Base Compensation and Liquor Store Conversion

Agents have identified the OLCC non-exclusive formula for compensation as a disincentive to invest in store modernization.

Agents in exclusive contracts, selling only distilled spirits, now want to take advantage of the opportunity to move to a non-exclusive contract which enables them to acquire a license to also sell beer and wine.

Nineteen agents have made the conversion over the course of two years. Some of these agents were participants in the OLCC pilot program of four stores allowing such conversions. These initial conversions have proven to be successful models for increased alcohol sales of (2% to 4% above current trend) and are accompanied by significant investment in equipment and store appearance through remodeling. Non-exclusive conversions have largely been seen as improving customer service and customer convenience. Typical remodels or re-locations include improvements to facilities: layout redesign, installation of coolers for beer and wine, fresh paint, flooring, changes in lighting, installation of a tasting station and installation of popular beer growler stations as well.

As agents have made the conversion to non-exclusive, their base compensation rate is reduced. In the past, the concern addressed by the reduced formula was that such conversions would create a lack of focus on distilled spirits sales. Additionally, the logic was that contract agents would bolster their earnings by the sale of beer and wine, off-setting the reduction in base compensation.

The new logic is based on the experience the OLCC had with the pilot program. Agents that have converted to non-exclusive have not seen a reduction in distilled spirit sales; to the contrary, spirit sales have generally increased 2 - 4 percent above the current trend.

While conversion to non-exclusive store models have been a sales and consumer success, the base compensation reduction is continuing to deter increased store conversions. It was originally believed that somewhere in the neighborhood of 20 or more contract stores would convert but the formula became a disincentive. Last week all exclusive agents in the State were polled via survey monkey and asked the following questions. "*Do you plan to convert from Exclusive to Non-exclusive this year*"? Yes 9.88% 8 Agents, No 90.12% 73 Agents. Then we asked Agents "*If there was no commission rate decrease from Exclusive to Non-exclusive, would you consider converting your store*"? Yes 72.5% 58 Agents, No 27.5% 22 Agents.

Agents and the OLCC are working to create a better business model that support sales, modernization of retail systems and investment into facilities. Holding the base rate flat would help to alleviate the risk and return on investment when stores are converted.

Agents believe that the legislature and OLCC can solve this problem by targeting funds to maintain the base compensation rate even if exclusive stores convert.

<u>Targeted incentive solution:</u>

- The legislature should direct OLCC, through a budget note, to hold base compensation rates harmless for future stores that want to convert.
- The legislature should provide equity to agents that have already converted as a part of the pilot program and restore them to the higher level of base compensation.
- To achieve the same, the legislature should provide an additional $612,000 in budget limitation to OLCC to restore rates to pre-conversion levels.
- The legislature should direct OLCC to report to the legislature on: 1.) the number of additional stores that convert in the 2015-17 biennium. 2.) the experience of distilled liquor sales by agents that convert.
- Agents and the OLCC are also directed to report to the legislature on the total dollars invested by agents in conversions during the biennium.

In the past agents have unsuccessfully sought additional across-the-board compensation. This proposal is a new approach that holds promise to increase compensation and return on investment to improve customer experience/satisfaction, and to improve returns to the state. The addition of $612,000 is strictly aimed at these specific outcomes.

Agents target revenue increase to the State of Oregon (estimate based on number of stores that convert) 2015-2017 $ 9 - 10 mil.

Store Owners improvement investment (estimate estimate based on number of stores that convert) 2015-2017). $ 2,900,000.

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