2 fall 2003

LIQUOR CONTROL BOARD

WINE PROGRAM STRATEGY

2004 – 2009

Purpose

The Liquor Control Board's strategic plan goal is to provide excellent customer service to our customers. The WSLCB Wine Program is one of the services the LCB provides. We have employed the consulting services of Paul Gregutt, a respected wine professional with two decades of experience reporting on the Washington state wine industry. Paul is assisting the Wine Program Manager and Purchasing Services division to develop a five-year strategy for the Wine Program. Improvements to the current program are being developed in partnership with key stakeholders.

This updated strategy will outline the direction of the Wine Program for the next five years. Specific areas of consideration will focus on maximizing revenues to the state's taxpayers, streamline business practices and create new ones, and continue to strengthen partnerships with customers, stakeholders and employees

Executive Summary

In preparing this proposed Wine Program Strategy for the next five years, Steve Burnell and Paul Gregutt toured a number of LCB retail outlets and interviewed several managers. They also inspected several non-LCB wine retailers, paying particular attention to such specifics as product mix, signage, product merchandising and displays, point of sale materials and pricing. Paul also reviewed in detail the July 2002 Retail Services Business Plan and the July 2003 – 2008 Strategic Plan, and completed the process of stakeholder interviews with the 11 stakeholders on the list provided.

The Washington State Liquor Control Board has been a retailer of wine for over 68 years. The Board last reviewed the Wine Program in 1996 and implemented changes to the program resulting in a significant boost in

PLAINTIFF'S EXHIBIT
CASE NO. CV04-0360P
EXHIBIT NO. 020

dollar volume of wine sales dollar but maintaining a fairly stable share of wine sales in the state as compared to the private sector.

The LCB Wine Program not only contributes valuable revenue to state coffers; it also provides a much-needed lift to the state's $3 billion wine industry, which is facing unprecedented global competition and a significant, industry-wide downturn. All but 25 of the state's 275+ wineries produce 5000 cases or less annually, making distribution through traditional wholesalers difficult or impossible. The LCB offers small, mom 'n' pop Washington wineries "one stop" distribution, a vital boost to their struggling businesses. The addition of such limited-production, fine wines to LCB offerings brings in a more sophisticated, more affluent consumer, and in my view elevates the image of all the state stores.

This plan will focus on some key strategies and recommendations:

1. **Merchandising**

   Create four specifically defined store "clusters". Using demographic criteria, the spirit community has identified three clusters of stores for the spirit shelf reset. The wine program should use these three clusters as well, and define a "core" group of wines for sale in each. This would provide customers with a consistent look and selection for the stores in each cluster and provide a much easier shopping experience. The current HUB store program would become the fourth cluster, offering an expanded selection of wines.

2. **Product Selection**

   Reduce the total number of wine selections and tighten the focus of the inventory to highlight proven winners and regional assets. Simplify the shopping experience for customers.

3. **Do more attractive, customer-friendly in-store marketing**

   - Updated, clear and useful signage
   - Clear, well-marked price stickers (eliminate odd price points)
   - Chalkboard "Manager's Specials"
   - Readily available, helpful point-of-sale materials
   - Reading areas with magazines, wine columns, reviews
   - Add customer-service gift items to store inventory (corkscrews, wine bags, ice buckets, etc.)

4. **Specialty outlets**

Establish outlets to sell wines in new locations not currently being served by other retailers. Airports in particular offer the opportunity to sell Washington state wines to customers not reached by supermarkets or wine shops.

In larger stores create a "store within a store" featuring Washington state wines in a unique, dedicated area. Included would be educational materials such as maps, brochures and wine reviews from major publications and newspaper columnists.

5. **Training**

Develop training programs for all employees, working with suppliers and the Washington wine commission whenever feasible to keep costs down. Such continued training will enhance the level of customer service employees are able to provide.

6. **Pricing Strategy**

An independent price comparison study commissioned by the LCB concluded that "the Liquor Control Board, while offering highly competitive prices, is not always the lowest price seller, nor do they significantly undersell the least expensive chain store."

With this in mind, we strongly recommend that the LCB keep the current pricing strategy in place, while clearly re-stating the current policy wherein the producer and distributor determine who will be the supplier of record to the LCB.

