DLC Survey Results and Sales Review

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February 10, 2012

CountyStat

CountyStat Principles

- Require Data-Driven Performance
- Promote Strategic Governance
- Increase Government Transparency
- Foster a Culture of Accountability

Agenda

- **Welcome and Introductions**
- **Review Findings on Sunday Sales**
  - Methodology and Data Review
- **Review Findings on Survey Results**
- **Wrap-up and Follow-up Items**

Tracking Our Progress

- **Meeting Goal**
  - Determine the impact of DLC Sunday hours on retail sales.
  - Review customer survey results to identify differences and areas for improvement by service area and individual stores.

Introduction

- In FY11 the Department of Liquor Control operated 24 stores (1 contracted). As of Jan 2012 there are 23 stores in operation with the closure of the Diamond store.

- On November 21, 2010 all stores began operating on Sundays from 12 pm -6 pm. Hours of operation on Monday – Saturday are generally open from 10:00am-9:00pm.

Findings on Sunday Sales

- Retail sales from FY09 thru FY11 generated an estimated gross margin of 28% with increasing growth of 4.8%, 6.2% and 7.0% respectively.
- Gross profit net of direct operating costs is estimated as 13.2% of retail sales in FY10 and FY11.
- Retail sales aggregated by day of week found net profits range from 4% to 18%, with Sunday sales coming in at 13%.
- No definitive sign of cannibalization was found as there was sales growth for each weekday and Sunday sales only contributed 6% of retail revenues in 2011.

Revenues by Sales Channel

Fiscal Year	Total Gross Warehouse Sales	Yr to Yr % Change	Total Gross Retail Sales	Yr to Yr % Change	Total Gross Sales	Yr to Yr % Change
FY07	$111,861,920		$89,859,669		$201,721,589	
FY08	$116,497,216	4.1%	$95,416,786	6.2%	$211,914,002	5.1%
FY09	$118,708,597	1.9%	$100,041,953	4.8%	$218,750,580	3.2%
FY10	$121,087,617	2.0%	$106,247,721	6.2%	$227,335,338	3.9%
FY11	$127,122,581	4.9%	$113,709,823	7.0%	$240,832,404	5.9%

On average 46% of DLC revenues come from retail consisting of 24 stores in FY11, down from 26 stores in FY09 and FY10

Methodology

Data Sources:

- Prior to the implementation of the POS system, DLC had limited ability to drill down revenues and expenses by channel or by day of week
- The analysis utilizes DLC's manual sales reports to capture sales by retail store by day of week
- FAMIS and Oracle were used for expenses by store

Scope:

- Sales data from January 2009-December 2011
- Covers three calendar years of data (CY09, CY10, CY11)
- Also covers two fiscal years of data (FY10 and FY11)

Assumptions:

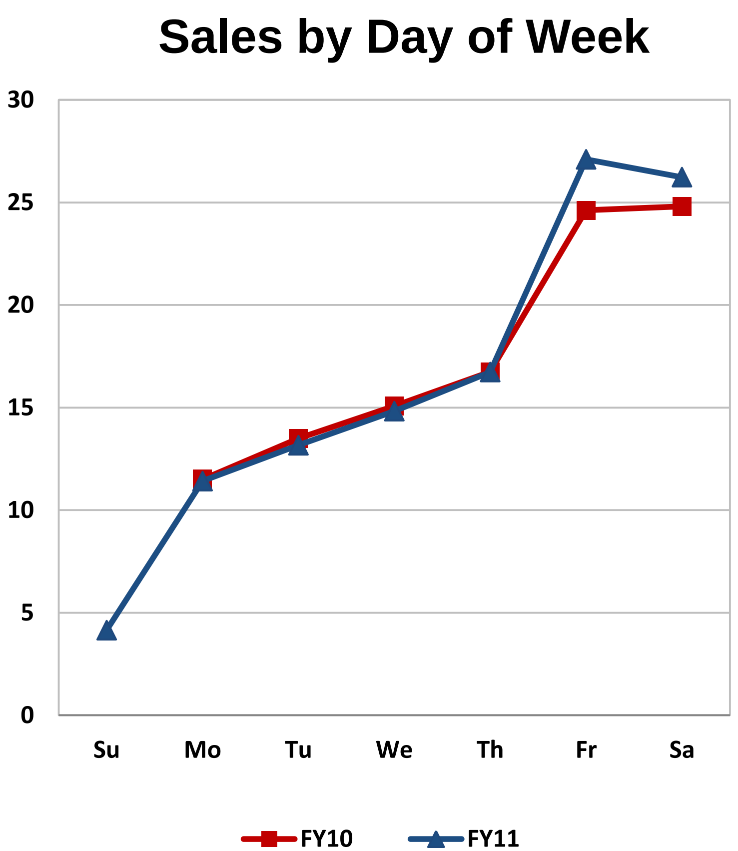
- Only personnel and operating costs by retail store were used
- In lieu of personnel data by day of week, costs were spread by the number of weekdays with additional adjustments for Sundays to account for the partial hours of operations
- DLC's historical COGS target was used in the absence of supporting data for inventories and other associated costs

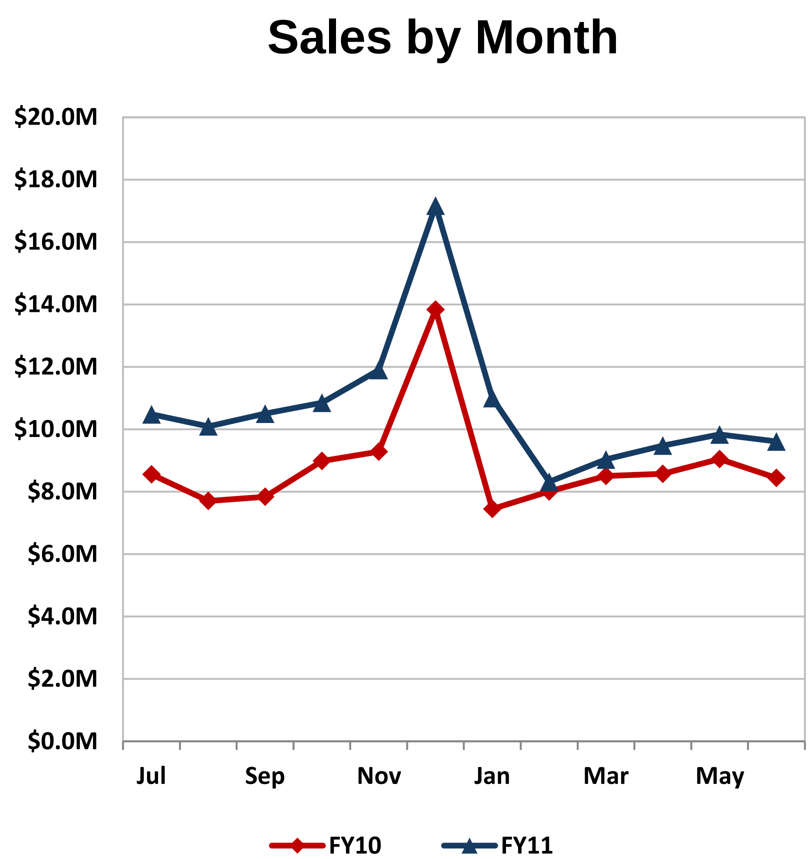
Retail Revenue Trend and Estimated Profitability

