

Brookings Liquor Store 2017 Annual Report

The goal of the Brookings Liquor Store continues to be “To operate a profitable high quality liquor store that offers a complete line of liquors, wines, spirits and beer while providing friendly, courteous and informative customer service.”

PERSONNEL

1. Janet Coplan completed her third successful full year as the store manager. She continues to focus on strategies for continued store improvement and maximizing profits by controlling expenses and realizing attainable gross margins and product markups. Controlling inventory also continues to be a primary objective with the continuous goal of maintaining balanced inventories by product category, which results in more optimum inventory levels in both back rooms and on shelf quantities.

2. There was no change in the number of full time and part time employees during the year.

EVENTS

1. In 2016 there were several major events that took place in the store including completion of the JLohr Wine Gallery, the complete physical store reset, plus several university related events such as the opening of the Dykhouse stadium. Suppliers worked with us to offer special discounts for some of these events which we passed on to customers to generate more sales. Similar special events in 2017 were the grand re-opening in February of the beer cave reset to showcase to the public the state’s largest selection of craft beer, in an attempt to counter the nationwide downward trend in beer sales. As well as the “Halloween cave” in the gallery in October with special displays of wine, spirits and beer; followed by the Jerry Lohr bottle signing on Hobo Friday. In December the gallery was changed over to “Santa’s toyshop” with displays and registration for several prize giveaways with a radio remote, drawings and tastings on December 21st.

2. RGIS completed the third annual physical inventory count on January 1st, 2018, with the resulting adjustment to the book value (which includes breakage, obsolescence, theft and ordering errors) being negligible for the 2nd consecutive year.

MARKET CONDITIONS

1. General Alcoholic Beverage Market - Technomic and Beverage Marketing Corporation jointly put together a new national On-Premise Intelligence Report which shows consumer occasions involving a call for alcohol are not growing, resulting in flat total adult beverage volume growth. In fact, there is downward pressure meaning there is a ceiling on total alcohol consumption in the country. That means that more and more breweries and distilleries and wineries and all the big commercial entities are competing with each other for the same pool of drinkers. However, there is a bright side. “Consumers are favoring more expensive selections such as craft and imported beer, locally brewed spirits, and higher-end whiskeys and they indicate they’re spending more now on drinks in restaurants and bars as well as at their local package stores.” In other words, although the pool of U. S. alcoholic beverage drinkers is not growing, the members of this pool are choosing more expensive brands for what they drink

and/or are switching to a more expensive drink, for example from domestic beer to imported beer or to wine or whiskey or other spirits.

2. Nationally, overall beer sales continue to decline, particularly those of large name domestic brewers. Budwieser, for years the number one selling brand, slipped to 4th place in 2017, replaced by Bud Light, Coors Light, and Miller Lite in that order. The one bright spot in the beer market was the continued growth of craft beers, which recovered about half the loss of the large breweries. Samuel Adams which offers a variety of craft beers was the big winner of the craft breweries.

3. The Distilled Spirits Council reports that while spirits (whiskey, tequila, cognac, Irish whiskey, Rye whiskey, Mescal, Blended scotch, and gin) sales rose slightly in 2017 nationally, this category did increase market share by .7 of 1%, primarily at the expense of beer sales. It stated, "These results reflect adult consumers' ongoing taste for higher-end distilled spirits products across most categories and a fascination with premiumization across categories." It appears that distilled spirits sales are expected to continue to increase, but the sales increases will be localized due to economic conditions, the number of millennials in the local population, and the availability of locally distilled spirits. The National Restaurant Association forecast for 2018 is that "consumers, particularly millennials, are especially interested in higher premium beverages produced locally. They want to know the story behind how they're made, where the ingredients come from and how they're manufactured. Millennials are rapidly changing alcohol beverage trends by exhibiting a preference for craft liquor produced by small, local distilleries. A growing share of these younger drinkers is driving the demand and they say they're willing to pay a premium for fresh, original brands that have unique identities." This trend is expected to carryover to the packaged liquor business.

4. The Wine Business Monthly reports that recent national Nielsen data indicated a slight slowdown in the retail wine sales market in the fall of 2017 and a 2.5% sales decrease for 2017 compared to 2016, a trend which is expected to continue through 2018.

