

COMMONWEALTH OF PENNSYLVANIA
JOINT HEARING OF
SENATE LAW AND JUSTICE COMMITTEE
AND
HOUSE LIQUOR CONTROL COMMITTEE

STATE CAPITOL
NORTH OFFICE BUILDING
HEARING ROOM NO. 1
HARRISBURG, PENNSYLVANIA

TUESDAY, DECEMBER 11, 2007, 10:00 A.M.

PRESENTATION ON
PENNSYLVANIA LIQUOR CONTROL BOARD

BEFORE:

SENATOR JOHN C. RAFFERTY, JR., CHAIRMAN
HONORABLE ROBERT C. DONATUCCI, CHAIRMAN
HONORABLE STEPHEN E. BARRAR
HONORABLE VINCENT A. BIANCUCCI
HONORABLE KAREN BOBACK
HONORABLE PAUL COSTA
HONORABLE ANGEL CRUZ
HONORABLE CRAIG A. DALLY
HONORABLE R. TED HARHAI
HONORABLE PATRICK J. HARKINS
SENATOR SEAN LOGAN
HONORABLE TIM MAHONEY
SENATOR CHARLES T. McILHINNEY, JR.
HONORABLE MARK MUSTIO
HONORABLE JOHN D. PAYNE
HONORABLE JEFF PYLE
HONORABLE THOMAS J. QUIGLEY
HONORABLE RON RAYMOND
HONORABLE DANTE SANTONI, JR.

1 BEFORE (cont'd.):
2 SENATOR MICHAEL J. STACK III
3 HONORABLE RONALD G. WATERS

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JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

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1 CHAIRMAN RAFFERTY: Good morning, ladies and
2 gentlemen. Welcome to the joint committee meeting of
3 the Senate Law and Justice and House Liquor Control
4 Committees. We're going to have a hearing this
5 morning on the Liquor Control Board, where the LCB has
6 been this year and what the projections are for 2008.

7 We welcome Chairman Stapleton -- welcome,
8 P.J. -- and board members Tom Goldsmith and Bob
9 Marcus. Thank you for being here, gentlemen. And an
10 old familiar face, CEO Joe Conti.

11 MR. CONTI: How are you, sir?

12 CHAIRMAN RAFFERTY: I'm Senator John
13 Rafferty. I'm the Chairman of the Senate Law and
14 Justice Committee. To my right is Sean Logan,
15 Democrat Chair of the Senate Law and Justice
16 Committee.

17 To my left is Bob Donatucci. Representative
18 Donatucci is Chair of the House Liquor Control
19 Committee, and to his left is Ron Raymond.
20 Representative Ron Raymond is the Republican Chair of
21 the House Liquor Control Committee.

22 Our presentation is by, I believe, Chairman
23 Stapleton and CEO Conti, and then afterwards we'll
24 allow some questions by members. I first want to warn
25 you, I plan to end this meeting by 11:30 at the

1 latest, so. We have a busy agenda today in the Senate
2 and the House, in case you haven't been keeping up
3 with the news. We have a lot to do.

4 So at this point, I will ask Chairman
5 Stapleton if he would like to say a few words. Thank
6 you.

7 MR. STAPLETON: Thank you, Senator Rafferty.
8 Good morning.

9 Senator Rafferty, Chairman Logan, Chairman
10 Donatucci, Chairman Raymond, distinguished members of
11 the committees, thank you for the opportunity of
12 allowing the PLCB to appear before you today. We have
13 got a complete staff with us. We have got a full
14 board for the first time in awhile, with Mr. Goldsmith
15 and Mr. Marcus, and we have our CEO, Joe Conti, as
16 well as all of our directors of the various divisions
17 within the Liquor Control Board.

18 I'm particularly excited to be here with you
19 today, because the LCB has some new, exciting programs
20 underway that will be great for the Commonwealth --
21 customers in our stores, our licensees, our employees,
22 and the people of Pennsylvania who benefit from the
23 revenue the LCB generates.