	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total
FY10 Rev		$11.5M	$13.5M	$15.1M	$16.7M	$24.6M	$24.8M	$106.2M
% Net Profit		5.3%	8.6%	10.6%	12.4%	17.4%	17.5%	13.2%
FY11 Rev	$4.1M	$11.4M	$13.2M	$14.8M	$16.7M	$27.1M	$26.2M	$113.6M
% Net Profit	13.5%	4.4%	7.5%	9.8%	11.9%	18.0%	17.7%	13.2%

Total revenue is up from FY10 at $106.2M to $113.6M in FY11; however gross and net profits were flat

Retail Revenue Trends





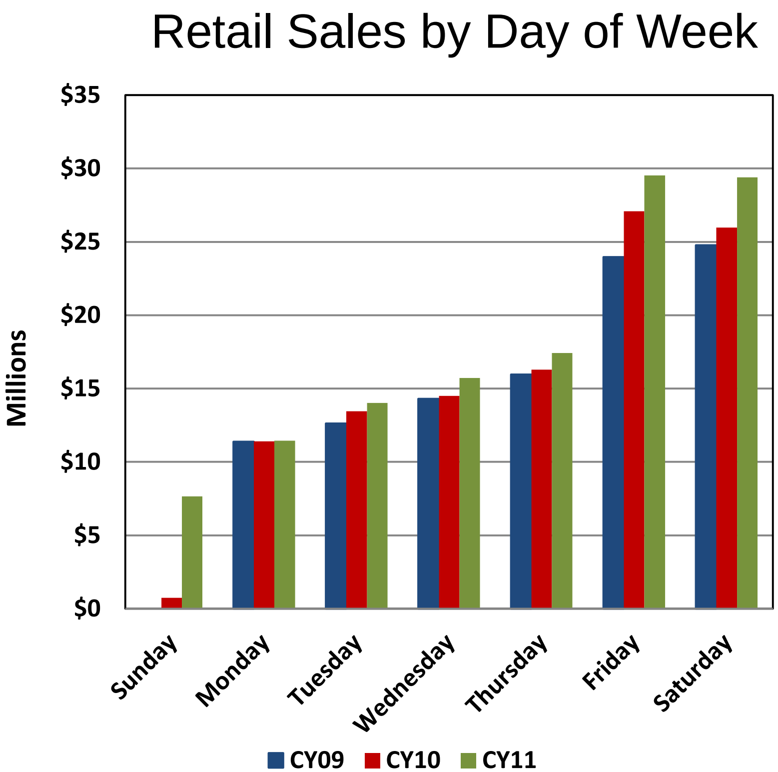
Highest volume occurs on weekends and holidays with sales averaging $8.9M /mo FY10 and $10.7M /mo FY11

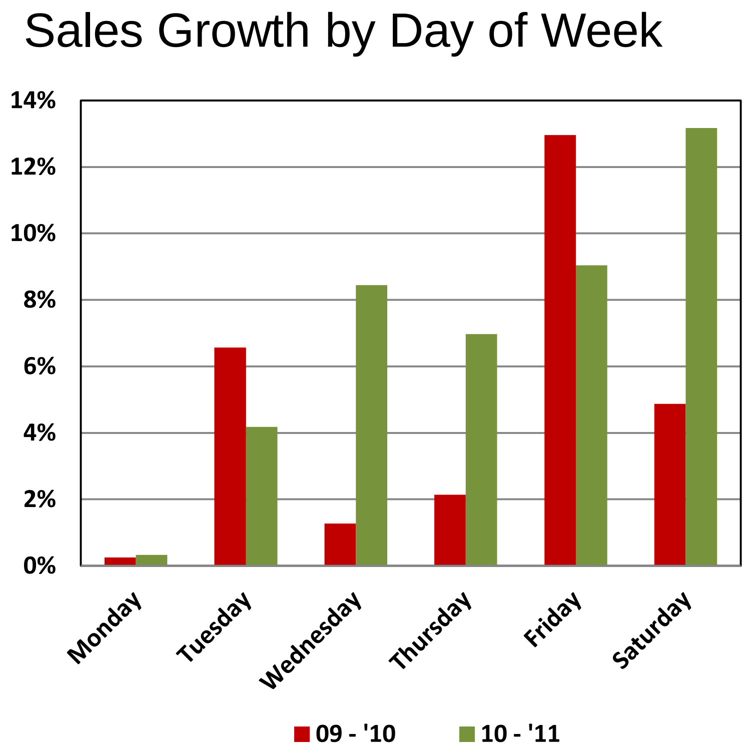
Total Retail Sales by Day of Week (1 of 2)

	Total Retail Sales				% Growth	
	CY09	CY10	CY11	CY11 % Total	'09 - '10	'10 - '11
Sunday		$0.7M	$7.7M	6.1%		
Monday	$11.4M	$11.4M	$11.5M	9.1%	0.3%	0.3%
Tuesday	$12.6M	$13.5M	$14.0M	11.2%	6.6%	4.2%
Wednesday	$14.3M	$14.5M	$15.7M	12.6%	1.3%	8.4%
Thursday	$16.0M	$16.3M	$17.4M	13.9%	2.1%	7.0%
Friday	$24.0M	$27.1M	$29.5M	23.6%	13.0%	9.0%
Saturday	$24.8M	$26.0M	$29.4M	23.5%	4.9%	13.2%
Total	$103.0M	$109.4M	$125.2M	100.0%	6.2%	14.4%

Revenues are trending upward year over year with Sunday contributing 6% of total sales and 44% of the growth in CY11 while open 6 only hours

Total Retails Sales by Day of Week (2 of 2)





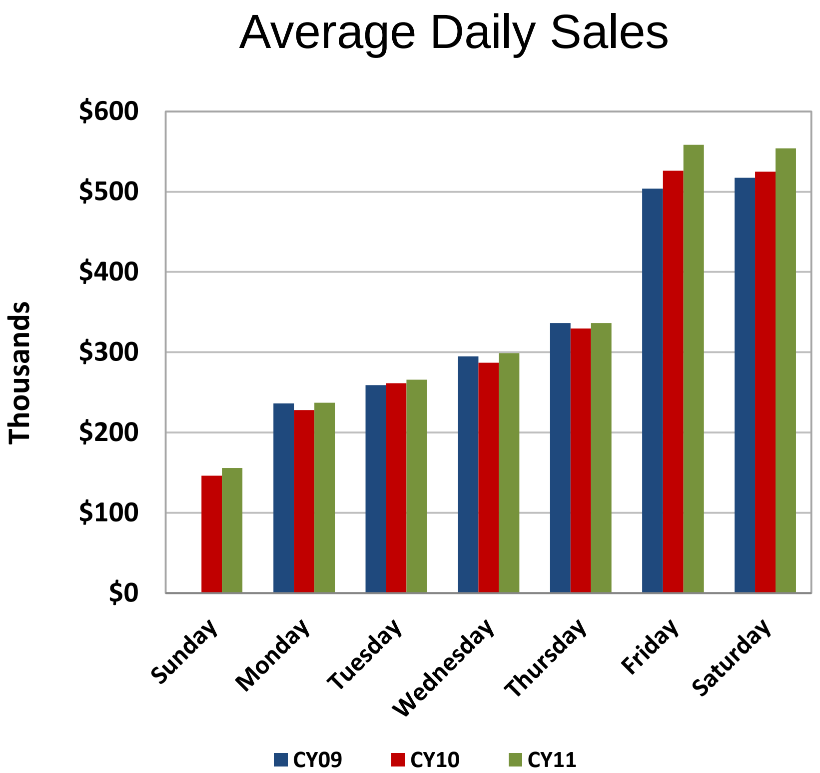
Growth rates show some shifting between Friday and Saturday; but taken together weekend sales grew 11% in CY11. With consistent growth in Monday sales no negative impacts from Sunday sales were observed