History of WSLCB Wine Retailing

The Board began selling wine in 1934 shortly after Prohibition was lifted. It was the only channel able to sell wine until 1935, when the law changed, allowing Washington wineries to sell directly to retail licensees, or to appoint beer wholesalers as their agents. This remained in effect until 1969, when the Legislature passed House Bill 100 (the California Wine Bill). This allowed wines produced out-of-state to be sold directly through licensed channels, without first having to be sold through the Board. This change in law essentially created the three-tier wine distribution system that exists today.

At this time, the number of retail outlets where all types of wines became available increased from 273 WSLCB retail stores to 4,187 (offering wine in the original package for off-premise consumption).

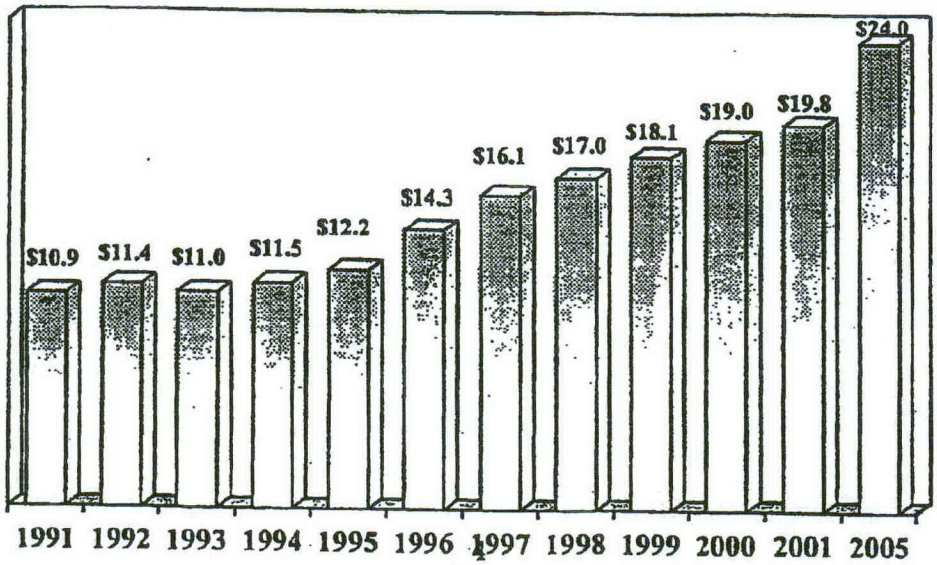
In 1995, the Board reviewed the wine program, prompted by declining sales of wine in state stores. It was determined that improvements were necessary to provide customers with a good selection of wines, and to provide the level of service that was becoming the industry standard. A Wine Program Manager was hired and changes were implemented to increase the service level to the public.

The WSLCB's volume share of wine sales in Washington State was 58.1% in FY 1969. For the last 18 years (FY 1985 through FY 2003) the WSLCB's volume share of wine sales has remained relatively constant, ranging from a low of 8% to a high of 11%. In 2003 the percentage was 8.9%.

Wine Industry Overview

A worldwide oversupply of wines and grapes is the engine driving dramatically increased competition, ongoing corporate consolidations and significant price reductions among wine producers, importers and distributors. The consumer is the ultimate beneficiary, as more wines and better wines at better prices are available today than ever before.

In the US, overall wine sales hit an all-time high of $20.8 Billion in 2002; an increase of 9.4% over 2001. Projections call for further increases over the next three years, to roughly $24 Billion by 2005, according to the Adams Handbook.



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Led by premium varietals, table wine sales grew by 4.2%, to 216.7 million (9 liter) cases. Sales of imported wines were up 9.5%, while domestic growth was just under 2%.

Washington, the second largest wine producing state, was the tenth in consumption nationally — an impressive figure, given that the state ranks just 15th in population overall.

