivery operations** – this section delivers beer, wine, and liquor orders to licensees and County retail stores. Deliveries also are separated by product type, with a beer delivery team and a liquor/wine delivery team. Additionally, beer deliveries are split into keg deliveries and case deliveries. All delivery staff are full- or part-time County employees, and deliveries are made using a fleet of 42 vehicles owned and operated by DLC. Truck loading is done by a combination of County staff and contract staff. All liquor and wine delivery trucks are loaded by County employees, while beer delivery trucks are loaded by contractors. DLC’s Chief of the Operations Division noted that beer truck loading has been contracted out by DLC for approximately the past 25 years.
- **Retail operations** – this section operates DLC’s 25 retail stores that sell liquor, wine, and unrefrigerated beer. DLC stores have the exclusive right to sell liquor for off-site consumption in the County. Each DLC store is staffed with a team of 7 to 11 full- and part-time County employees. DLC opened two new stores during FY14, and in FY15 resumed operating the Flower Avenue store that had been run by a contractor since 1994.

Licensure, Regulation, and Education (LRE) Division. The LRE Division is responsible for processing and issuing alcohol beverage licenses, ensuring licensees comply with all applicable laws and regulations, and conducting community outreach and education efforts. The division is organized into three sections: Licensure Office, Regulation Office, and Community Outreach/Education Office.

- **Licensure office** – this office processes alcoholic beverage license applications (new, transfer, one-day, renewals) in compliance with Maryland State law and the rules and regulations of the County Board of License Commissioners (BLC). Licensure staff also assist applicants throughout the application process and provide general staff support to the BLC, issue violation letters, collect fines, and schedule showcause hearings before the BLC.

² Beginning in 2014, the State passed a law allowing small breweries and wineries to “self-distribute” their product directly to liquor license holders in Montgomery County without going through DLC.

Review of Alcohol Control in Montgomery County

- **Regulation office** – this office conducts alcohol beverage and tobacco inspections and surveillance investigations to ensure that facilities licensed to sell alcoholic beverages or tobacco products are in compliance with applicable State and County laws, rules, and regulations. Regulation staff run the County’s compliance check program in coordination with the County’s Police Department to enforce alcohol and tobacco age-of-sale laws. Staff issue citations for any violations and must testify at BLC and/or court hearings regarding the citations issued.
- **Community Outreach/Education office** – this office works with businesses and residents to increase awareness of alcohol laws and promote responsible hospitality practices among county licensees. Specific programs and services offered include: Alcohol Law Education and Regulatory Training (ALERT), a free program designed to educate servers, sellers, management and owners of licensed County businesses in alcohol beverage regulatory compliance; establishing Business Alliances to implement comprehensive prevention, education and enforcement programs that address alcohol abuse, drinking in public and related community concerns; public education campaigns and the development of outreach materials and resources; and monthly newsletters.

B. DLC Policies and Practices

This section highlights key policies and practices within DLC’s administrative, wholesale, and retail sales operations. Additionally, it discusses the planned implementation of a new warehouse management system that will have an impact on several components of DLC’s operations and DLC’s draft long-range strategic plan.

Implementation of New Warehouse Management System DLC has spent the last two years designing a new ERP warehouse management system that will “modernize all warehouse processes including pricing, purchasing, ordering, receiving and storage of inventory, routing and delivery.”³ Additionally, because the new system uses the same ORACLE platform as the rest of the County, it will integrate all the warehouse functions with the County’s accounting and financial systems and allow for greatly enhanced data collection and reporting. After several delays, DLC reports that the new system is on schedule to go live on February 1, 2015.

From an accounts payable and financial reporting perspective, DLC staff report that the system will create a “fundamental” shift in practices because it will create three-way matching between purchase orders, inventory, and payments. Currently, the warehouse purchase order and inventory data are not linked with the financial data, and staff have to manually make journal entries to record transactions. Under the ORACLE system, all inventory and financial data will be automatically integrated and updated daily. Additionally, DLC staff will have to login to the new system using their County user name and password, enhancing the accountability of transactions.

³ DLC 2013 Annual Report, pg. 14

<http://www.montgomerycountymd.gov/DLC/Resources/Files/AnnualReportFY2013.pdf>

Several anticipated changes to other DLC functions, policies, and practices from the implementation of the new warehouse management system are detailed in each section below.