24 Before I begin, let me introduce the other
25 gentlemen, as I already have. The full board is here

1 today and CEO Conti.

2 I would just like to say to Mr. Marcus, this
3 is his first appearance before your committee. He was
4 recently confirmed, and he is an attorney and a
5 businessman from Indiana, Pennsylvania, who we are
6 glad to have on board. For the record, I do not spend
7 all of my time in Indiana anymore, so therefore we do
8 not worry about that it is too much power in Indiana
9 County.

10 Joe Conti, as I said before, is here, and he
11 has done a wonderful job, and he will speak with you
12 later in the proceedings.

13 I know you have heard me say on several
14 occasions that the LCB has a mandate from Governor
15 Rendell to operate this agency like a private-sector
16 retailer with annual sales of more than \$1.7 billion.
17 With that directive in mind, we have launched several
18 initiatives since I became Chairman that my colleagues
19 and I would like to update you on.

20 The first is the organizational structure of
21 the PLCB. Earlier this year, we hired a well-known
22 consulting firm, Kroll and Associates, to review our
23 management structure. After studying that report, we
24 are making significant changes to help us organize the
25 agency's leadership in the best possible way so that

1 we can run the marketing part of the agency like any
2 successful retail business while continuing to meet
3 our statutory obligations, such as licensing and
4 alcohol education.

5 Under the previous system, two positions, the
6 Director of Administration and the Director of
7 Marketing, reported directly to the CEO, and all staff
8 reported to one or the other. It was inefficient and,
9 frankly, anachronistic.

10 Under our new organizational chart, five
11 executives will report to the CEO, the Directors of
12 Marketing, Administration, Stores and Distribution,
13 Regulatory Affairs, and Financial Affairs.

14 We have also adopted the new Travel and
15 Subsistence and Product Tasting policies that contain
16 stricter controls than ever before.

17 Finally, we have hired the Hay Group to help
18 us further modernize our organization and align our
19 bureaus within the new executive structure.

20 We have also begun a retail business
21 processes project that will revolutionize the way we
22 do business, by bringing the LCB in line with the best
23 practices used by large, successful retailers and
24 moving us away from operating like a government
25 monopoly.

1 Known internally as Project Spirit, this
2 system will help us to become more consumer focused
3 and market driven by modernizing our technology. It
4 will affect our inventory control system, our
5 accounting systems, and the computer systems that help
6 our customers at check-out lines and will also ensure
7 uninterrupted operations. Let me give you one example
8 of what this means.

9 The LCB is one of the last major retailers
10 that does not employ bar codes on all of its products.
11 In fact, our products are tracked in different ways at
12 different points in the supply chain, making inventory
13 tracking inefficient and at times unreliable.

14 Beginning next spring, we will begin to
15 require vendors to bar code every product we sell.
16 With bar coding in place, the retail business
17 processes system will create a modern, reliable, and
18 efficient method of tracking every bottle of wine and
19 spirits in our system, from the warehouse to the
20 store, to the checkout counter, to the customer. This
21 means better, more efficient service to our customers
22 and better, more efficient operations for our agency,
23 and thus better returns for the people of
24 Pennsylvania.

25 The retail business processes system relies

1 on Oracle Corporation technology and consultants from
2 Deloitte who are working with our staff throughout the
3 PLCB on its implementation.

4 We have also taken significant steps to
5 reduce spending in the last year. By adopting
6 retailers' inventory control processes, we saved \$25
7 million in fiscal '06-'07. That money, on deposit at
8 the Treasury, earned interest for the people of
9 Pennsylvania in the State Stores Fund.

10 We saved more than \$9 million in everyday
11 expenses. For example, by closing unprofitable,
12 underperforming, and redundant Wine & Spirits stores,
13 we reduced the total number of stores in our system to
14 630 from 646 in fiscal '06-'07. That saved about \$4.4
15 million in real estate costs, and so far in fiscal
16 '07-'08, we have reduced that number of stores to 625
17 without compromising service to any of our customers.

