



City of North Branch Staff Report

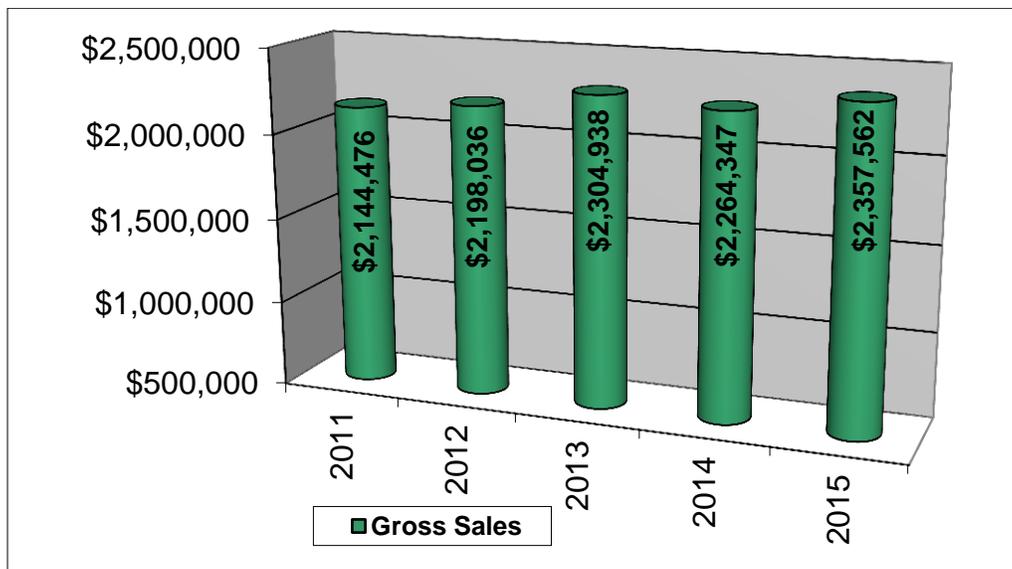
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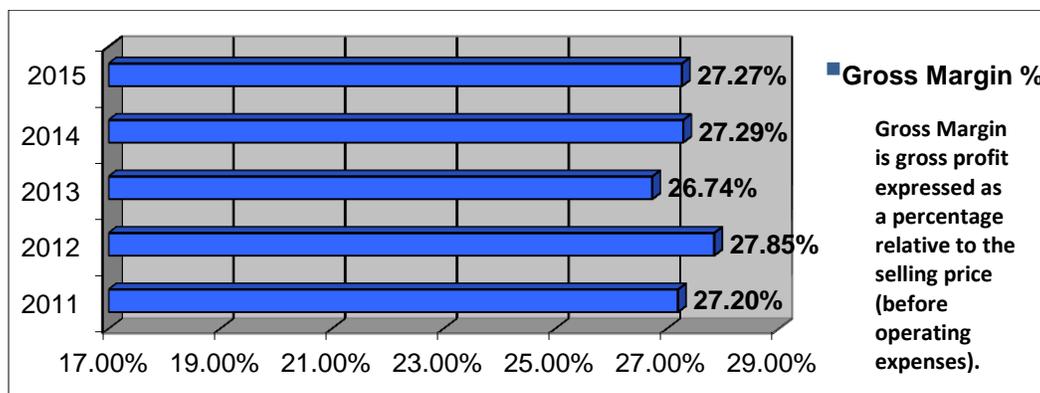
Subject: Liquor Store End of Year Report - 2015

Background Information: North Branch Municipal Liquors is an entirely self-supporting department of the City of North Branch's revenue producing enterprises. The liquor store enjoyed another profitable year in 2015, with customer counts and average sale continuing to increase each year. 2015 average sale was \$24.51, up 2.41% over 2014.

2015 gross sales were \$2,357,562, a 4.12% increase over 2014 and an all-time high. Gross sales is the amount of money the business made before any expense deductions (excluding sales tax).