1. ~~DLC Inventory: Stock vs. Special Order~~

All DLC beer, wine, and liquor inventory items are categorized as stock or special order. Stock items “are carried at all time and ordered by DLC on a recurring basis to ensure an appropriate volume is available on hand to fulfill projected retail demand.”⁴ Stock items are stored in the DLC warehouse and are on-hand for delivery to licensees or retail stores when ordered. DLC reports that stock item orders typically are delivered on a licensee’s next scheduled delivery day. Some stock products, however, are only offered seasonally by the manufacturer (e.g., Oktoberfest or pumpkin-style beers). For these products, DLC stocks the item while it is available and fulfills orders until its supply is depleted.

Special order items are not regularly carried as inventory in DLC’s warehouse, but instead are purchased by DLC in response to a specific order from a licensee, retail store, or customer at a retail store. The time it take for DLC to receive special order items from manufacturers or distributors is highly variable. DLC staff report that sometimes special orders arrive quickly, and other times it takes many weeks to months. DLC staff report that they can and will purchase a special order product for a licensee as long as that product is licensed for sale in the State of Maryland. DLC notes that when they are unable to purchase a special order product, it is typically because the manufacturer has chosen not to sell that product in Maryland.

DLC has a Product Selection Committee that meets once a month to determine whether products should be carried as stock or special order. The Committee consists of the Chief of Administration, Chief of Operations, one representative from retail store operations, and two representative from the purchasing section. The Committee can decide to make a special order item a stock item, and can also return a product to special order status if it is not selling fast enough as a stock item. DLC staff report that in the past when they have moved high-demand special order items to stock status, sales have slowed and the products have been moved back to special order.

2. DLC Pricing and Markups

DLC applies standardized markups at both the wholesale and retail level based on category (stock or special order), product type (beer, wine, or liquor), and/or size. The markup is applied to each product based on DLC’s purchase price. The table below shows DLC’s markup percentages at the wholesale and retail levels. Private beer and wine stores in the County are free to set their own markup for retail sale. DLC publishes a price book that is distributed to licensees each month that lists current stock and special order items and the wholesale price.

⁴ Montgomery County Department of Liquor Control Inventory Management, prepared by Watkins Meegan LLC for the Montgomery County Office of Internal Audit, July 9, 2014. p. 41.

Table 7. DLC Wholesale and Retail Markups (as of December 2014)

Product	Wholesale Markup	Retail Markup
Beer		
Stock or Special Order	35%	23%
½ Keg	45%	n/a
¼ Keg or 1/6 Keg	43%	n/a
Wine		
Stock	35%	28%
Special Order (<\$18/bottle)	25%	28%
Special Order (\$18+/bottle)	15%	28%
Liquor		
1 L	30%	20%
750 mL, 1.75 L	27%	18%
300 mL, 500 mL	21%	18%
50 mL, 100 mL, 200 mL	60%	18%

Source: DLC

State taxes. DLC pricing also incorporates the State of Maryland excise taxes. Maryland excise taxes are paid by the County at the wholesale level and incorporated into the price of the product. Current Maryland alcohol tax rates are detailed in Chapter 2.

Purchasing and Receiving

Purchasing. DLC has a team responsible for buying stock and special order beer, wine, and liquor products. The purchasing team used to report to the Chief of Operations, but during FY15 the function was moved to the Administration Division. The purchasing team only buys the products, they do not participate in receiving the items into the warehouse. A 2014 Office of Internal Audit report on DLC’s Inventory Management describes the purchasing process as follows:

Buyers for stock items use forecasting models and historical sales volumes reports, combined with their knowledge and experience, to predict demand and order sufficient quantities to ensure that there are no product shortages for stock item. This requires maintaining a minimum on-hand inventory quantity of stock products...Generally, the DLC guideline for stock items is to carry at least 45 days’ sales of inventory on hand for domestic products and 75 days’ sales of inventory for imported items. Buyers must account for delivery lead times, shipping and freight costs, minimum required order quantities, supplier promotions and discounts, and past sales history, amongst other factors, when monitoring on-hand inventory balances and determining the appropriate quantities to order each week. Special order products are sourced by DLC buyers as customer or licensee orders are received.⁵