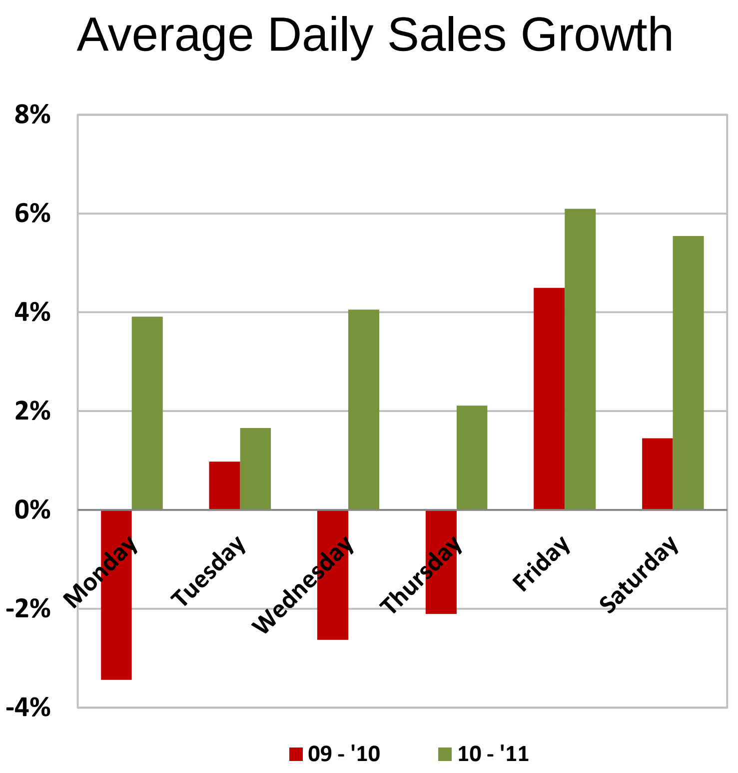
Average Daily Retail Sales by Day of Week (1 of 2)

	Average Daily Retail Sales				% Growth	
	CY09	CY10	CY11	CY11 % Total	'09 - '10	'10 - '11
Sunday		$146.0K	$155.6K	6.5%		6.6%
Monday	$236.2K	$228.0K	$237.0K	9.8%	-3.4%	3.9%
Tuesday	$259.1K	$261.6K	$266.0K	11.1%	1.0%	1.7%
Wednesday	$294.9K	$287.1K	$298.8K	12.4%	-2.6%	4.1%
Thursday	$336.5K	$329.5K	$336.4K	14.0%	-2.1%	2.1%
Friday	$503.6K	$526.3K	$558.4K	23.2%	4.5%	6.1%
Saturday	$517.5K	$525.1K	$554.2K	23.0%	1.5%	5.5%
Total	$2,147.8K	$2,303.6K	$2,406.2K	100.0%	7.3%	4.5%

- Sales were averaged by the number of days the stores were open to remove variation due to differences in the calendar days each year, weather, holidays, and store closures.
- Store closers had greater impact on revenue between 2009 and 2010 where Auburn closed in Feb ’09, Burtonsville was closed until Oct’09, Gaithersburg closed in May ’09, and Twinbrook closed in May ’10.

Average Daily Retail Sales by Day of Week (2 of 2)





Average daily sales show lower rates of growth than total sales and more variation which in part reflects the impact of store closures. However, there is no pattern or indication that Sunday sales had any influence

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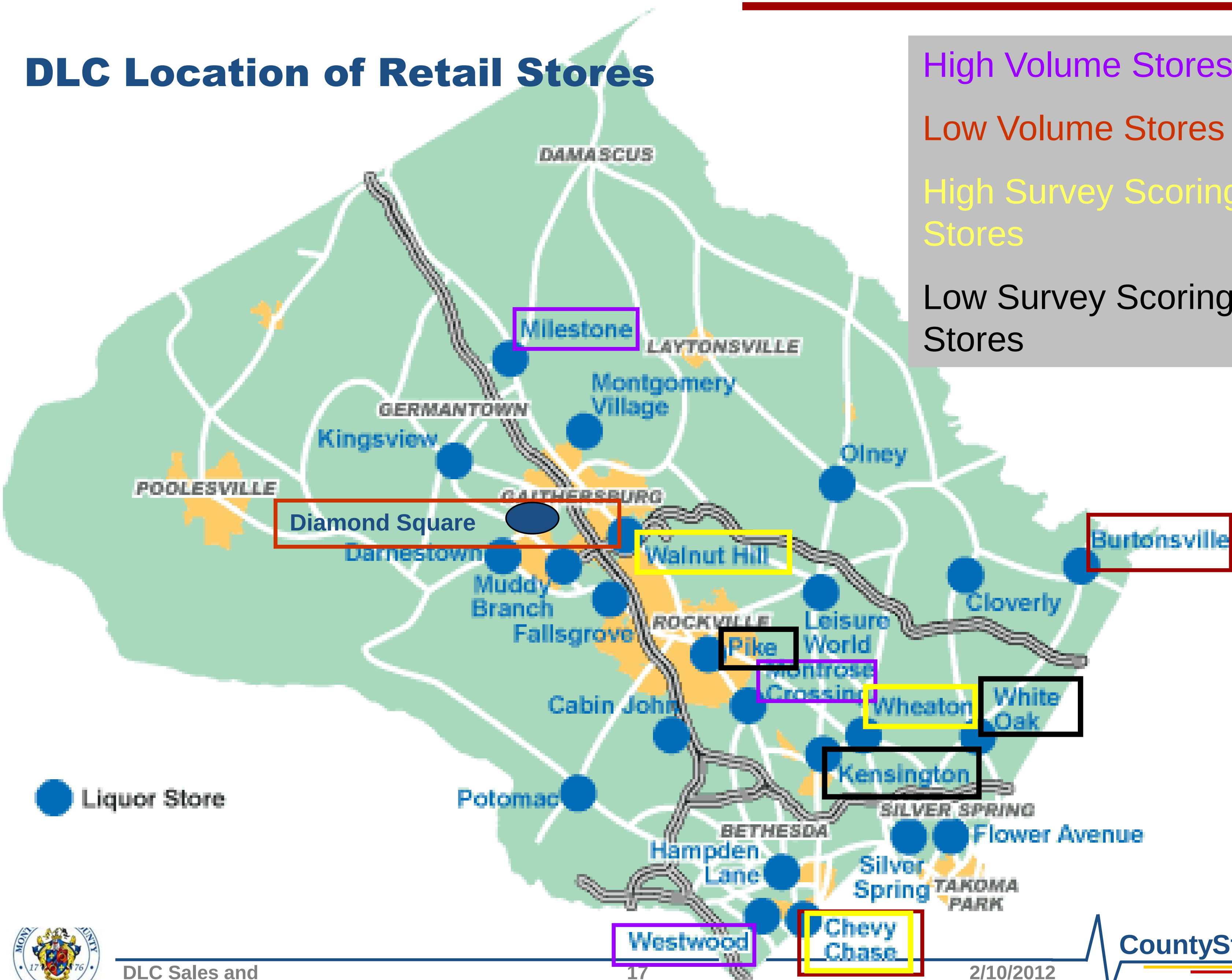
DLC Survey of Customers

