BACKGROUND

Virginia ABC operates more than 365 retail stores across the Commonwealth and handles more than 30 million sales transactions each year. As the only retail business selling distilled spirits in the Commonwealth and as a Virginia state agency, Virginia ABC is charged with providing quality customer service while maximizing revenue for the Commonwealth.

Historically, Virginia ABC gave special consideration in the listings process to products made in Virginia. Further, Virginia ABC held Virginia products to a lower threshold when delisting poor performing products. However, with the recent rapid expansion of Virginia-based distilleries — from 10 in 2008 to 50 today with more on the way — Virginia ABC must approach listing and managing Virginia products with the understanding that listing all products made by Virginia distilleries is unrealistic given store and inventory constraints. Virginia ABC should provide Virginia distilleries with clear expectations and considerations when participating in the listing and delisting process. Virginia ABC must balance its role as a sole retailer and conduit to market for Virginia products with the demands of responsibly maximizing revenue for the Commonwealth and providing products sought by consumers.

Virginia spirits have seen robust sales growth in Virginia ABC stores growing six-fold from $1 million in 2008 to $6 million in fiscal 2016. Virginia ABC carries 70 Virginia spirits on a regular basis and offers additional Virginia spirits on a special order and one time buy basis. Of the 36 Virginia spirits products that Virginia ABC reviewed in the last year, it chose 23 for listing and seven more for one time buy or special order. Sales of Virginia spirits account for approximately 0.7 percent of Virginia ABC sales.

In the listings process, Virginia products are viewed through the lens of market demands just as all other products presented to Virginia ABC. For example, the moonshine and vodka categories are well represented in Virginia ABC stores and additional entrants, regardless of origin, will find it difficult to distinguish themselves in order to draw consumer demand. Sales analysis for Fiscal 2016, showed that Virginia ABC carried 41 regularly listed moonshine SKUs, 15 (37 percent) of which are from Virginia. Virginia ABC had 382 regularly listed vodka SKUs, 8 (2 percent) of which are from Virginia. Adding products to these categories, whether Virginia made or not, does little to provide additional choice to consumers and is unlikely to grow sales.

OPERATIONAL CONSIDERATIONS

Shelf space Virginia ABC stores and warehouse space in our Richmond facility are at a premium. Virginia ABC continuously balances adding new items, adding new sizes and expanding successful items to additional stores. While Virginia ABC carries nearly 3,000 items in the warehouse, the average store only carries 1,250 items. Virginia ABC considers all new products with warehouse and store capacity in mind.
DEFINITION OF A VIRGINIA PRODUCT

To be considered a Virginia product, a spirits product must be produced in Virginia by an entity holding a Virginia ABC-issued Distillers License, which authorizes the licensee to manufacture alcoholic beverages other than wine and beer and to sell and deliver or ship the product, in closed containers, to Virginia ABC and to persons outside the Commonwealth for resale outside the Commonwealth.

CURRENT ABC SUPPORT FOR VIRGINIA DISTILLERS

Virginia ABC recognizes the need to actively support and facilitate growing the in-state economy. As such, Virginia ABC supports Virginia distillers and promotes Virginia spirits products via numerous methods:

ENHANCED PRODUCT AVAILABILITY
- Selection preference at new product listings
- Lower criteria for delisting
- Inclusion of all listed Virginia products in online ordering
- Allowing bottle sales at events
- Offering a limited distribution option (10–20 stores) for products to establish themselves
- Expansion of store distribution to support distillers’ advertising market
- Expediting product availability to support events such as the Roanoke Spirits Showcase

ENHANCED MERCHANDISING
- Placement in Virginia Products sections in ABC retail stores in addition to their regular shelf location
- “Virginia’s Finest” and “Virginia Made” shelf tags in ABC retail stores
- Website support via the Virginia Products page on the Virginia ABC website, including a Distillery Store Locator feature currently in progress
- Showcasing Virginia distilleries and products through Spirited Virginia Facebook page
- Frequent feature stories on Virginia distilleries and products in Spirited Virginia magazine
- Featuring Virginia products in ABC’s Spirited Virginia e-newsletter
- Promotion of “Virginia Spirits Month”
- Highlighting products during “Bourbon Month” on ABC website home page carousel
- Virginia spirits products/Virginia Is For Lovers merchandise displays in select stores
- Consumer promotions featuring Virginia products, e.g. the Virginia Tourism Trucker Hat Co-Promotion (Buy a Virginia Product Get a VTC Trucker Hat Free)
- “Always approved” status for in-store merchandising displays
ENCOURAGING A FAVORABLE BUSINESS CLIMATE AND REDUCING FINANCIAL CONSTRAINTS
• Established a Virginia Spirits Policy that defines ABC's contributions to the Virginia spirits industry
• Sponsored legislation to remove criteria for distillery stores
• Participated in Piedmont Virginia Community College workforce development seminars for prospective distillers interested in selling spirits in Virginia
• Developed a cash flow pilot that enhances distilleries monthly cash flow
• Reinstated the 8 percent commission in contrast to the Governor's budget proposal
• Surety bond may be waived upon request after one year or for a second location
• Eliminated PCI compliance insurance
• Allowing direct sales and deliveries to licensees by distillery stores
• Refunding the $2/case handling charge for distillery store sales