⁵ Ibid., p. 42

Every Friday, DLC buyers cut a purchase order for each supplier from which they are ordering stock or special order products that week. Suppliers do not lock in DLC orders until DLC cuts the purchase order every Friday. DLC staff report that the ORACLE system will lead to several improvements from a purchasing perspective, including:

- The new system has additional features to help buyers plan for stock inventory purchases.
- Suppliers will have immediate access to purchase orders as soon as the DLC buyer inputs the order into the iSupplier module.
- The Business Intelligence dashboard will show DLC buyers what products are on sale at retail stores, providing greater information on what products may need to be replenished.
- Purchasing information and data trends will be available to all DLC staff, as opposed to the small number who are experts in the current IT system.

Receiving. After receiving orders from DLC buyers, suppliers work directly with warehouse staff to schedule product deliveries. The current receiving process is described in the 2014 Internal Audit report as follows:

There are currently four individuals stationed at the warehouse loading bays for receiving and two clerks who are responsible for entering product receipt details into the inventory system once the products being unloaded are verified, counted, and inspected. When a truck is in a bay for unloading, the truck manifest and product orders are reviewed by the supervisors to ensure the delivery contains the product(s) and quantities ordered. As items are moved off the truck to the staging area, the supervisor checks off the items and marks the product with a location identifier indicating where in the warehouse the items should be stored.⁶

As with purchasing, DLC staff anticipate several process improvements upon implementation of the ORACLE system:

- DLC staff will be able to scan products as they are unloaded and the system will automatically identify where the product needs to go in the warehouse instead of manually having to identify those locations. This will help eliminate inventory being placed on the wrong shelves in the warehouse;
- The inventory system will independently match purchase orders with the actual products received, and DLC staff will no longer be able to accept any extra or incorrect products delivered by a supplier;
- Suppliers will no longer have to separate cases by licensee. Once DLC scans in products in the ORACLE system, staff will know where those cases are going automatically so suppliers can package cases together if desired.

⁶ Ibid., p.42

4. Ordering

Under the outgoing ordering system, licensees have two ways to order wholesale products: via DLC's online ordering system or via phone by calling DLC purchasing or customer service staff. DLC also allows product sales representatives from private producers or wholesalers to submit orders on behalf of a licensee. For stock products, DLC's online ordering system informs a licensee whether a product is available, but not the quantity available. The system also does not allow back-ordering, so a licensee cannot order a stock item unless it is available at the DLC warehouse. Stock orders are filled by DLC on a first come, first serve basis.

For special orders, licensees can place an order at any point but do not know when or if the item will be delivered. All unfulfilled special orders in the DLC system automatically cancel after one month. DLC staff report that a significant problem with special orders is that many of those products have limited supply. When the quantity of a special order product ordered exceeds the amount available, the supplier, not DLC, decides how to distribute the product among licensees that placed orders.

The new ordering system within ORACLE, which DLC is calling iStore, will have several enhancements for ordering both stock and special order products. First, iStore will be programmed with lead times for all products, i.e., the expected time for DLC to receive a product if it is not already in stock. DLC staff note that they will initially input lead times based on educated estimates, but will be able to refine the lead times going forward based on actual order and delivery dates that the new system will collect. Other improvement for stock items include:

- The iStore system will accept orders that exceed current inventory (i.e., back-orders) and give licensees an expected delivery date for the back-order; and
- If the warehouse has some, but not all, of the quantity of a product a licensee would like to order, the system will allow a licensee to split an order into two (one for the current quantity in stock and one for the remainder on back-order) or leave it as a single order for the entire amount on back-order.