FINANCIAL RESULTS (UNAUDITED)

As a result of the market conditions described above, the downturn in consumer spending in Brookings in the 3rd and 4th quarters, and increased downward price pressure for all product groups in the store due to increased local competition during the past year, net sales in 2017 of \$4,130,745 were \$257,924 less than in 2016. However, by continuously closely monitoring prices, markups and gross margins, Janet recognized the situation early and, knowing that even though the store had to remain competitive, made the decision not to sacrifice gross profit just for the sake of achieving sales. This decision and the actions taken because of it resulted in the 2017 gross profit being \$1,061,261, only .8 of 1.0% less than in 2016. By controlling expenses so that operating expenses decreased by 3.8% and personnel expenses increased only 2%, the resulting Net Retail Income Before Transfer and before depreciation (which is a non-cash expense), was 10.73% or \$443,422, well above the \$400,000 budgeted and transferred to the General Fund and Edgebrook.

BROOKINGS MUNICIPAL LIQUOR STORE ANNUAL REPORT

*****UNAUDITED*****

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|                                              | 1st Quarter<br>Jan1-March 31 | 2nd Quarter<br>April 1-June 30 | 3rd Quarter<br>July 1-Sept 30 | 4th Quarter<br>Oct 1-Dec 31 | TOTAL     |
|----------------------------------------------|------------------------------|--------------------------------|-------------------------------|-----------------------------|-----------|
| Sales                                        | 926,318                      | 975,824                        | 1,040,366                     | 1,195,805                   | 4,138,313 |
| Discounts/ net kegs/Lott Payout/Deposit Adj  | (291)                        | (3,716)                        | (990)                         | (2,560)                     | (7,557)   |
| Sales (Net)                                  | 926,027                      | 972,108                        | 1,039,376                     | 1,193,244                   | 4,130,755 |
| Cost of Sales:                               | -                            | -                              | -                             | -                           |           |
| Beginning Inventory (at cost)                | 590,711                      | 612,075                        | 668,710                       | 657,512                     | 590,711   |
| Purchases (net)                              | 697,906                      | 774,016                        | 766,246                       | 829,387                     | 3,067,555 |
| Less Ending Inventory , (at cost)            | 612,075                      | 668,710                        | 657,512                       | 588,772                     | 588,772   |
| Total Cost of Sales                          | 676,542                      | 717,381                        | 777,444                       | 898,127                     | 3,069,494 |
| Gross Profit                                 | 249,485                      | 254,727                        | 261,932                       | 295,117                     | 1,061,261 |
| Operating Expenses                           |                              |                                |                               |                             |           |
| Current Expenses                             | 55,090                       | 61,082                         | 55,096                        | 69,759                      | 241,027   |
| Personnel Costs/ Retail                      | 88,337                       | 93,476                         | 90,371                        | 104,650                     | 376,834   |
| Personnel Costs/ Operating and Malt          | -                            | 0                              | 0                             | -                           | -         |
| Capital Costs Under \$5000                   | -                            | 8,395                          | 0                             | 3,693                       | 12,088    |
| Depreciation Expense                         | 7,266                        | 7,266                          | 7,266                         | 7,266                       | 29,064    |
| Total Expenses                               | 150,693                      | 170,219                        | 152,733                       | 185,368                     | 659,013   |
| Non Operating Income                         | -                            | -                              | -                             | -                           | -         |
| Interest                                     | 1,230                        | 1,913                          | 1,281                         | 5,639                       | 10,063    |
| Other Income                                 | 551                          | 317                            | 939                           | 240                         | 2,047     |
| Rent                                         | -                            | -                              | -                             | -                           | -         |
| Net Retail Income Before Transfers           | 100,573                      | 86,738                         | 111,419                       | 115,628                     | 414,358   |
| Net Retail Income Before Transfers/Net Sales | 10.86%                       | 8.92%                          | 10.72%                        | 9.69%                       | 10.03%    |
| Operating Transfer Out To General Fund       | -                            | 150,000                        | -                             | 150,000                     | 300,000   |
| Operating Transfer Out To Golf Course        | -                            | 50,000                         | -                             | 50,000                      | 100,000   |
| Operating Transfer Out To Public Improvement | -                            | -                              | -                             | -                           | -         |

\*\*\*\*UNAUDITED\*\*\*\*