PROVIDING MARKETING/ BUSINESS TECHNICAL SUPPORT AND IN-KIND CONTRIBUTIONS
• Coaching on listings and/or distillery store process by ABC staff, including MIPS and Excel
• Responding to frequent ad-hoc data requests
• Conducting marketing education visits with photos and interviews
• Providing guidance on selecting stores and setting price
• Hosting and participating in Virginia Distillery Association and in-state stakeholder meetings

LISTING

In order to demonstrate Virginia ABC’s commitment to new distilleries and gauge a product’s potential while conscientiously managing a diverse product portfolio, Virginia ABC will use the following approaches for Virginia products.

PRODUCT LISTINGS FROM A VIRGINIA SPIRITS SUPPLIER WHOSE PRODUCTS ARE NOT ALREADY SOLD BY VIRGINIA ABC
For the initial product listing from a new Virginia spirits supplier: Virginia ABC will consider listing one SKU from those presented by the supplier. As with all proposed new products, Virginia ABC will evaluate the initial product offering on the following criteria:
• Brand strength/recognition
• Price in comparison to other products
• Category need—product uniqueness, incremental sales potential
• Category trends
• Sales in other states and/or the supplier’s distillery store
• Marketing support (In-store sampling, consumer promotion, price discounting support, on premise promotion)
• Packaging and appearance (uniqueness)
• Special order demand/customer requests

If accepted for retail distribution:
• The new SKU will be attached to at least 10 stores of the supplier’s or their broker’s choosing. (“Attached” products are auto-replenished.)
• Virginia ABC, at its discretion, may attach the new SKU to other Virginia ABC stores that have Virginia Products sections with available space.
• The new item will be added to the Virginia ABC’s online ordering catalog.
• Other stores can get the product in response to retail customer and licensee orders through the existing special order process.
• Suppliers can conduct tastings in the attached stores only, through the established tastings process.
• As with other new items, the product will have 14 months in which to prove its sales potential (see Delisting below).
• Expanded distribution will be considered after 14 months.
• Additional SKUs will be considered after 14 months.
• Virginia ABC, at its discretion, may choose to distribute an item more broadly and/or consider additional items at any time based on the strength of the initial product evaluation, in market performance and/or uniqueness of the product.

If not accepted for retail distribution
• The new item will be added to Virginia ABC’s special order catalog.
• The new item will be added to Virginia ABC’s online ordering catalog.
• This will provide the supplier a platform from which to promote and create demand for the new product and demonstrate the product’s potential as a basis for retail distribution.

NEW PRODUCT LISTING BY VIRGINIA SUPPLIER WHOSE PRODUCTS ARE CURRENTLY SOLD BY VIRGINIA ABC
Listing consideration for additional products from a supplier will be based on the initial product’s in-market performance and the criteria used to evaluate all new products:
• Brand strength/recognition
• Price in comparison to other products
• Category need—product uniqueness, incremental sales potential
• Category trends
• Sales in other states and/or the supplier’s distillery store
• Marketing support (In-store sampling, consumer promotion, price discounting support, on premise promotion)
• Packaging and appearance (uniqueness)
• Special order demand/customer requests

If accepted, listing options include full listing (100 stores), listing in limited stores, one time buy, and/or being included in the online ordering catalog.

DELISTING
As with all regularly listed products, Virginia products are given 14 months in which to prove their potential. Products are evaluated on a total sales and a sales per store selling basis. Virginia products will be held to a lower threshold when being considered for delisting due to poor sales. Virginia products will need to achieve at least 50 percent of the non-Virginia product threshold. If a Virginia product falls below both of these thresholds, it will be a candidate for delisting and will be reviewed accordingly. Virginia ABC will publish thresholds by category and price tier on an annual basis.