Wine Consumption By State

1	California	42,180,000	18.1%	27	South Carolina	2,324,000	1.0%
2	New York	18,590,000	8.0%	28	New Hampshire	2,178,000	0.9%
3	Florida	18,016,000	7.7%	29	Alabama	1,951,000	0.8%
4	Texas	11,528,000	4.9%	30	Kentucky	1,572,000	0.7%
5	Illinois	10,462,000	4.5%	31	Hawaii	1,375,000	0.6%
6	New Jersey	10,400,000	4.5%	32	District of Columbia	1,320,000	0.6%
7	Massachusetts	8,947,000	3.8%	33	Rhode Island	1,314,000	0.6%
8	Pennsylvania	6,634,000	2.8%	34	Maine	1,278,000	0.5%
9	Michigan	6,271,000	2.7%	35	Oklahoma	1,245,000	0.5%
10	Washington	6,221,000	2.7%	36	Idaho	1,200,000	0.5%
11	Ohio	6,200,000	2.7%	37	New Mexico	1,095,000	0.5%
12	Virginia	6,039,000	2.6%	38	Iowa	1,066,000	0.5%
13	Georgia	5,590,000	2.4%	39	Kansas	1,045,000	0.4%
14	North Carolina	5,369,000	2.3%	40	Delaware	1,028,000	0.4%
15	Colorado	4,634,000	2.0%	41	Arkansas	919,000	0.4%
16	Connecticut	4,511,000	1.9%	42	Vermont	836,000	0.4%
17	Arizona	4,461,000	1.9%	43	Mississippi	816,500	0.4%
18	Maryland	4,192,000	1.8%	44	Utah	770,000	0.3%
19	Oregon	3,968,000	1.7%	45	Nebraska	731,000	0.3%
20	Wisconsin	3,851,000	1.7%	46	Montana	711,000	0.3%
21	Missouri	3,477,000	1.5%	47	Alaska	596,000	0.3%
22	Minnesota	3,338,000	1.4%	48	West Virginia	477,000	0.2%
23	Nevada	3,272,000	1.4%	49	South Dakota	393,000	0.1%
24	Indiana	3,160,000	1.4%	50	Wyoming	284,000	0.1%
25	Louisiana	2,703,000	1.2%	51	North Dakota	253,000	0.1%
26	Tennessee	2,390,000	1.0%		Total	233,080,500	100.0%

Consumer tastes are evolving, with local trends mirroring national patterns. Over the past decade, ACNielson data shows, red table wine case volume share has climbed from 17% to 37%, more than doubling; while white table wine case volume has declined from 49% to 40%. The biggest loser has been the blush wine category, tumbling from 34% of table wine case volume sales in 1991 to just 23% in 2001. These trends are expected to continue.

West Coast Wine Industry Overview

From California to British Columbia, the entire west coast is recording dramatic growth in each state's wine industry, with a commensurate and steadily increasing impact on the economic contribution for each state.

California

The full economic impact of the wine industry in 2001 totaled $33 billion, counting revenues to the wine industry and allied industries, and direct and indirect economic benefits, according to the California Wine Institute. In 1998, California vintners produced 444 million gallons of wine — 90 percent of the total U.S. wine production. If California were a nation, it

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would be the fourth leading wine-producing country in the world, behind Italy, France and Spain. The industry employs 145,000 full-time equivalent jobs in wineries, vineyards or other affiliated businesses, with total wages exceeding $4 Billion dollars. California wine shipments to the U.S. market in 2003 hit a record high of 417 million gallons (2/3 of all U.S. wine sales), led by "extreme value varietals" selling for $3 or less, according to the Wine Institute.

Washington

Washington's growth as a wine producing state has been nothing short of explosive. According to an in-depth economic study done by Motto Kryla & Fisher Research, and delivered to the Washington Wine Commission in March 2001, the overall economic impact of the wine industry in Washington State is $2.4 Billion annually. By some estimates it has since topped $3 Billion, and continues to grow.

In sheer numbers, this state has been adding a new winery every two weeks for the past few years. In 1981 there were just 19 wineries in the state; there are now close to 275 bonded wineries in Washington — more than the Napa valley.

The Washington Association of Wine Grape Growers counts over 300 members, and total vineyard is around 28,000 acres — up from 11,100 acres just a decade ago. By comparison, New Zealand has around 27,000 acres, and the Napa Valley, with 232 wineries, claims 36,115 acres.

Overall production of Washington wines has more than doubled in the past decade, and wine grapes are now the state's fourth largest fruit crop. Red wine production continues to climb and now accounts for 57% of the total.