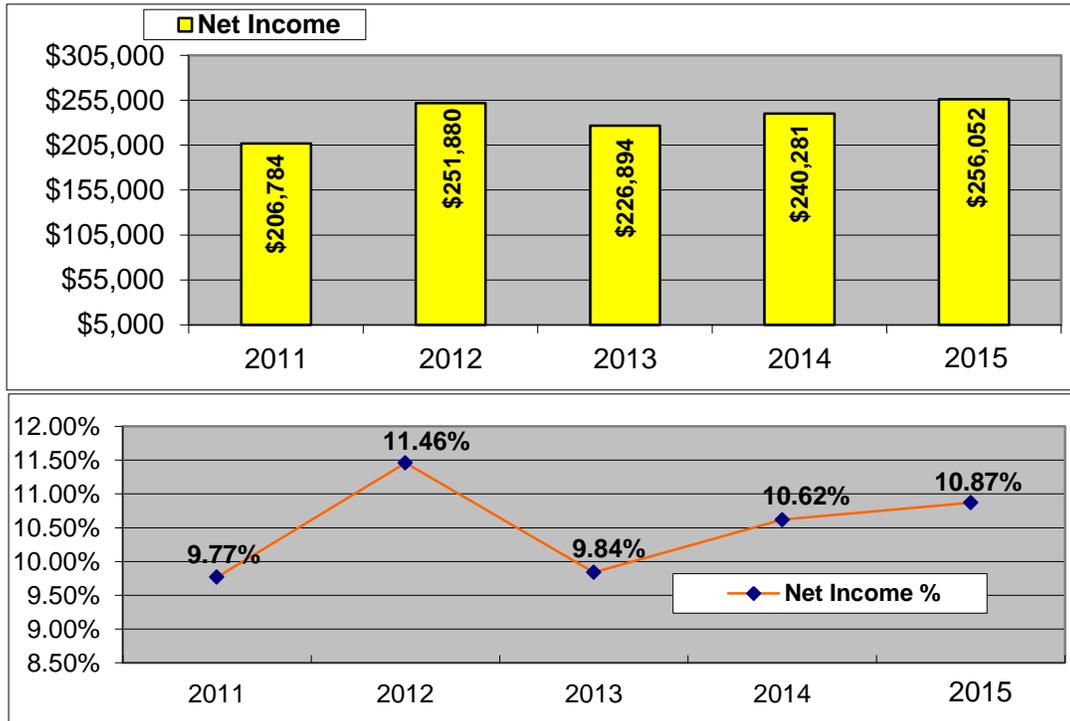


After subtracting the cost of goods sold, this equates to a gross margin of 27.27%.



Ongoing monitoring and adjustment of prices and profit margins by management is required to provide the proper mix that best meets the needs of not only the customers, but also covers the requirements of profitable operation of the store. This balance is necessary in addition to remaining competitive in our marketplace.

Net income for the store in 2015 after operating expenses (before debt service and transfers) was \$256,052 (10.87%).



Each year transfers are made from the liquor store profits to different projects and/or the general fund. These transfers help to lower taxes for the residents and businesses of North Branch by reducing the amount the city needs to levy. In 2015, \$140,000 was transferred to the general fund.



Transfers from liquor store over the past three years have averaged \$138,333. To replace this revenue, North Branch would need:

- at least 160 additional homes with an average value of \$150,000 * **or**
- at least 22 *new* similar type and size businesses as the municipal liquor store ** **or**
- the property tax levy would need to be increased by approximately 3.3%

Assumptions

* occupied & paying taxes

** having approximately the same property valuation, with each business paying at least \$6,500 to the city's portion of property taxes

Additionally, the liquor store continues to pay a portion of accounting staff time and administrative oversight reimbursement as part of the liquor store salaries and benefits expenditures. These expenditures of accounting and administrative costs paid through the liquor store budget help to reduce the general fund levy burden these costs would otherwise produce.

2015 Highlights and Accomplishments

Customer Service Delivery: The city's liquor store has been very fortunate over the past 12+ years to be staffed with several long-time employees who possess extensive knowledge of the industry, and a comfortable familiarity with the products that our store has to offer our customers. This longevity has allowed us to provide the best of customer service and quality product selection assistance for customers during most shifts. We have enjoyed a long history of excellent comments from customers.

The liquor store continues to experience heavy part-time staff turnover that began in 2013, a problem that is being experienced by many of the retail businesses in North Branch. This turnover produces staffing shortages that require the hiring and training of new staff members, as well as increasing the remaining staff member's time commitments to cover open shifts. As is always the case, the hiring and training process is a long, time-consuming, and expensive process.

The end of 2015 proved to be even tougher on part-time staff turnover with the passing of a clerk that had been with us since 1995, and the retirement of another clerk after 14 years of service. Additionally, another long-term clerk has decided to cut back significantly on number of hours available to the store in lieu of retirement at this time. This has left the store with only four of the ten part-time staff members currently employed being seasoned employees that are not in a probationary status and in training.

Nonetheless, we continue our commitment to working with all liquor store staff on delivering great customer service to our customers. All liquor store staff members are trained to take great pride in offering our residents and other customers a pleasant and enjoyable shopping experience.

Liquor Store Updates and Upgrades: 2015 proved to be the year of major updates and upgrades to equipment and processes. Our video surveillance equipment outlived its useful life by several years and desperately needed upgrading. Replacement of the recording hardware and software as well as adding and replacing several cameras has provided the store with greater surveillance coverage with cleaner and clearer footage.