Background on DLC Survey

- **Distributed on a Calendar year cycle**
- **Retail Store Sales**
  - Survey's are left for the public to pick-up in store and mail in return
  - Measured on a 4 point scale with 1=strongly disagree and 4=strongly agree

- **Retailer Survey information (Wholesale clients)**
  - Mailed out to all licensees, with return envelope enclosed.
  - Measured on a 4 point scale with 1=strongly disagree and 4=strongly agree

DLC Location of Retail Stores



High Volume Stores

Low Volume Stores

High Survey Scoring Stores

Low Survey Scoring Stores

Findings of Retail Survey

- **Retail Customer Survey Overall**

  – Overall, no distinct changes in survey results except consistently lower scores in the communication questions.

  – This suggests that DLC should further evaluate the visibility and usefulness of its sales promotions via newspaper and online means.

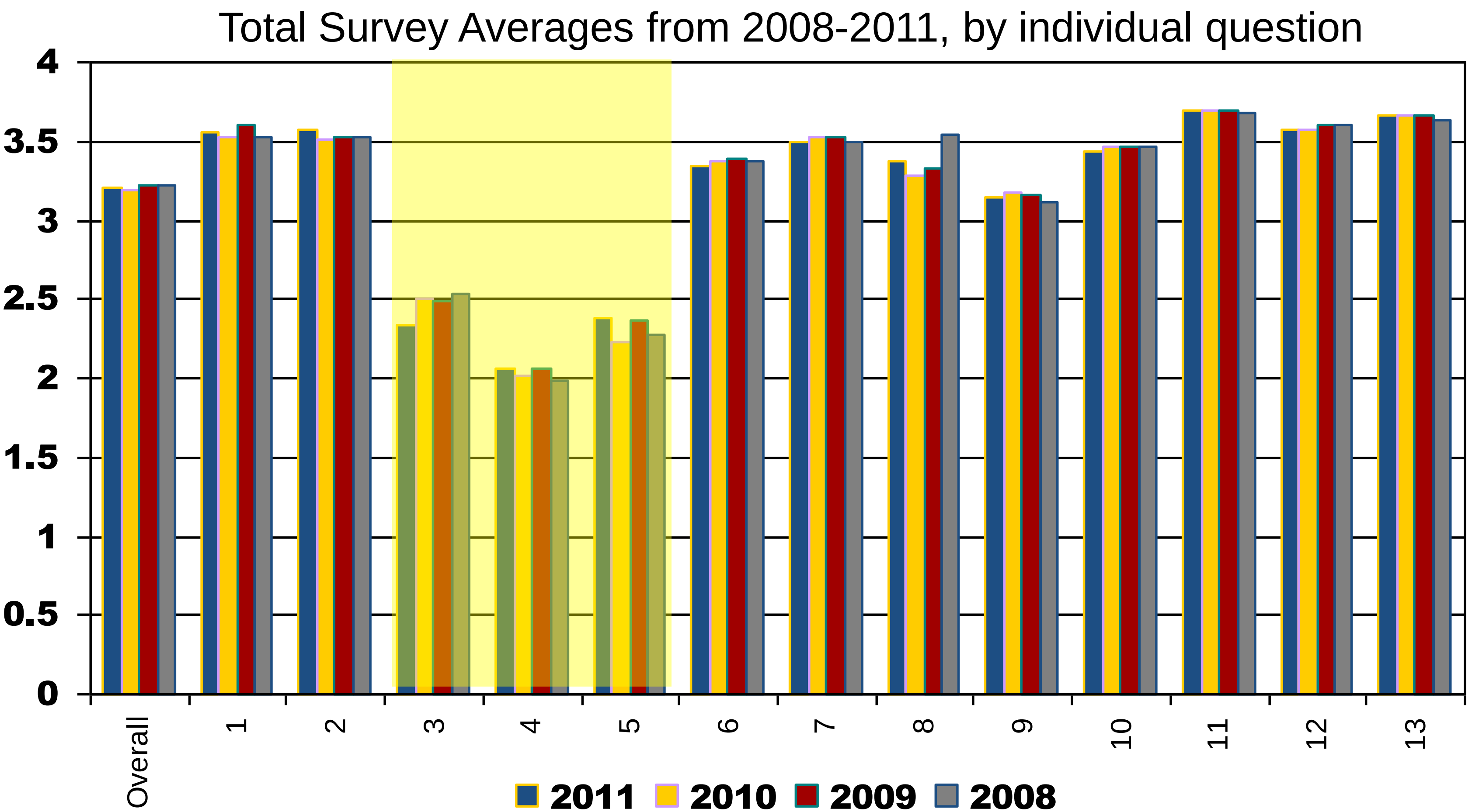
  – Based on survey results DLC should focus efforts to improve overall communications to customers.

Retail Survey	2008	2009	2010	2011
Total Responses	**1,009**	**1,550**	**1,013**	**1,204**
Average Weighted Score	**3.22**	**3.22**	**3.19**	**3.20**

Retail Customer Survey

Survey Questions			2008	2009	2010	2011	
Overall			**3.22**	**3.22**	**3.19**	**3.20**	
Customer Service (CS)	#1	Staff is knowledgeable about products	3.53	3.61	3.52	3.55	
	#2	Staff greets me and is helpful	3.52	3.53	3.51	3.57	
Communications (Comm)	#3	I regularly check the Washington Post for DLC sales promotions	2.54	2.49	2.50	2.34	10 to 11 Significant Change
	#4	I regularly check the Internet for DLC sales promotions	1.99	2.06	2.02	2.06	
	#5	If I regularly check the Internet I can easily find the sale items	2.27	2.37	2.23	2.38	
Product Offerings (PO)	#6	Wine selection is adequate	3.38	3.39	3.38	3.35	
	#7	Spirits selection is adequate	3.50	3.53	3.52	3.50	
	#8	I receive special order items in a timely manner	3.54	3.33	3.28	3.37	
	#9	Regular prices are fair	3.12	3.16	3.17	3.14	
	#10	Sale prices allow me to get good deals on a wide variety of items	3.47	3.47	3.47	3.44	
Overall Shopping Experience	#11	My store is in a convenient location	3.68	3.69	3.69	3.69	
	#12	Parking is convenient to the store	3.61	3.61	3.57	3.58	
	#13	The store is clean	3.63	3.67	3.66	3.67	
		Have I shopped at a DLC store on Sunday?	N/A	N/A	N/A	69%	