In terms of economic impact, the wine industry generates $2.4 billion annually (as of 2000). There are 11,250 full-time equivalent wine-related jobs paying $350.2 million in annual wages. Winery revenues statewide are close to $300 million annually, and the industry contributes over $72 million in taxes.

Though Washington leads the Pacific Northwest in wine production, it is not alone. This is a world-class, wine producing region that also includes Oregon (with 11,000 acres of vineyard and over 200 wineries), Idaho and British Columbia.

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Washington was the first American wine producing region to be named "Wine Region of the Year" by Wine Enthusiast magazine (in 2001). The state has five officially designated AVAs (American Viticultural Regions), with another four or five in development. Washington wines are sold in all 50 states and more than 40 foreign countries.

Senator Mike Hewitt, R-Walla Walla, was recently quoted in a Seattle Times article about Walla Walla Community College's new Institute of Viticulture & Enology. "This is an industry that's doing well," Hewitt explained to reporter Tom Skeen. "It's a gold spot in the economy."

Oregon

In 2002 Oregon ranked fourth in the US for wine production (behind California, Washington and New York), with a total of 217 wineries. Oregon wine sales have increased over 400 percent in the last decade. The vast majority of the state's wineries are very small as compared with other major wine-producing regions. Oregon does not have any wineries producing the case volume seen in many of the California and several of the Washington wineries.

British Columbia

According to the British Columbia Wine Institute, the number of BC wineries was 54 in 2001, an increase of 65% in just three years. The wine-specific contribution to the Provincial Government was $101,000,000 in 2001, and wine tourism revenue added another $79,200,000. The wine industry employs 1,237 full time jobs directly and accounts for another 1,165 in indirect jobs.

Retail Trends

Nationally there is one big retailing story and it comes down to three words: Two Buck Chuck.

Discount grocer Trader Joe's uncorked the trend with its $1.99 a bottle ($2.99 in Washington) Charles Shaw wines, made by Bronco Wine Co. It ranks as the fastest-growing table wine brand in the U.S. industry's history, according to Jon Fredrikson, publisher of wine industry newsletter the Gomberg-Fredrikson Report.

A recent New York Times article noted that the Charles Shaw wines, introduced a year ago, began generating publicity and huge sales around

the holidays, with sales totaling two million cases by year's end. Fredrikson predicts sales of five million cases for the brand in 2003, and notes that in California it is currently outselling all the Gallo labels combined.

Others have been watching, and are quickly jumping into the market. Reuters reports that Safeway and Fred Meyer stores now carry Pacific Peak, another $1.99 California wine (again, a dollar higher in Washington). Golden State Vintners, which makes Pacific Peak wines, expects to create similar $1.99 lines for other chains, according to marketing director Steve Lindsay.

Boise-based Albertsons is also in the game. Albertsons stores are selling Pine Brook merlot at $2.99 per bottle with good sales results, according to Dennis Schwarz, director of marketing for the 141-store chain.

The retail landscape is in a period of significant transition, as more retailers are getting into the wine business. According to the ACNeilson 2002 Channel Blurring Report: "Beverage alcohol consumer's shopping options are expanding with the number of convenience stores, super centers and club stores expanding." One example is the growth demonstrated by super centers, which have increased from 148 locations in 1993 to 1,212 in 2001.

ACNeilson reports that "grocery is the dominant channel for wine" but goes on to point out that "fast paced life is driving up convenience store trips and increasing one-stop shopping at super centers." ACNeilson also notes that "wine is the best developed of the three (beer, wine and spirits) in warehouse clubs — almost 15% of its buyers purchase the category in this channel, accounting for over 10% of all wine off-premise sales. Wine and Beer category growth in warehouse clubs exceeded that of all channels. Costco is aggressively pursuing the beverage alcohol consumer, and now claims to be America's largest wine retailer, with sales of more than half a billion dollars in 2001 (NY Times)."

The ACNeilson 2002 Channel Blurring Report summary found the following:

- Consumers take advantage of channel options
- Grocery channel shopping frequency continues decline
- Super centers are posting strong penetration gains

The message to grocery retailers was "alternative channel retailers are coming after your shoppers and their shopping trips."