18 We will continue to manage our store system
19 aggressively, making sure that we have the correct
20 number of stores needed to serve a community without
21 compromising our obligation to serve all
22 Pennsylvanians.

23 Expenses have been reduced by an additional
24 \$4.3 million because we have experienced a significant
25 number of retirements at the end of fiscal '06-'07 and

1 because we have aggressively managed our overtime
2 costs.

3 By using the Commonwealth's contract with
4 Staubach for real estate services, we have saved
5 between \$500,000 and \$700,000 in personnel costs on a
6 short-term basis.

7 We renegotiated our credit card fee contract,
8 which will save an estimated \$1.4 million over the
9 next 2 years.

10 And finally, more aggressive management of
11 our purchasing has helped save another \$282,000.

12 Earlier this year, we requested proposals
13 from firms to review our marketing and media programs
14 and selected Management Science Associates of Carnegie
15 Mellon University to conduct this study.

16 As part of its research this summer, MSA
17 interviewed almost a thousand people shopping at our
18 Wine & Spirits Shoppes and conducted another 1,000
19 surveys on line. Individuals were asked about their
20 satisfaction with all aspects of the Wine & Spirits
21 stores, the impact of our marketing efforts over the
22 past number of years, and their overall impressions of
23 the PLCB.

24 MSA's work revealed that overall, 45 percent
25 of customers were either "extremely" or "very"

1 satisfied with the Wine & Spirits stores they visited
2 most often, while another 40 percent reported being
3 "somewhat" satisfied.

4 It also showed us that store staff received
5 their highest marks for being "friendly," 34 percent;
6 "helpful," 32 percent; "approachable," 31 percent;
7 "welcoming," 28 percent; and "dependable," 28 percent.

8 However, the MSA research also showed that
9 while store staff were most often described as
10 "friendly," "helpful," "approachable," and
11 "welcoming," our stores in the agency overall were
12 also described as "conservative," 24 percent; "behind
13 the times," 20 percent; and "controlling," 12 percent.

14 The LCB brand carries "baggage," because
15 Pennsylvania is a control State and because of the
16 misperception that our prices for wine and spirits are
17 higher than average.

18 The survey also showed that our advertising
19 has sent mixed messages rather than focusing on key
20 themes, thus limiting its effectiveness.

21 That brings us to the MSA's most important
22 conclusion: Perceptual change at the LCB is
23 possible.

24 Let us revisit the overall satisfaction
25 numbers for a minute. You will recall that 45 percent

1 of our customers reported being "extremely" or "very"
2 satisfied, while 40 percent were "somewhat" satisfied.

3 Well, successful retailers throughout this
4 country normally receive "extremely" or "very"
5 satisfied ratings of 75 to 85 percent. As a business
6 then, we need to do more to move those 40 percent who
7 are "somewhat" satisfied into the "extremely" or
8 "very" satisfied category.

9 MSA's research has two major strategic
10 conclusions.

11 First, that the LCB must develop a strong,
12 unified retail brand image that focuses on continued
13 expansion of programs offering significant savings,
14 such as our Chairman's Selection as well as our new
15 Sommelier Collection and Power Purchase programs, and
16 a renewed commitment to customer care, superior
17 service, and the widest possible selection, all
18 offered within a world-class retail shopping
19 environment.

20 Second, that perceptual change is more a
21 function of in-store initiatives than it is of
22 advertising.

23 What will this mean? Well, it will mean a
24 new look for our stores, inside and out, that is
25 welcoming and exciting. It will mean a new commitment

1 to customer service, including more training for our
2 store staff, which is badly needed, and a better
3 shopping experience for all of our customers. There
4 are very exciting things ahead for the PLCB.