Retail Customer Survey All Stores 2008-2011

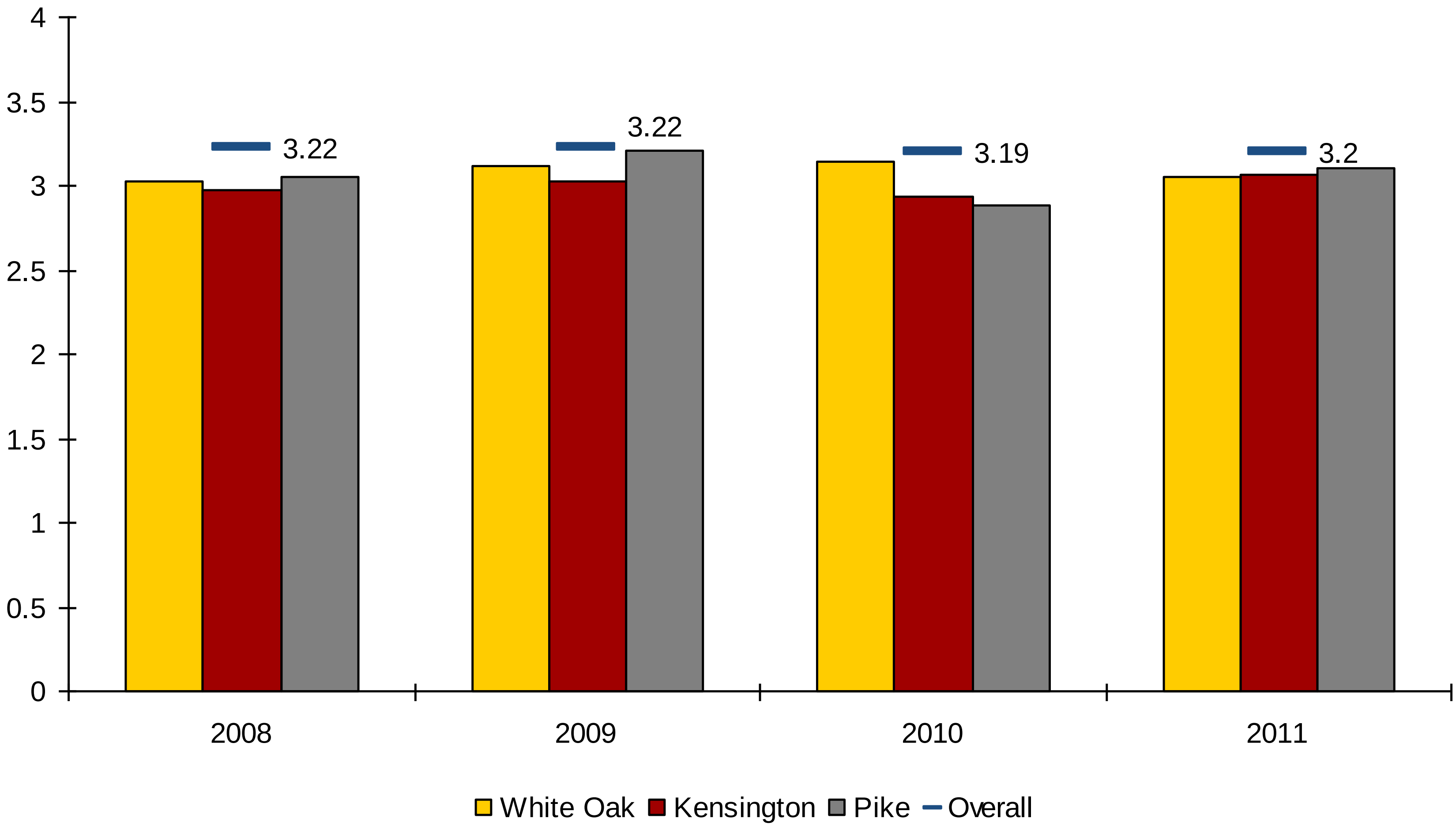


Communication questions 3, 4, and 5 on checking newspaper and internet for sale promotions has consistently scored the lowest for the past four years.

Individual Store Survey Summary

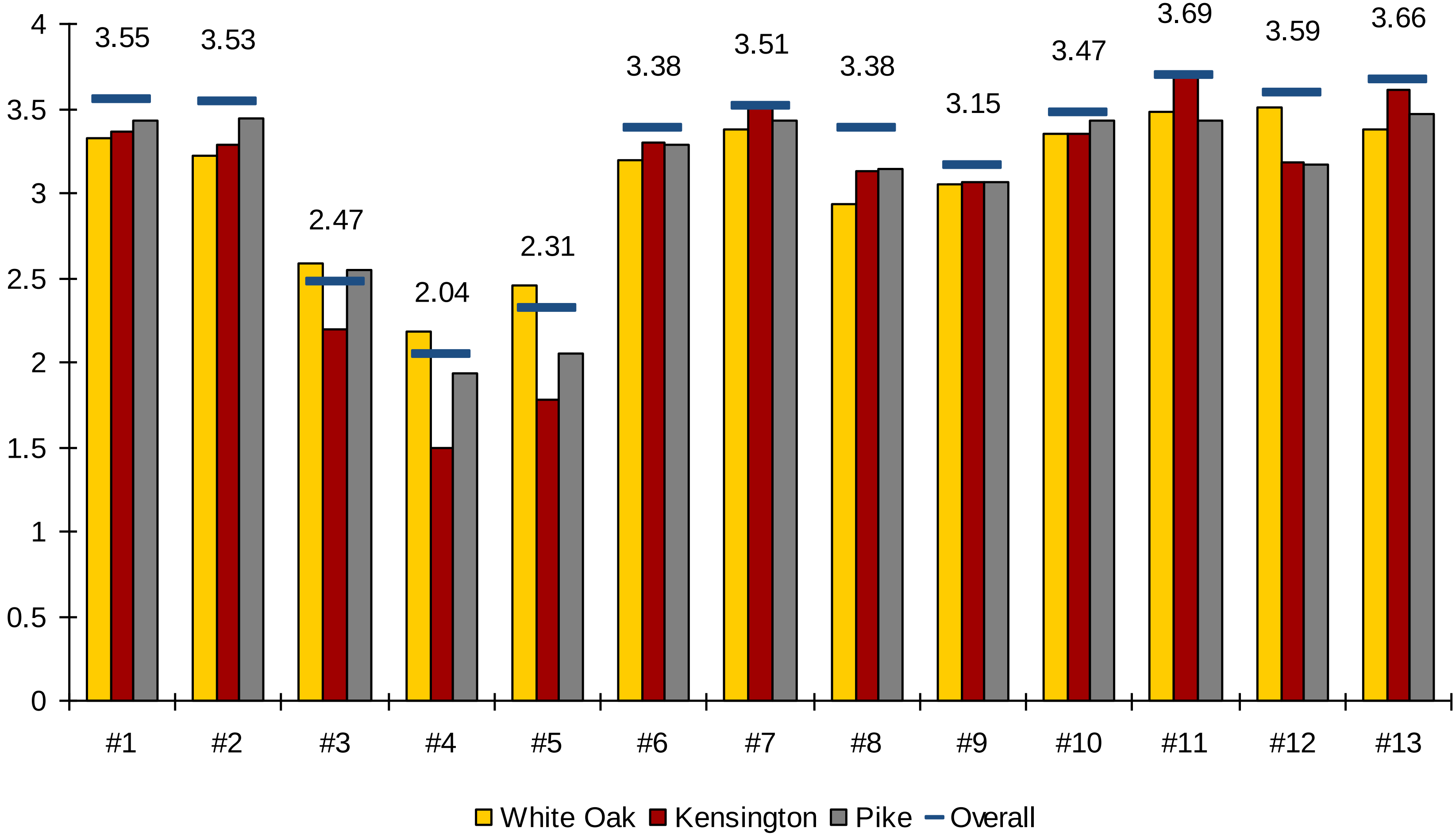
- **Individual Stores:**
  - Most improved store from 2010 to 2011 was Cabin John.
  - Overall highest scoring average store was Chevy Chase. Chevy Chase has consistently scored the highest in overall averages for the past four years.
  - Three stores, White Oak, Kensington, and the Pike were the lowest underscoring stores on average for 2011 and for nearly every individual question.
  - These same three stores have consistently scored below the overall average for the past four years.
  - Based on these survey results DLC should focus attention these lowest scoring stores.