For special orders, in addition to lead time, licensees will also get a weekly report providing the status of an outstanding order and a tentative delivery date. If a licensee did not receive a special order and it is no longer on the weekly report, it means that the product arrived but the orders exceeded supply and the licensee did not receive an allocation. Suppliers will maintain the ability to allocate the product if orders exceed supply. If the supplier does not notify DLC how the product is to be allocated, DLC will allocate the orders based on when they were received. On November 4, 2014, DLC distributed a memorandum that detailed the following process for special orders effective February 2, 2015:⁷

⁷http://www.montgomerycountymd.gov/DLC/Resources/Files/licensees/ERP/20141104_SpecialOrders_Licensee.pdf

Special Order Process for Department of Liquor Control Licensees

- 1) Special order products can be ordered by several methods:
 - a. Ordering online using the new iStore feature, calling and/or faxing the Order Section.
 - b. Sales reps may order on your behalf.
- 2) Based on product availability, each supplier will decide which licensee special order will be fulfilled. DLC does not have access to product availability data and therefore processes all orders and forwards the information to the supplier for fulfillment. DLC will cancel the special orders that cannot be fulfilled by the supplier.
- 3) DLC encourages all licensees to work closely with your supplier and sales reps on the availability of special orders to ensure that your order will be filled.
- 4) DLC will provide licensees weekly reports on your open orders via your email address in iStore. In reviewing these reports, if you do not see your special order listed, that indicates that your order was not able to be filled and the order was subsequently cancelled.
- 5) If you would like to cancel your order, please call the Order Section and provide them the order number and line number of the item you want cancelled.

5. Deliveries

DLC makes deliveries to licensees and retail stores Monday through Friday, and does not schedule deliveries for weekends. Deliveries are split by beer, beer keg, and liquor/wine so a licensee or store could receive multiple deliveries per week depending on the products ordered. Licensees set up specific delivery days with DLC for each product type, but DLC staff note that at times they will make special deliveries for certain locations if needed. Delivery vehicles are loaded at night for delivery the next day, and staff load the trucks in a specific order based on the sequence of the delivery route. All stock and special order items for a licensee are loaded and delivered together.

At the time of delivery, licensees can refuse to accept all or a portion of an order if it is incorrect, broken or damaged, or if they no longer want an item. When DLC delivery drivers return to the warehouse after completing their route, returned items are entered back into the inventory system. Returned stock items are put back into the warehouse for the next order, and returned special order items are sent back to the supplier. Licensees also can return incorrect or damaged/broken items that are discovered after an order has been accepted. In these cases, DLC drivers typically pick up the return items when they make a licensee's next regularly scheduled delivery to the location and the licensee's account is appropriately credited. DLC accepts all returns from licensees without charging any penalty or fee, and similarly, suppliers accept returns of special order products without charging DLC a fee.

Licensees also have the ability to pick up products at the DLC warehouse. Stock items can be picked up without a prior order, but special order products must have been ordered previously.

DLC maintains a designated room in the warehouse for damaged or broken products (whether that occurs during delivery or during the warehouse loading and unloading process). If individual bottles within a case are still intact, they are saved until a full case can be made for single bottles of the same product. For wine and liquor, DLC keeps the necks of all broken bottles and receives monthly State excise tax credits for those broken products.

Review of Alcohol Control in Montgomery County

Delivery fleet. DLC owns and operates a fleet of 42 delivery trucks. DLC has not purchased any new vehicles since 2008, and purchased nearly half the fleet (19 of the 42 vehicles) before 2000. A recent report prepared by the PFM Group for DLC to develop a Comprehensive Long-Range Strategic Business Plan (described on the next page) found that DLC's fleet was "outdated" and had "uneven utilization" that "suggests that a significant portion of the fleet is out of service at any given point in time."

6. Payment policies

DLC requires payment from licensees at the time of delivery, typically referred to as a cash-on-delivery policy. Prior to implementation of the iStore system, delivery drivers were responsible for collecting payment from licensees via check, money order, or cash. Some licensees have escrow accounts where the licensees pay a monthly deposit and the cost of individual deliveries are drawn against that balance.

With iStore, DLC will maintain a "cash-on-delivery" policy but will require licensees to use ACH (Automated Clearing House) to pay for deliveries via electronic debits from registered bank accounts. Under the new ACH policy, DLC drivers will no longer accept any payments (cash or check) at the time of delivery. Instead, DLC staff report that the ACH transactions will occur as detailed below:

- After a delivery is made and the DLC driver brings a copy of the invoice back to the warehouse, financial staff will input the transaction and initiate the debit.
- DLC will provide a one business-day grace period for the debit, so a licensee's account will be debited on Wednesday for a Monday delivery, Thursday for a Tuesday delivery, etc. This grace period means that a Friday delivery will not be debited until the following Tuesday, which allows licensees to deposit proceeds from the weekend into their bank account prior to the debit occurring.
- Licensees will not be debited for items that they do not accept or that they return at the time of delivery. Licensees will have to fill out a return form for any items they do not accept, and the driver will turn that form into DLC financial staff along with the invoice. Financial staff will then delete the non-accepted items, re-issue a corrected invoice, and initiate the account debit for the corrected amount.
- If a licensee accepts an order when delivered and discovers an error after the fact, they will be debited for the original order amount and then receive a subsequent credit after DLC processes the return.