New credit card processing PCI compliance regulations created the need to replace all of the store's credit card machines with new, updated equipment. Consequently, this new equipment could not be utilized by the old Point-of-Sale (POS) software that was being used at the cash registers and for inventory control in the back office, so new POS software was identified for purchase in late 2015. Staff made the decision not to try to switch over to the new POS during the busy Thanksgiving, Christmas and New Year holiday seasons in anticipation of possible glitches, so the change to the new POS did not occur until January 3, 2016. Most of the preparation work by the vendor for that switch over was accomplished during November and December 2015.

Wine Club, Pub Club, and Wine Tastings: The liquor store mailing list continues to grow, as do paid memberships in the Wine and Pub Clubs. We are making the transition from our old system of punch cards and pen and paper tracking of memberships to the automated system available on our new POS system. Once the transition is complete, the process should be much

smoother and less time-consuming for everyone, making it easier to sign up new members at the register.

We presented two large product tasting events in 2015, both held in conjunction with North Branch Area Chamber of Commerce fundraisers. On May 1, 2015, and again on October 23, 2015, the North Branch Chamber, in partnership with North Branch Municipal Liquors and several food vendors from North Branch businesses, presented our Wine, Beer and Spirits Tastings. These events are typically held once in the spring, and again two to four weeks before Thanksgiving in the fall (taking into account the deer hunting opener). These two community tasting events provide an opportunity for local residents, as well as residents from surrounding communities, to come together in a relaxed, social atmosphere to enjoy some good food samples from local restaurants, try offerings of wine, beer and spirits that are available for purchase at North Branch Liquors, and relax with friends and neighbors. Then, in turn, they come to our liquor store to make their purchases of those selections at special event prices.

North Branch Liquors Wine and Pub Club educational seminars continued to be suspended for all of 2015 due to additional insurance coverage is being required by our insurance provider for events held off-site where we collect money from attendees. Because these events require the rental of space to conduct the seminar, as well as temporary liquor licensure for the event, we have historically charged a nominal fee for attendance at the seminars. The addition of the insurance coverage would essentially double the cost for us to present the seminar, and would make the cost to attend somewhat prohibitive.

Our club seminars are generally presented classroom style as a fun learning event for people who desire to learn more about the different types and styles of wine, beer, and spirits. Finding cost-effective, appropriate accommodations for these seminars remains an issue. We are working on in-store alternatives to this traditionally off-site venue.

However, open space in the store is at a premium. We are fast losing effectiveness of sales floor marketing utilizing attractive displays in lieu of the need to simply store product back stock in all available areas of the store. Our sales per square foot is fast-approaching the maximum for retail efficiency.

2014 State Auditor's Municipal Liquor Report: The State Auditor released the 2014 Municipal Liquor Report in October 2015. You can view the full report at https://www.auditor.state.mn.us/Reports/gid/2014/liquor/liquor_14_report.pdf.

Ongoing Goals

- Continue to implement updates and upgrades to store building and fixtures
- Continue to keep our pricing competitive
- Continued diligence for excellent customer service delivery by all staff members
- Offer ongoing training for increased product knowledge to all staff
- Continue to promote Wine Club and Pub Club memberships to customers to promote repeat business
- Research options for on- or off-site venues for Educational Seminars for customers
- Community involvement through special fundraising events that include:
 - Food drive in October
 - Clothing drive in January/February
 - Humane Society fundraiser in April
 - Support Our Troops fundraiser in July
 - Chamber of Commerce membership and participation in their fundraising events and festivals

- Provide reminders to customers about the added value that shopping their local municipal liquor store adds to each purchase they make – the profits realized at the store are returned to the taxpayers in the form of transfers into the general fund to ease the tax levy burden

All of these ongoing goals will aid in continuing to attract and keep customers shopping our store.

Short-term Goals

1. Ceiling lights in sales floor area of store 2016 (nearly complete)
2. Beer cooler product reset early 2016
3. Cooler expansion options to accommodate continually growing craft beer segment 2016
4. Cash wrap counter/countertop laminate replacement 2016
5. Replace two video surveillance cameras 2016
6. Updated sign on top of Northgate Mall post 2016
7. Investigate options for store expansion
8. Draft form of liquor store handbook containing step-by-step processes and procedures specific to store operations 2015-16

Long-term Goals

We will continue to work on implementing previously identified updates & upgrades to the store. Building and equipment improvement goals include, but are not limited to:

1. Wine department shelving replacement with wood shelving/racks 2016-19
2. Wine department lighting 2017
3. Portable tasting station for in-store sampling 2017
4. LED signage on front of building 2017
5. Parking lot asphalt overlay 2021