Lowest Scoring Stores by Total Survey Average vs. Overall Average



White Oak, Kensington, and the Pike had the lowest survey score when compared to the annual survey average.

Lowest Scoring Stores by Survey Question vs. Overall Score



The four year averages of White Oak, Kensington, and the Pike were the lowest when compared with the four year all stores average.

Retail Customer Survey: Branch Ratings

Current Year vs. Prior year

Store	Survey Count	2011 Score	% Change from Prior year
Chevy Chase	35	**3.44**	-8%
Wheaton	38	**3.32**	-7%
Westwood	46	3.31	5%
Walnut Hill	59	**3.31**	2%
Silver Spring	68	**3.29**	-2%
Burtonsville	35	**3.29**	-4%
Milestone	70	**3.27**	-2%
Muddy Branch	48	**3.27**	0%
Darnestown	94	**3.26**	5%
Montrose	49	**3.25**	0%
Leisure World	138	**3.23**	1%
Cabin John	60	**3.21**	13%
Kingsview	43	**3.21**	-3%

Overall Average Rating	1,204	**3.20**	0%

Highest Score

Lower Scores

Retail Customer Survey: Branch Ratings

Current Year vs. Prior year

Store	Survey Count	2011 Score	% Change from Prior year
Kingsview	43	3.21	-3%
Olney	22	3.19	0%
Flower	23	3.17	-11%
Cloverly	23	3.16	-1%
Diamond	30	3.15	1%
Fallsgrove	49	3.14	5%
Montgomery Village	51	3.11	-1%
Potomac	39	3.10	-2%
Pike	57	3.10	8%
Kensington	66	3.07	4%
White Oak	53	3.05	-3%
Hampden Lane	8	2.73	-5%

Cabin John had the most positive year to year change. Flower had the most negative year to year change.

Highest Score

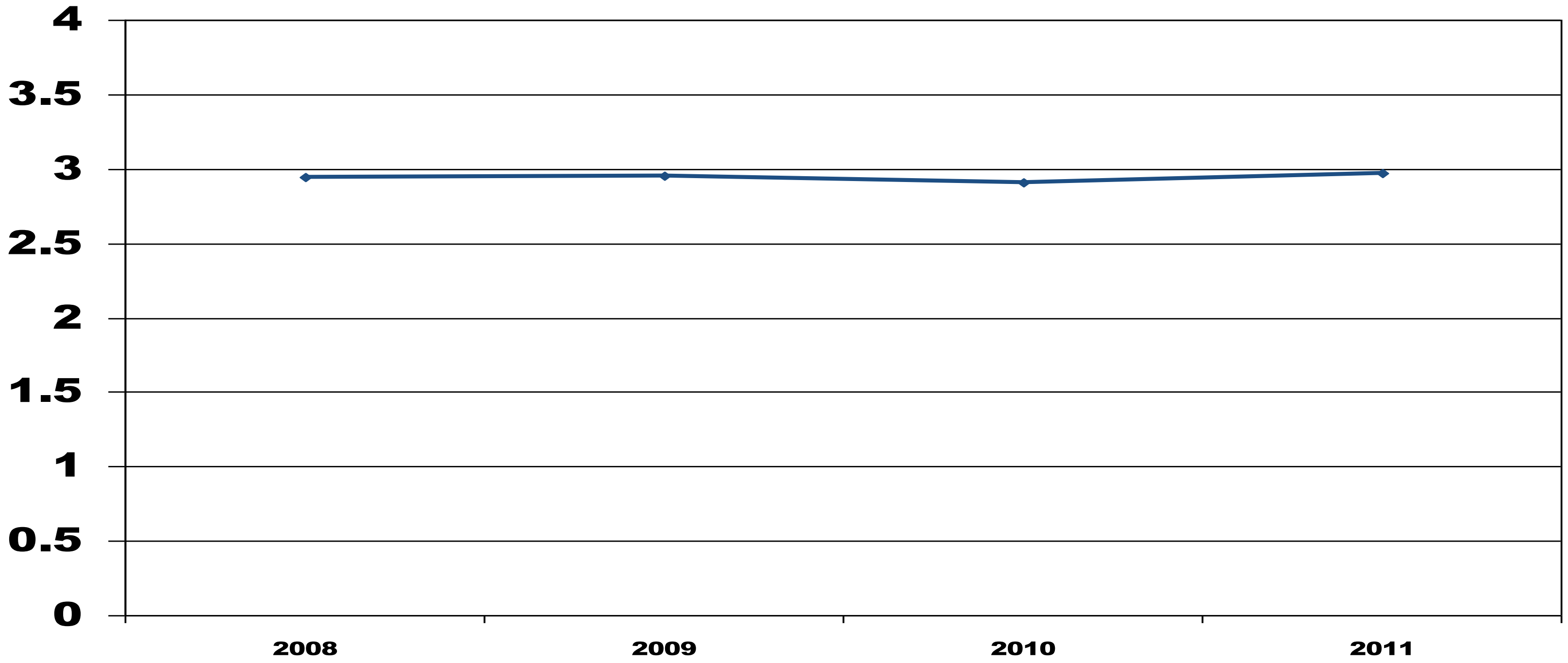
Lower Scores

Wholesale Survey Summary

- **Wholesale (Licensee) Customer Survey**
  - Very little change in average score year over year.
  - Only significant changes were improvement by 10% in “Turnaround time for Special Order Wine is acceptable” and a 7% improvement in Customer service of “pick-up staff are responsive”
  - Based on survey results, DLC should maintain focus on customer services and operations.

Retail Survey	2008	2009	2010	2011
Total Responses	**173**	**187**	**191**	**161**
Average Weighted Score	**2.94**	**2.95**	**2.91**	**2.97**