Along with global changes in the retail landscape, locally large grocery chains are responding by increasing their margins for wine. Various mark-up formulas exist among the four largest grocery chains, but generally speaking, the trend is to not pass through to the consumer many wholesaler discounted prices. Margins are also increasing on sale wines and on the wines featured in weekly ad campaigns. These practices increase the profit-per-sale but may ultimately erode market share.

Assessment of the Current Wine Program — Strengths and Weaknesses

In assessing the strengths and weaknesses of the existing system, we wanted to focus on wine sales from a customer-centric point of view. Our thinking is that the Wine Program must remain focused on maximizing its profits by improving its product mix, expanding its promotional reach (within the limits of the law) and putting a strong emphasis on those things it does best.

A study completed in December 1995 determined that LCB wine sales made a net contribution to the General Fund of $2,579,374 on gross wine sales of $19,096,133. The financial impact was again reviewed in December 2000 and concluded the General Fund contribution at $7.4 million (on gross wine sales of almost $32 million dollars). Gross sales for FY2003 will likely exceed $38 million and the General Fund contribution is estimated at over $8.5 million.

A more recent study by Social & Economic Sciences Research Center – Puget Sound Division, Washington State University, was completed in December 2003. It compared wine prices at state liquor stores, major grocery chains, and one "Big Box" retailer. It concluded that "if membership program prices are included, Liquor Control Board prices are competitive, but within the range of prices offered by retail grocers."

What follows is an examination of the current Wine Program's assets and liabilities, along with ideas for becoming more profitable, more user-friendly, more competitive and more differentiated in the total wine retail marketplace.

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Customer Profiles

State stores have a loyal and committed customer base. LCB stores offer customers a convenient option for purchasing wine and spirits in a single location, and may carry Washington brands not available at supermarkets or specialty wine stores. Currently, LCB wine customers fall into three main types:

- Box Buyers – Entry level, price-motivated, brand-loyal
- Brand Loyalists – Buyers of best-selling, varietal 750's
- Hobbyists – Wine enthusiasts looking for boutiques; Northwest and California collectible "cult" wines

The fact that these three customer types comprise the majority of LCB patrons suggests that signage and merchandising should be organized so that each customer group can easily and conveniently find the wines that they are seeking.

Recommendations

Box buyers want to find their brand quickly and easily. In order for them to do so, box wines should always be grouped together, and the selection should be as close to uniform from store to store as possible.

Brand loyalists are looking for a particular wine, in this case, a bottle of wine. Again, the top selling 750ml brands should be uniformly available, and the signage and organization should be consistent and logical. More on this below.

Hobbyists are more adventurous. They don't mind poking around; they enjoy the thrill of the hunt. But they should not have to hunt for prices, or put up with confusing or misleading signage.

The overriding goal for all stores should be to serve each type of customer so that are 100% certain that:

- they can quickly find exactly what they want in an LCB outlet
- their needs are being recognized and served
- they won't waste time and won't make a mistake
- they will find a well-chosen mix of wines for sale
- wines are offered at competitive prices
- there is consistency in offerings at state retail stores

Product Mix

Currently, around 900 different wine SKUs (500-650 regular listings and up to 300 one-time purchases) are offered by the LCB. These offerings cover the broadest possible range of wine products, from generic 5 liter boxes to superpremium California boutiques costing over $100 a bottle.

On the plus side, there is certainly no lack of wine choices for LCB customers. On the down side, there may be too many choices, or in some cases, the wrong choices. Consumers today want to save time and money. It is no exaggeration to say that they are burdened with choices, especially when it comes to wine. Huge displays of hundreds of wines only add to their confusion and can be turn-offs.

Smaller groupings of wines that have a specific point of difference are more likely to encourage sales. Here are some of the most useful existing and potential points of difference:

- A well-known, best-selling brand
- A high-scoring or award-winning wine (with the score or medal clearly indicated)
- A hard-to-find wine from a desirable region such as Red Mountain
- A bargain-priced wine (with the bargain price clearly indicated)
- A newly popular varietal (such as pinot gris or syrah)
- A "Manager's Selection"
- An LCB exclusive private label, along the lines of Two Buck Chuck

Bottom line: some reduction of the number of SKUs overall, along with a re-set of wines into meaningful customer-based categories, is long overdue for all LCB stores.