5 This wraps up my part of the presentation.
6 At this time, I would like to ask Joe Conti to discuss
7 the PLCB 75, part of a series of initiatives connected
8 to the 75th anniversary of the agency in 2008 and
9 2009, and then my fellow board members and I, as well
10 as Joe, will be glad to take your questions.

11 Thank you, Chairman.

12 CHAIRMAN RAFFERTY: Mr. Conti.

13 MR. CONTI: Thank you, Chairman.

14 Good morning, everyone. It is a pleasure to
15 be here before the House committee again, as I have
16 been able to for the last year, and I am delighted to
17 be here before my Senate colleagues and be out of the
18 penalty box for that year. So it is good to be here
19 to discuss these important initiatives.

20 I think that Chairman Stapleton expressed to
21 you what an exciting year it has been at the PLCB --
22 the reorganization, the structural review, our
23 business processes program that we are involved in,
24 along with the study of our business practices from
25 the marketing standpoint.

1 And I also want to share publicly what a
2 privilege it is for me to serve with this board. I
3 thank them for their confidence they showed me a year
4 ago, and it has been an exhilarating year, to say the
5 least.

6 If you follow next in your handout, we have
7 the PLCB initiative, but I would like you to move to
8 the next page first, which is a mission statement.

9 One of the things that we did in the agency
10 back in March or April was really focus on what is our
11 core mission as an agency, and this modernization and
12 this analysis is kind of interesting. The history of
13 this agency, which began on November 29 of 1933 when
14 Governor Pinchot signed the bill, usually
15 modernization is taking place at the threat of
16 privatization. This is a very different time. We are
17 actually modernizing and going through this process in
18 a different environment, and I think it is our chief
19 counsel who has put it best: a true renaissance is
20 underway.

21 So we got our 40 or 50 top executives at the
22 PLCB together. We looked at our core mission, and you
23 see before you a mission statement that we have
24 developed, and it says, if I may read:

25 "Our mission is to administer the

1 Commonwealth's beverage-alcohol industry through our
2 stores and our licensees; promote responsible
3 beverage-alcohol consumption; provide customers with
4 access to the world of beverage alcohol through
5 product availability and information, and courteous
6 and knowledgeable service; and to maximize returns to
7 the people of Pennsylvania."

8 So I think our core mission is to regulate,
9 to educate, and to market the product. So every day
10 is exciting over at our agency, because it is an
11 interesting and complex mission.

12 Behind the mission statement you will see
13 what we provided to you folks last year in our taxes
14 and our profit. That is a historic high that, of
15 course, we have returned to you folks, and that profit
16 of \$150 million is something about every 4 years, it
17 jumps up to a figure in that realm. Traditionally, it
18 is in the \$75 or \$80 million, which I think is what
19 the Governor will be looking for next year. But that
20 is what we have been able to do.

21 So if we can refer back to the PLCB 75
22 initiative outline.

23 Basically, a lot of these initiatives, I
24 think when we began, we never expected to come
25 together in this quick a time. The pieces of the

1 puzzle are coming together, and what we thought would
2 be just a naming or a branding, the initiative has
3 really grown into something much greater.

4 The strategic retail services RFP has been
5 out, our committee has looked at it, and I am proud to
6 announce to you today that we have an agreement in
7 principle with a firm, Landor, L-A-N-D-O-R, that was
8 articulated, frankly just this morning, and it is just
9 an agreement in principle, so I don't have all the
10 details for you. But they will lead us through this
11 strategic retail services task that we are on.

12 On our Web site is the RFP, and for those of
13 you who would want to read in detail the tasks and
14 deliverables, they are on pages 68 to 78, and I have
15 just summarized them here.

16 These six tasks are to be done in periods of
17 30- to 45-day increments. So 30 or 45 days from now,
18 we are going to come back with some recommendations
19 for a brand and an image. So this is an option, if
20 you will, of context: What would make the most sense
21 for our stores in particular as it relates to our
22 retailing efforts?