If a licensee does not want to sign-up for ACH, they can still order products but will have to pick up orders at the DLC warehouse and provide payment at that time.

Table 11. FY12-14 DLC Wholesale Sales Revenue by Alcohol Type and Category

Alcohol Type and Product Category	FY12		FY13		FY14	
	\$'s	%	\$'s	%	\$'s	%
Beer Sales	\$65.8 million	100%	\$66.5 million	100%	\$69.9 million	100%
Stock	\$63.7 million	97%	\$64.0 million	96%	\$67.1 million	96%
Special Order	\$2.1 million	3%	\$2.5 million	4%	\$2.8 million	4%
Wine Sales	\$47.8 million	100%	\$50.2 million	100%	\$50.7 million	100%
Stock	\$25.8 million	54%	\$27.1 million	54%	\$26.8 million	53%
Special Order	\$22.0 million	46%	\$23.1 million	46%	\$23.9 million	47%
Beer Keg Sales	\$8.1 million	100%	\$8.6 million	100%	\$9.0 million	100%
Stock	\$7.6 million	94%	\$7.9 million	92%	\$8.2 million	91%
Special Order	\$0.5 million	6%	\$0.7 million	8%	\$0.8 million	9%
Liquor Sales	\$5.5 million	100%	\$5.8 million	100%	\$6.3 million	100%
Stock	\$4.9 million	89%	\$5.2 million	90%	\$5.6 million	89%
Special Order	\$0.6 million	11%	\$0.6 million	10%	\$0.7 million	11%
Total Sales	\$127.2 million	100%	\$131.1 million	100%	\$136.0 million	100%
Stock	\$102.0 million	80%	\$104.2 million	80%	\$107.8 million	79%
Special Order	\$25.2 million	20%	\$26.9 million	20%	\$28.2 million	21%

Source: DLC. Data may not add to totals due to rounding.

Retail Sales. DLC retail sales revenue consists of the liquor, wine, and beer sold directly to consumers for off-premise consumption through DLC’s 25 retail stores. DLC stores are the only locations in the County for consumers to buy packaged liquor products. Table 12 provides FY14 data on total retail sales revenue and quantities sold by alcohol type and by product category (i.e., stock or special order). The data show:

- Liquor accounts for the largest proportion of retail sales revenue (57%), while wine (37%) and liquor (35%) account for the largest proportion of cases sold.
- The majority of sales revenue (83%) and cases sold (91%) in DLC retail stores are stock products. In total, special order products accounted for \$21.9 million (17%) of retail sales in FY14.

Review of Alcohol Control in Montgomery County

OVERVIEW

This report responds to the Council's request for an examination of the alcoholic beverage distribution system in Montgomery County and the County's Department of Liquor Control (DLC). Montgomery County is the only "control jurisdiction" in Maryland – controlling the wholesale sales of alcohol to retail businesses and controlling the retail sales of packaged liquor at 25 County-run stores. Based on our review, OLO developed a continuum of five options for changes to Montgomery County's alcohol structure for Council consideration. Each option estimates the budgetary/fiscal impact and the impact on County positions of the specific change.