Signage & Pricing

In a marketing study of how consumers make shopping decisions, the New York Times described what it called "an evoked set." "Shoppers start not with every single brand they are dimly aware of, but with a group of options, the evoked set, uppermost in their minds," the paper reported. This smaller set of options, based on experience and exposure, reduces the time necessary to make a purchase. Bottom line: signage and display practices have an enormous impact on defining and/or expanding this evoked set.

Given the profusion of wine choices in state stores, the existing signage in many outlets is of limited value. In the stores we visited, large signs attempt to organize wines by varietal (e.g. "Chardonnay") or region (e.g. "Champagne"). However, within these extremely broad categories, wines are frequently not differentiated by price, quality or even region.

Worse still, much of this signage conveys an impression of staid institutionalism, and some may also inadvertently signal the more sophisticated wine consumer that this is not a wine shop suitable to his or her tastes. For example, cheap domestic sparkling wines should not be signed as "Champagne." Wine buyers know that true Champagne comes only from the Champagne region of France, not from California, Oregon or Australia!

Once the re-focusing of the product mix is accomplished, the introduction of new signage should be a priority, to clarify for the customer exactly what wines are on display, to help the customer find the specific wines or types of wines that s/he may be seeking, and to encourage the customer to experiment with new wines as they become available.

This new signage should be so crystal clear that customers need no other assistance. If there is no clerk available, the signs should be able to do the work.

Prices must be clearly marked for each bottle. Lacking specific guidance from either signage or point of sale materials, consumers will most often fall back upon familiarity and pricing to make their purchase decisions. The wines on display in the LCB outlets do not have individual price stickers on the bottles, so consumers must look to prices posted below the wines on the display rack or shelf.

This leads to considerable confusion. Some prices are missing completely. Some wines have been moved, or misplaced, and have no price indicated. Some signs do not clearly identify the wine being priced. Some price cards are tilted so that the customer must bend down or squat in order to read them!

There is a system of color-coded price cards in use that can be confusing to the consumer. Some "regulars" may know to look for the color that signals a specially reduced price, but many customers do not. Overall, the price cards are cheesy and difficult to read, and re-enforce the institutional look and feel of all the signage.

No matter what other changes are introduced into the state's wine sales program, pricing will continue to motivate potential wine customers. The newest, fastest-growing and most significant category driving wine sales is "Extreme-value varietals" (e.g. "Two Buck Chuck and its competitors). Wine consumers today are more value-conscious than at any time in recent history. Therefore, it is essential that a clearer and more user-friendly method of indicating wine prices be put in place.

Sales, close-outs, special promotions and other bargains in particular should be very clearly indicated, either by additional signage, grouping of the wines, a special shelf talker or all of the above. Pricing, apart from all else, is arguably the number one factor in most purchase decisions.

Product merchandising/displays

Signage, as noted above, is already confusing, with some wines grouped by varietal, others by region, and others simply lumped under generic categories such as "Imported". But it also points up a larger problem, which is how best to display the wide variety and vastly different categories of wines being sold.

In many LCB stores, wines are set much like the liquor. The customer walks in, sees that here is the vodka, here is the whiskey, here is the chardonnay, and so forth. Intentionally or not, this approach suggests that the LCB treats wine and spirits exactly the same, which is a turn-off for more sophisticated wine buyers.

Different ways of categorizing and displaying wines should be investigated, and resources allocated to carry out the new programs.

At a minimum, clear, simple and useful categories should replace the existing hodge-podge. The best options:

- Group certain wines by customer types (as indicated above)
- Group most wines by region: Washington, Napa, Australia, etc.
- Put jug and box wines together, separate from premium wines
- Group sale wines by magic price points ($2.98, $3.98 and $4.98)

At a minimum, all box and jug wines should be grouped and displayed together. Mixing them in with 750s tends to cheapen the bottled wines; it also makes it more difficult for box wine customers to find their favorites.

Strong consideration should be given to putting a very strong focus on Washington state wines, so that customers are encouraged to support the local industry. This support of the "home team" wineries will also help to create a positive image for the LCB, and will tie in tightly with existing, ongoing promotions from the Washington Wine Commission and the regional winery associations.