23 Shortly after that, in another month or two,
24 we will have the name and the logo, hopefully.

25 Landor, by their background, by the way, was

1 the firm that did the BP Oil initiative, which is the
2 new flower and the environmentally sensitive oil
3 company as opposed to the previous. They also did the
4 FedEx Kinko merger, and in some respects, most
5 similarly, they did the H&R Block look of all their
6 offices that have the same look.

7 So we really hope to be able to bring in
8 image and name our stores. I don't know what you
9 would call our stores. People with hair my color or
10 grayer probably call them State Stores. Officially in
11 the late eighties, we went to Wine & Spirits Shoppes,
12 or the p-p-e-s on the end. So we are looking at
13 something perhaps different.

14 And we also want to help our customers know
15 what they are getting when they pull up to one of our
16 stores. We have the premium collection stores, 75 to
17 100 in nature, that offer virtually everything and can
18 probably compete with any stores in the country, and
19 then we have, you know, 500 stores that are more of a
20 standard operation. So we may in our naming be able
21 to convey to our consumers what kind of store that
22 they are going to be pulling up to.

23 After that, the exterior and interior design
24 of the stores we are going to look at. It is just
25 time for modernization. You know, it has been the

1 same look for a lot of years, maybe a different name
2 on the storefront in the late eighties, but we are
3 going to look at that.

4 Implementation plan: This would be very
5 important. We are very optimistic we can roll this
6 out in a 2- to 5-year period. The RFP itself is 2
7 years initially with three 1-year options. So
8 optimistically, we could roll this out within 2 years;
9 worst-case scenario, working together with all of you,
10 it may take us, you know, the 5 years.

11 The implementation plan, we talked about
12 rollout costs, and will also contain the internal
13 communications that are so important for our staff,
14 which I will disclose within a moment.

15 The outreach plan. Chairman Stapleton
16 expressed to you we did an exhaustive review of how we
17 spent our media dollars, several million dollars a
18 year for the last couple of years. It was
19 enlightening. We hope to turn that over to Landor and
20 will be analyzing the results of the MSA study to
21 target our advertising PR and the costs of our media.

22 And then the wildcard in all of this, the Web
23 site. How do we use the Web site in the future? We
24 have two Web sites, of course: We have a public Web
25 site and then we have our e-commerce Web site. They

1 are due for modernization also and a sprucing up, if
2 you will, and we are going to be looking at how we are
3 going to use that Web site in the future, which would
4 be central, frankly, to have one professionally
5 develop our staff.

6 So there are our tasks as laid out in this
7 strategic retail services RFP.

8 Another initiative is going on at the same
9 time, and this started before this RFP, and that is
10 category management. I liken the term "category
11 management" as retail science. There is an absolute
12 science as to why your grocery stores are laid out the
13 way they are, what product is next to what product.
14 Our agency is in a very aggressive category management
15 initiative. Gallo is doing our wine side and Future
16 Brands is doing the spirits side. It's a retail
17 manufacturer process. It will manage categories as
18 strategic business units, which we hope will enhance
19 the business results.

20 The best example I like to use of this is a
21 very simplistic one. We may put a bottle of Cointreau
22 next to a bottle of vodka and feature the
23 Cosmopolitan, so if somebody is coming in for their
24 bottle of vodka and they say, oh, geez, we saw this
25 cocktail at a restaurant and we would be happy to try

1 this at home, and that, we feel, enhances the shopping
2 experience of those who visit our store.

3 So in essence, the science of category
4 management will be married with the strategic retail
5 services to help us produce the new look in our
6 stores.

7 Our partner programs. It is very important
8 that we work with our licensees. They are an
9 important component of our business. Perhaps they
10 have been neglected a little over the last several
11 years, and we are really going to work harder than
12 ever with our licensees. You have recognized that by
13 increasing their discount in recent years. We want to
14 do more than that.