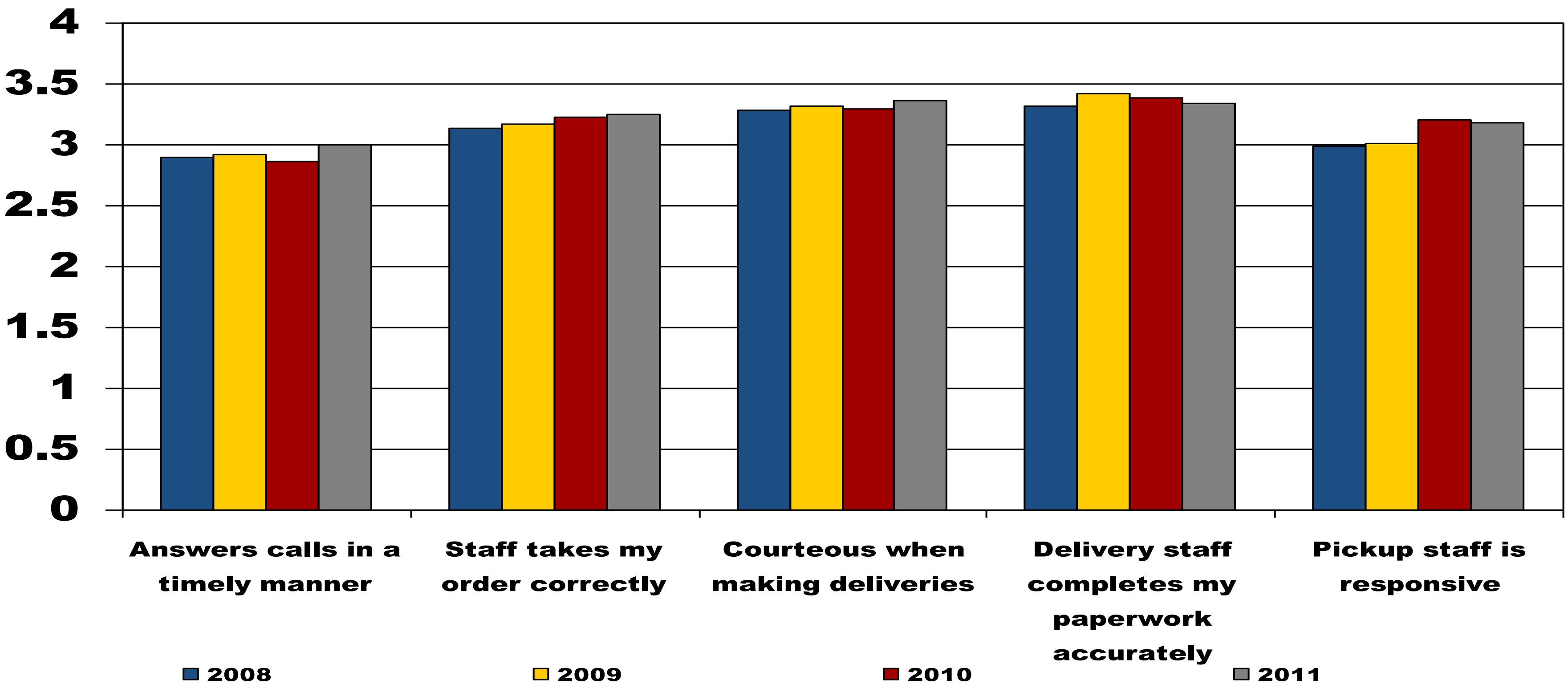
Wholesale (Licensee) Customer Survey
Overall Average Score 2008-2011



	2008	2009	2010	2011
Overall Average Score	2.94	2.95	2.91	2.97
Total Respondents	173	187	191	161

There has been little change in the overall average scores.

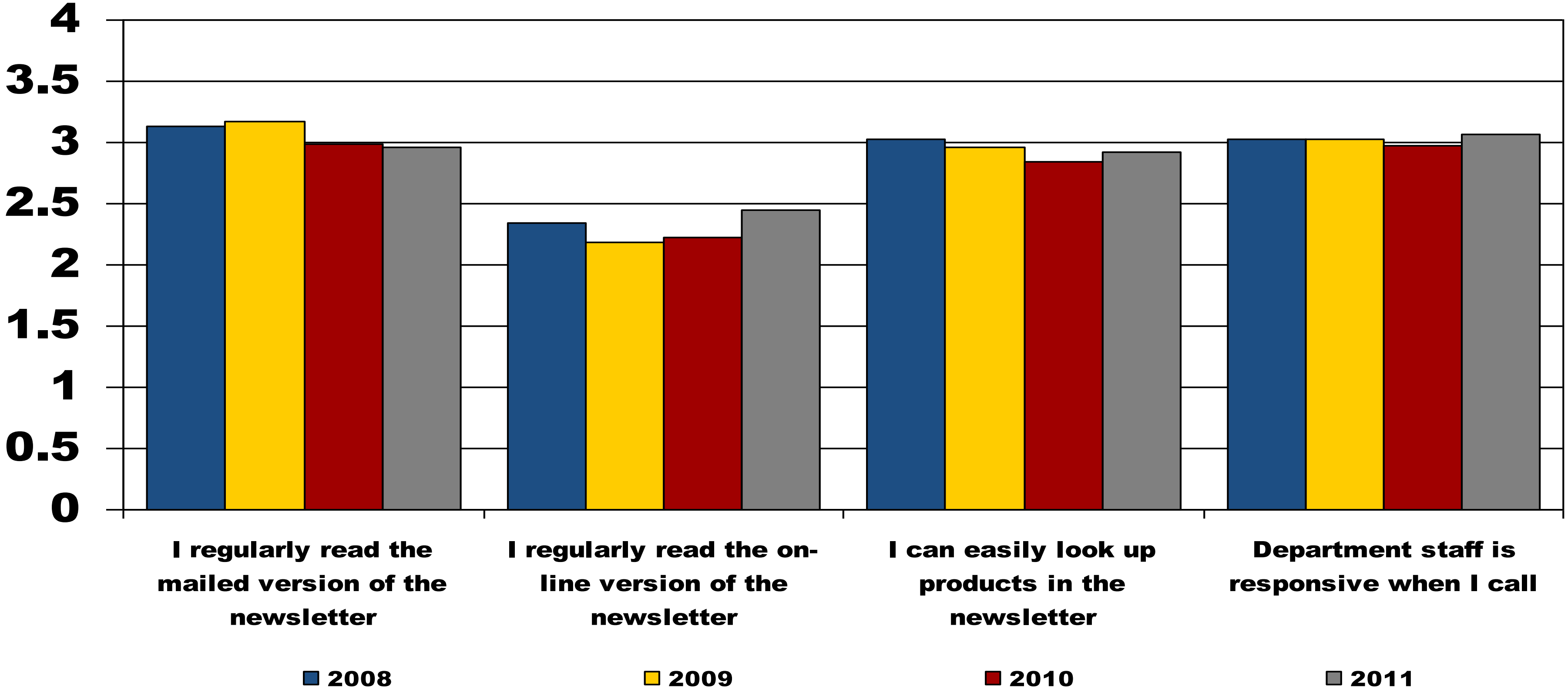
Wholesale (Licensee) Customer Survey
Customer Service



2008-2011 Pct Change	Timely Manner	Order Correctly	Courteous	Paperwork Accurately	Responsive
	3%	3%	2%	0%	7%

Overall increases in customer services from 2008 survey. Responsiveness was an area that showed improvement.