Point of sale materials

Many successful retailers make use of the abundant and free point of sale materials offered by wineries, importers, distributors and wholesalers. These range from "shelf talkers" to more elaborate signs, displays, printed materials, reprints of wine columns and reviews, and other useful information such as scores from leading critics and medals won in competitions.

Some LCB stores currently have a few such materials on display, but the most crucial elements — shelf talkers listing scores, medals and brief wine descriptions — are almost nowhere to be found. These provide consumers with specific guidance, without which the sheer number of wine SKUs can be overwhelming.

Consider creating a comfy "Reader's Corner" in the larger stores (much like Starbucks) with display copies of wine publications and information on wine producers and regions. A bulletin board could be used to post wine columns from local newspapers, and notices of special in-store promotions could be displayed. This would also be a good place for displaying information about the health risks and benefits of wine and alcohol consumption.

Proposals To Improve the Merchandising of Wine in State Stores

1) Create four specifically defined store "clusters." The spirit community has already identified three clusters of stores for the spirit shelf reset. The wine program should use these three clusters as well, and define a "core" group of wines for sale in each. This would provide customers with a consistent look and selection for the stores in each cluster and provide a much easier shopping experience. The current HUB store program would become the fourth cluster, offering an expanded selection of wines.

2) Establish outlets to sell wines in new locations not currently served by other retailers. Airports in particular offer the opportunity to sell Washington state wines to customers not reached by supermarkets or

wine shops, such as travelers from out of state. The tourist or business traveler looking for a gift or souvenir on his or her way out of town will certainly be interested in buying a bottle or two of Washington state wine. Convenient one and two and four-bottle cardboard carry-ons would make this impulse purchase a lot easier.

3) In the larger state stores such as U-Village, create a "store within a store" featuring Washington state wines in a unique, dedicated area. Included would be educational materials such as maps, brochures and wine reviews from major publications and newspaper columnists.

4) Reduce the number of SKUs, and tighten the focus of all remaining inventory to highlight proven winners and regional assets. Prioritize:

- Top selling brands in each cluster
- Washington wines and wineries
- Other Pacific NW (Oregon, Idaho, B.C.) wines
- Varietal category leaders (Chardonnay, Pinot Gris, Riesling, Merlot, Cabernet Sauvignon and Syrah)
- Manager's Specials and private labels
- Special focus promotions (Zinfandel month, Australia month, sparkling wines for Thanksgiving/New Year's, etc.)

5) Do more attractive, customer-friendly in-store marketing:

- Updated, clear and useful signage
- Clear, well-marked price stickers (eliminate odd price points)
- Chalkboard "Manager's Specials"
- Readily available, helpful point of sale materials
- Reading areas with magazines, wine columns, reviews
- Add customer-service gift items to store inventory (corkscrews, wine bags, ice buckets, etc.)

Resources should be targeted at prime retail areas where a fresh new retail environment will have the greatest impact. A realistic goal is to target up to a half dozen locations per year.

6) Develop and post a "Mission Statement" in each store:

As a consultant and wine industry professional, Paul was admittedly "astonished" to find how little he understood the rules and regulations under which the LCB must operate. Imagine then how difficult it must be for the average customer. A concise, well-written Mission Statement

would explain, demystify and reach out to customers, inviting their feedback. This is standard business practice for any successful retail service-based venture. This Mission Statement should be a simple sign that encapsulates for the LCB:

- Who we are
- The rules and laws we operate under
- The services we provide
- The benefits we provide
- A toll-free phone number for customer feedback

7) Develop training programs for employees, working with suppliers whenever feasible to keep costs down. Investigate opportunities for self-funded educational tours and site visits.

8) Explore and develop effective (non-advertising) marketing and communications programs. Example: regular press releases to influential wine writers and wine publications. An in-house public relations arm exists and should be better utilized to reach out to the media with ideas for stories of interest to wine consumers.

9) Develop an ongoing, continuing relationship with an independent wine industry consultant who is not connected to any winery, importer, wholesaler or retailer. This individual could provide valuable feedback on implementing new wine programs, developing resources and effectively reaching new customers. In today's highly competitive retail environment, the state needs to be more pro-active and consumer-friendly.