15 We have eight, what we call warehouse stores
16 across the State. Most of our licensees, candidly, do
17 not use the warehouse stores. These are stores with
18 lower rents, usually in industrial parks, where the
19 licensees can pick up their product without
20 interrupting the retail activity in the front of the
21 store.

22 For 25 years I rang the bell in 0902, and the
23 retail clerks in the front would go, oh, he is here
24 again, and have to stop serving the people in the
25 front and come back and help me load up my truck, and

1 the whole idea is if we can get the licensees to a
2 different location, not in \$30 or \$40 a square foot
3 but at \$8 or \$10 a square foot, it would make good
4 business sense.

5 But much more than that, our licensee service
6 centers, we are going to put in a little store; we are
7 going to have them to be able to taste the product.
8 Vendors will be able to be there to visit with the
9 licensees. We will have representatives from our
10 licensing division there also. So we really have---
11 It is still a dream, but basically it is taking our
12 current outlet stores, where a lot of our licensees
13 go, and giving them the incentive to visit these
14 sites, which we hope to get 15 to 20 across the State
15 over the years. This will also help us with our
16 inventory control, which will be our next major RFP in
17 the coming year, to look at our distribution and
18 supply chain.

19 So it is a very exciting time for the
20 licensees. We met with the Restaurant Association
21 formally, we want to meet with the taverns, and we are
22 putting together liaison work groups to meet at least
23 monthly with these folks to communicate with them our
24 plans.

25 Last on this list is the supplier liaison.

1 Our suppliers, vendors, distributors, are integral
2 partners of this group. We have met with them on one
3 occasion. We are meeting with them late this week.
4 We are going to meet with them at the beginning of the
5 year. Whether it is our special liquor order policy,
6 euphemistically know as the SLO policy, or all those
7 kinds of initiatives, we want to certainly work with
8 our vendors in a much closer fashion than we have in
9 the past. So our partnership programs are very
10 important.

11 The PLCB 75 initiative is not strictly
12 retailing. Certainly the bulk of our agency is
13 retails with our 625 stores, but we recognize our
14 other obligations statutorily in licensing -- very
15 appropriate after the debate that has been going on in
16 recent hours in this building.

17 We are hopeful in a matter of months to have
18 a public access Web site that is unparalleled in the
19 country. A lot of the licensee information is public
20 record. It's a little difficult for the public and
21 the reporters to get to. We are piloting within our
22 agency currently, along with some of our judges, ALJs,
23 the ability to have this public access Web site, and
24 we think within the middle of 2008 perhaps we can open
25 this up to the public. You all know how important

1 open records are, so we are certainly continuing to
2 look at that, hopefully by either a license type, a
3 county, a licensee status, a zip code, a city. And
4 the board has been part of this pilot, but the public
5 or reporters or anyone will be able to get in and get
6 a lot of information that takes days and at an
7 extremely high cost now. So we are moving on that.

8 Our nationally recognized alcohol education
9 department. We are going to look at updating our RAMP
10 program, the responsible alcohol management program.
11 Many of you are asking us to consider expanding that,
12 or you are about to adopt perhaps legislation that we
13 expand that RAMP program. We think that makes sense.
14 We want to be responsive. And as we pointed out in
15 another responsible marketing initiative that we are
16 participating with with the tourism people and a lot
17 of the folks across the State, our RAMP program hasn't
18 been updated in a while, so we are due for a good
19 update on that program. We are going to be looking at
20 that.

21 And our Grant Program, which, you know, is
22 about \$700,000 that we give out, we are modernizing,
23 looking at it, and hopefully, that was traditionally
24 collaborative grants, will be used in an even more
25 efficient manner in the future.

1 So it is from stem to stern, if you will,
2 marketing, licensing, and alcohol education.

3 Personnel and professional development.
4 Candidly, the PLCB 75 initiative may be the easy part.
5 That line may come back to grab me as other lines in
6 my past have come back to grab me. But to
7 professionally develop our staff, our fine staff, to
8 meet the expectations of this program is, in my view,
9 the most important initiative we have.