OLO Contacts:

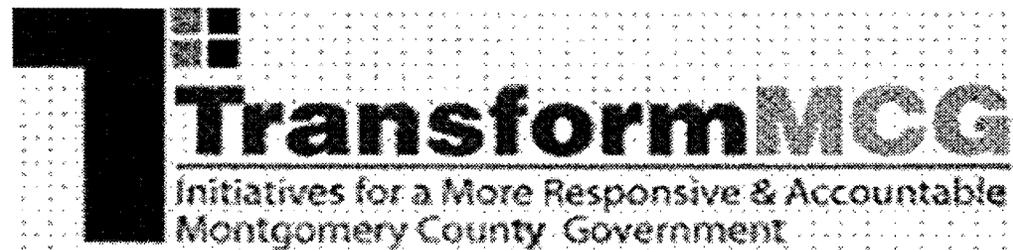
Craig Howard 240.777.7985
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FINDINGS

- Maryland law regulates all facets of the manufacture and sale of alcoholic beverages. Changes to the County system require changes to State law.
- DLC's gross profit (\$75.8 million in FY14) pays DLC operating expenditures, debt service for Liquor revenue bonds, and a transfer to the General Fund (\$20.9 million in FY14).
- Feedback from a sample of over 100 licensees indicates many are dissatisfied with DLC's operations, processes, and performance as the sole wholesaler of alcoholic beverages in the County and particularly dissatisfied with the availability of wine and special order products.

OPTIONS FOR COUNCIL CONSIDERATION

- **Option 1** Fully deregulate the alcohol system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine, and liquor.
- **Option 2** Allow private wholesale distribution of beer, wine and liquor, maintain County control of the off-premise retail sale of liquor.
- **Option 3** Allow private wholesale distribution of beer and wine, maintain County control of the wholesale and off-premise retail sale of liquor.
- **Option 4** Allow private wholesale distribution of special order beer and wine, maintain the current wholesale and retail structure for all other alcohol products.
- **Option 5** Increase DLC's efficiency and effectiveness within the current structure.



Technology Modernization Project
Department of Liquor Control
Warehouse & Order Management
May 8, 2015

ERP: Department of Liquor Control

Why Did We Need Change

❖ Focus on External Customer Service

- ❖ Need to provide modernized ordering and self-service capability for Licensees and Sales Reps
 - ❖ Ability to place orders Online
 - ❖ Ability to check status of order
 - ❖ Ability to check product availability

- ❖ Need to improve safety of DLC drivers and Store Owners
 - ❖ Modernize cash processing – take cash handling out of trucks

- ❖ Improved reporting capabilities

ERP: Department of Liquor Control

Why Did We Need Change (continued)

❖ Internal Business Operation and Controls

- ❖ Antiquated unsupported systems
- ❖ Inability to improve/enhance current system
- ❖ Need to eliminate reliance on manual error-prone processes
- ❖ Inflexible reporting – operational, management, and financial
- ❖ Audit findings – inventory pricing not consistent with standards
- ❖ Need for integration with County financial management systems and related tightened internal controls

ERP: Department of Liquor Control

Industry Approach to this Type of Change

- ❖ Overall Approach to Project Implementation “Waterfall Model”
 - ▶ Defining Requirements
 - ▶ Design
 - ▶ Implementation
 - ▶ Verification
 - ▶ Maintenance

- ❖ Industry best practice for both private and government
 - ▶ Single integrated suites of products over separate best-of-breed
 - ▶ Integrated solution provides for stronger controls and reporting
 - ▶ Best-of-breed create significant maintenance challenges

ERP: Department of Liquor Control

Industry Approach to this Type of Change (continued)

- ❖ Nature of new complex project implementations
 - ▶ Significant leap from very old unsupported system and very manual business processes to tight integration, end-to-end business processes
 - ▶ Embedded best practices require significant changes to our business processes
 - ▶ Surveys of governments across the country indicate the first few months after go-live are challenging

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What We Intended to Accomplish

Enterprise modernization and improvement of DLC Business Operations

- ❖ Replacement of an aged, vulnerable and unsupported system
 - ❖ 14 year old Warehouse Management System
- ❖ Integration of all DLC business activities with County Enterprise
- ❖ Improved Inventory Management
- ❖ Improved controls and segregation of duties
- ❖ Improved data reliability
- ❖ Standardization and documentation of business processes
- ❖ Stability to DLC business operations

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What We Intended to Accomplish (continued)

- ❖ Oracle modules
 - ❖ Integration with County's Financials modules
 - ❖ Accounts Payable, Accounts Receivable, Cash Management, General Ledger, Purchasing
 - ❖ New modules directly related to DLC
 - ❖ Warehouse and Order Management
 - ❖ Cost Management
 - ❖ Online ordering –iStore
 - ❖ Online iSupplier
 - ❖ Advanced Pricing