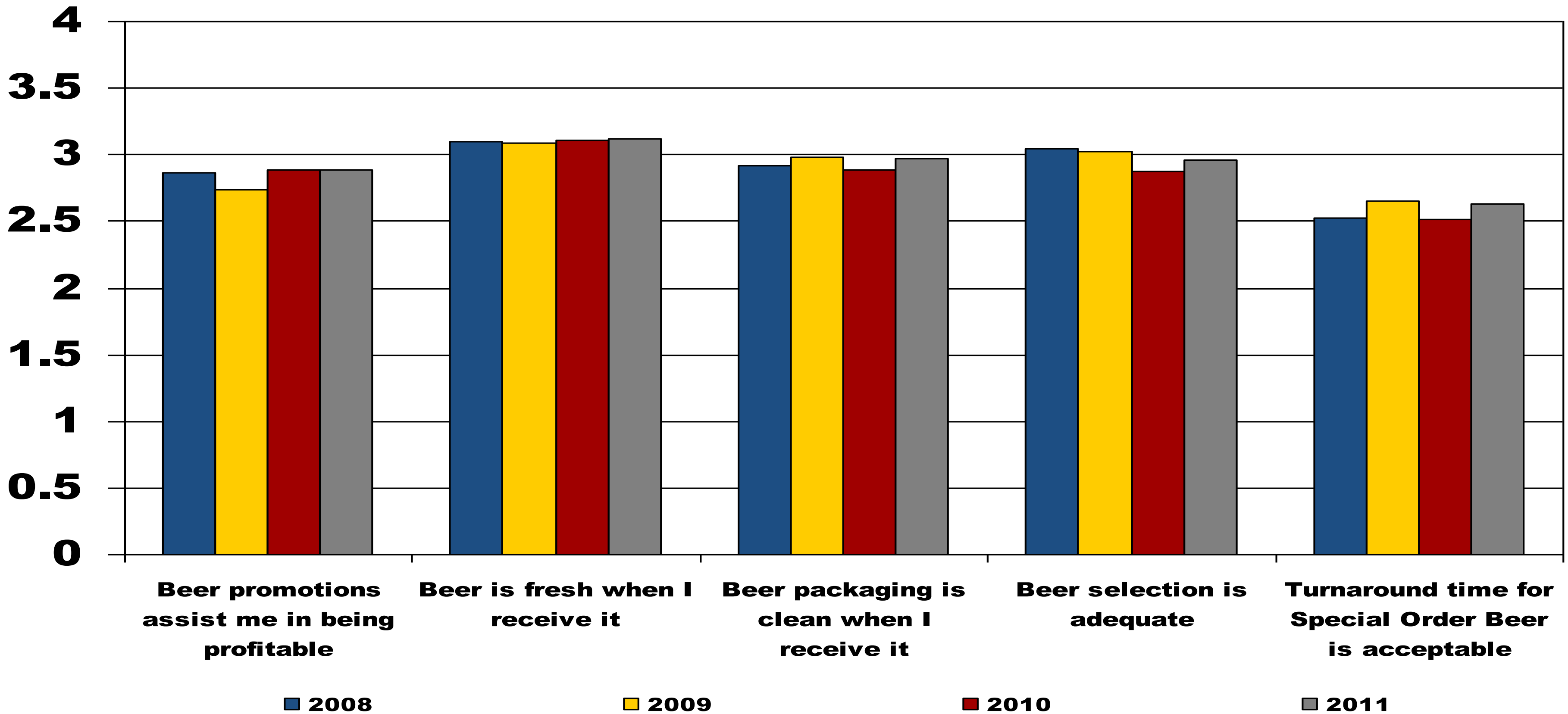
Wholesale (Licensee) Customer Survey Communication



2008-2011 Pct Change	Mailed newsletter	On-line newsletter	Easily look up products	Responsive
	-6%	5%	-3	1%

Decline in reading mailed newsletter by wholesale customers, but gains in on-line newsletter reading.

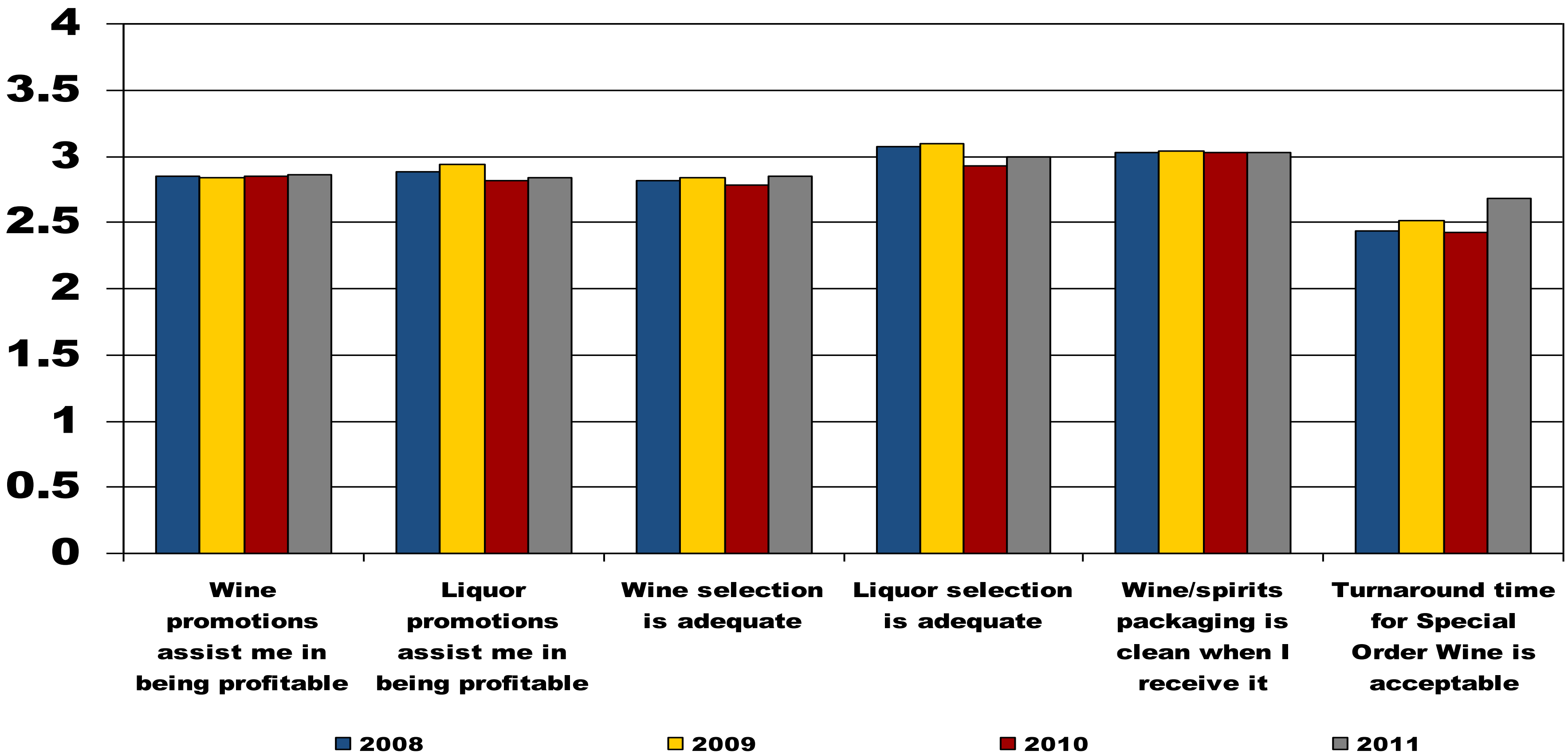
Wholesale (Licensee) Customer Survey
Beer Operations



2008-2011 Pct Change	Promotions	Fresh	Clean	Selection	Special order
	1%	1%	2%	-3	4%

2011 just saw declines in selection but increases in turnaround time for special order beer.

Wholesale (Licensee) Customer Survey
Wine/Spirits Operations



2008-2011 Pct Change	Wine Promotions	Liquor promotions	Wine selection	Liquor selection	Clean	Turnaround
	1%	-2%	1%	-2%	0%	10%

Turnaround times for special order wine saw the highest percent change improvement.

Wrap-Up

- **Follow-Up Items**