10 We have four labor associations we work with.
11 We have met with three of them. They understand this
12 process. We are going to go out in the field in
13 January, and we are going to meet with our staff
14 proactively. We are not going to deliver them as a
15 set of a finished product, if you will, a kit
16 containing new names in the way we are going to do
17 things. We are going out proactively to ask them what
18 they think we should be looking at. It's an
19 initiative that I can't wait to embark on, and as I
20 say, we have the full participation of our labor
21 associations in this initiative. They are an integral
22 and important part of this process.

23 Eventually, we probably will come up with a
24 formal training academy for those in the southeast,
25 the Wawa University, or something along those lines

1 where we will be able to train our folks and we will
2 be able to do a lot of e-training or studying. There
3 are some entities on State contract that we will be
4 able to utilize for the electronic training initially
5 and then move into the more personal training, and
6 hopefully we are even considering incentivizing these
7 training programs for our folks.

8 So I think I have completed what I would like
9 to go over. In closing I would like to, if you would
10 allow me 30 more seconds, I was blessed -- and the
11 Chairmen know this from their associations with the
12 agency; I hope that all the committee members do --
13 but at the agency we are blessed to have some
14 executives of unparalleled competency. It has been a
15 joy to work with them. They are nationally recognized
16 in their fields, and I would just like--- And hold
17 your applause for a year until we see if this program
18 really works out, and then we can applaud for it.

19 But I would like to just introduce our
20 Director of Marketing, Jim Short; our Director of
21 Licensing, Jerry Waters; the Director of
22 Administration, Jeff Johnston; our Comptroller, Joe
23 Lawruk; our Chief Counsel, Faith Diehl; and a new
24 addition, Special Counsel to the Board, Ken Skelly.
25 So I want to thank them publicly for an outstanding

1 year of accomplishment, and we certainly look forward
2 to a very interesting next couple of years.

3 Without further ado, I will turn it back to
4 the Chairman, and we look forward to your thoughts and
5 observations on the presentation.

6 CHAIRMAN RAFFERTY: Thank you.

7 Do you have any questions?

8 MR. STAPLETON: No, Chairman.

9 CHAIRMAN RAFFERTY: Thank you.

10 I know there are some questions from members.
11 Let me just give one clarification question.

12 Joe, you mentioned the Grant Program is
13 \$700,000. That is \$700,000 per year?

14 MR. CONTI: Yes, it is.

15 MR. STAPLETON: And, Chairman, that is
16 dependent on what we can actually achieve by asking
17 for grants from other agencies, so that can go up or
18 down.

19 CHAIRMAN RAFFERTY: Okay. Thank you. But
20 it's a yearly grant on its face. Thank you very much.

21 Representative Donatucci.

22 CHAIRMAN DONATUCCI: Thank you, Chairman.

23 Basically, I have a couple simple questions.
24 This Kroll that did our sales poll, what is the reason
25 for that? Do you have any idea, or is it just the

1 economy?

2 MR. STAPLETON: Well, Chairman, I think we
3 have done extensive analysis of this, and yes, the
4 general economy has had an impact on our sales. We
5 see it across the nation. We see it in virtually
6 every sector of retail. And so we are, I guess, a bit
7 of a victim of that.

8 But more alarmingly, and I guess
9 surprisingly, is that we determined that the real
10 reason for our flat sales in the fall have been from
11 licensees. We see that to be that the restaurants and
12 taverns across the Commonwealth don't seem to be doing
13 as well as they have in the past.

14 In fact, we just found out today or we have
15 concluded today that the licensee sales in
16 Philadelphia are down 2 percent. So not only is it
17 flat, but it is a negative in certain segments of the
18 licensee community. And earlier today, I just had a
19 brief discussion with Pat Conway of the Restaurant
20 Association, and we are going to talk after this
21 hearing to see if there are some ways we can help them
22 to rebound on their sales a little bit.