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DLC Implementation Process

- ❖ Mapped DLC existing business processes

- ❖ Defined DLC business requirements
 - ❖ Analyzed processes
 - ❖ Designed "to-be" processes
 - ❖ Identified current business practices requiring reengineering
 - ❖ Policy considerations and implications

- ❖ Defined technical specifications
 - ❖ Interfaces
 - ❖ Reports
 - ❖ Conversions

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DLC Implementation Process (continued)

- ❖ Designed new Operating Unit
 - ❖ DLC's warehousing/business operations different from typical County programs

- ❖ Designed system based on DLC business requirements
 - ❖ Configured pricing set up to meet DLC formula for pricing

 - ❖ Configured iSupplier for updating pricing and items each month

 - ❖ Personalization of Forms

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DLC Implementation Process (continued)

- ❖ Testing
 - ❖ Unit and System

 - ❖ Day in the Life testing
 - ❖ Order to Pay
 - ❖ Order to Cash
 - ❖ Day in the Life testing

 - ❖ Demo iStore with Licensees
 - ❖ December 2014
 - ❖ Changes made based on feedback

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DLC Implementation Process (continued)

- ❖ Outreach to Licensees, Sales Reps and Suppliers
 - ❖ Newsletters *
 - ❖ How to Videos ** www.montgomerycountymd.gov/dlc/licensees
 - iStore for Licensees: <http://www.screencast.com/t/9zYtPHWTjW7>
 - iStore for Sales Reps: <http://www.screencast.com/t/x5raR0qCNG>
 - iSupplier Price Changes: <http://www.screencast.com/t/7ru0HXto2Dwx>
 - iSupplier Inquiry: <http://www.screencast.com/t/gXw9SMpbwGV>
 - ❖ Quick Start Guides *
 - ❖ Conducted briefings beginning 11/2014

* Accessible from the DLC website* -

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- ❖ **DLC Implementation Process** (continued)
 - ❖ Training and documentation of business process
 - ❖ Staff training and Lab sessions
 - ❖ Online training
 - ❖ Documentation of business process
 - ❖ Quick start guides for reference
 - ❖ One-on-one training

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DLC Implementation Process (continued)

❖ Training Materials and Process Documents

- ▶ 80+ Employee Job Aids
- ▶ 60+ Custom Business Intelligence (BI) Reports
- ▶ 13 High-Level Process Flow Diagrams
- ▶ Warehouse Procedures Document
- ▶ Licensee & Supplier Briefing and Help Sessions (since Nov 2014)
- ▶ Ongoing Email Communication to Licensees and Suppliers
- ▶ Video Tutorials and User Guides for Licensees and Suppliers

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Operational Benefits

- ❖ Modernized ordering capability
- ❖ Improved safety -modernize cash processing
- ❖ Replacement of an aged, vulnerable and unsupported system
- ❖ Integration of DLC activities with the County's financial management systems
- ❖ Improved inventory management
- ❖ Improved reporting capabilities

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What Have Been Some of the Challenges (continued)

❖ Design and Configuration

- Goal of limiting customization, to minimize future maintenance challenges, resulted in greater change and more significant learning curve

❖ Testing

- End-to-End
 - Some processes cannot be tested on a full scope basis
 - End-to-end could have been more robust
- Limited transactions - for some processes due to nature – banking interfaces

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What Have Been Some of the Challenges

❖ Business Processes

- Not every exception identified – slows up or halts processing until process and/or configuration implemented/fixed
- Volume of changes impacted productivity, responsiveness and customer service
- Additional unique business requirements identified after go live

❖ Reporting

- Once in production, some special reports not as useful as anticipated

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What Have Been Some of the Challenges (continued)

- ❖ Training/Change Management
 - More significant productivity impact than anticipated
 - More training/reinforcement required

- ❖ Implementation Industry Experience
 - 3-6 months minimum of post-implementation issues requiring workarounds/resolution
 - Impact more significant when change is more significant and complex

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❖ Next Steps

- ▶ Outreach and communications with Licensees, Suppliers and Internal Users
- ▶ Implementing a Comprehensive Action Plan to improve overall operations and enhance system
- ▶ Ongoing evaluation, assessing, and gathering information to improve business process and system
- ▶ Continuous process improvements