Proposals To Address The Controversy About LCB Wine Sales

In a series of stakeholder interviews conducted during March, April, May and June of last year, it became clear that the fundamental question of whether the state should sell wine is still on the minds of some. Their feelings about this question are a direct reflection of how state wine sales affect their particular business.

Wholesalers and distributors and their representatives currently feel caught in a sort of no-man's-land, recognizing that the state is a boon to some of their clients, and a bane to others. The consensus seems to be that the current unresolved situation bothers them far more than a flat and final decision by the state to remain in the wine business would.

Retailers, particularly grocery chains, feel strongly that the state competes unfairly with them, particularly in terms of retail price. It is repeatedly stated that in their view there is no parity, since (with the exception of direct purchases from Washington state wineries, which are open to all) the state can sidestep the three-tier system, and they cannot. In addition, the state has regulatory power over the groceries, while at the same time competing with them. It was suggested in one interview that, short of a complete withdrawal from the wine business, the state could take the following steps to bring some parity to bear:

1) Purchase all of its wines from distributors, except in the case of Washington wines sold exclusively direct from the winery itself
2) Reduce shelf space devoted to wine, bringing it more in line with the actual percentage of income generated by state wine sales
3) Tighten its focus on the wines of the Pacific Northwest and Washington in particular, while eliminating, to some degree, brands from elsewhere that are widely available in other retail outlets

This question of pricing disparity was examined in depth in a recent study commissioned by the LCB to compare prices of 67 high-volume, mass market wines sold in state stores, major grocery chains, and price club volume discount outlets. The study concluded that "the Liquor Control Board, while offering highly competitive prices, is not always the lowest price seller, nor do they significantly undersell the least expensive chain store."

Whether or not this alleged pricing disparity actually exists in some instances, we strongly recommend that the LCB mitigate the appearance of unfair pricing and competition by clearly re-stating the current policy wherein the producer and distributor determine who will be the supplier of record to the LCB.

This should effectively put a stop to the criticism that the state holds an unfair edge in pricing, as it will be up to the winery and/or wholesaler to determine which of them is the supplier of record, with the capability of setting the selling price of the product to the WSLCB.

It should be noted that numerous differences, other than price, exist between private retailers and the WSLCB. Among them: advertising restrictions, merchandise restrictions, limited hours of operation and others. The idea of establishing some ephemeral "parity" is illusory,

because different retailers already operate under completely different laws and regulations. The state stores are merely one more element in what is already a very diverse mix of winery outlets, tasting rooms, specialty wine shops, grocery stores, convenience stores and warehouse stores.

A third major stakeholder group, the wineries themselves, seem to generally favor state sales. Washington state wineries especially benefit in many ways. The annual Washington Wine Month is a promotion that brings a lot of attention and publicity to the state's wine industry. The state wine program offers a unique channel of distribution to producers, a channel which serves wineries of every size. Year round, wineries too small to place product in chains and club stores find that the state offers them a viable distribution network. Recognizing that the vast majority of Washington's 275+ wineries fall into this "too small" category, state wine sales are clearly making a huge contribution to the overall health and diversity of the Washington wine industry.

Stakeholders Interviewed (see separate document for transcripts)

Steve Burns 206-667-9463 x202	Executive Director, Washington Wine Commission
Rob Griffin 509-627-0266	Owner, Barnard-Griffin Winery
Dave Derby 253-265-1701	National Accounts Manager, Trinchero Family Estates
Terry Adams. 425-883-3239	NW Manager, Stimson Lane Vineyards & Estates
Loren Jacobsen 1-800-859-9463	National Sales Manager, Hedges Cellars
Phil Remington 425-313-9093	Importer-Broker
Bob Stevens 206-622-7311	CEO, Western Washington Beverage
Jim Stephanson 425-339-3775	General Manager & VP, Friendly Distributing
Phil Wayt 360-352-5252	Executive Director, WA Beer and Wine Wholesalers Assoc.
Doug Henken 360-753-5177	President, Washington Food Industry
Bob Enloe 206-364-7681	President, Distillery Representatives Assoc. of Washington