23 But I think in general it is a downturn in
24 the economy. Retail sales are down across the board.
25 But again, in our circumstance, we see that the real

1 culprit is a decline in licensee sales.

2 CHAIRMAN DONATUCCI: Thank you.

3 The next question is, in the Philadelphia
4 market, which I listen to, I think, the number one AM
5 radio station in the morning, and all you hear is tons
6 and tons of advertising from the New Jersey liquor
7 stores.

8 MR. STAPLETON: Yes.

9 CHAIRMAN DONATUCCI: I haven't heard one yet
10 from our stores. In the past, last year at least, you
11 know, the Chairman's Selection was really impressed
12 upon. The numbers were really unbelievable after the
13 holiday season last year. Why no advertising this
14 year?

15 MR. STAPLETON: Well, we are advertising. We
16 have reduced the amount of advertising. I think you
17 will start to see most of it from here on in until New
18 Year's.

19 There are two particular reasons. I think
20 the main reason is some of the information we learned
21 in the MSA study, which basically led us to believe
22 and conclude and was their conclusion that much of our
23 advertising was unfocused and ineffective.

24 With regard to the Chairman's Selection
25 Program in particular, I believe that more than half

1 of the customers that shop at our premium collection
2 stores didn't even know what the Chairman's Selection
3 Program was. So after spending millions of dollars to
4 promote that program, we still found that most of our
5 consumers weren't even aware that it existed.

6 The other thing we determined was that our
7 advertising needs to get across a broader spectrum.
8 Most of the advertising that was done in the last few
9 years was done in southeastern Pennsylvania, and they
10 lacked Allegheny County, western Pennsylvania, and
11 other parts of the State.

12 And what we have determined also was that
13 that advertising was focused on a particular type of
14 consumer. In this case, that consumer would buy
15 bottles of wine in the \$15 or more range. That group
16 of consumers was less than 1 1/2 or 2 percent of our
17 business. So we are spending millions of dollars in
18 advertising that focuses on that small segment of our
19 consumer base. We will readdress that. We are in a
20 sort of transitional period. Having gone with this
21 Landor contract, we expect a strong expertise from
22 them and direction from them.

23 But we also learned from the MSA study that
24 the most effective and best advertising we can do is
25 the advertising that we do in our stores. Rather than

1 having someone pick up a newspaper or listen to a
2 radio show or a radio ad, if someone walks into our
3 store, they like the service, they like the layout,
4 they like the selection, they are going to be more
5 inclined to come back more often and to purchase
6 higher priced and better items. So that is going to
7 be something that we are going to analyze very closely
8 in the next couple of months.

9 And I don't really believe that a slight
10 cutback in advertising this year has had much, if any,
11 of the detrimental effect, but it is certainly
12 something that we are going to spend a good bit of
13 time analyzing before we go out and on a willy-nilly
14 basis spend \$3 or \$4 million in advertising. We are
15 going to make sure we get the best bang for our buck
16 at every level of advertising, whether it be in-store
17 or third-party advertising.

18 CHAIRMAN DONATUCCI: One of the number one
19 praises, at least I think, is the Chairman's
20 Selection---

21 MR. STAPLETON: Yes.

22 CHAIRMAN DONATUCCI: ---the wine, you know,
23 the discounts, and that brings people into the store.
24 So what I understand, or maybe I misunderstood you, is
25 the Chairman's Selection is done with?

1 MR. STAPLETON: Oh, no. The Chairman's
2 Selection, there are more, actually, I think probably
3 more Chairman's Selection items available to consumers
4 today than there were at this time last year.

5 In addition to that, there has been a further
6 expansion of those programs for our consumers to
7 include the Sommelier Collection Program, for those
8 people that are really on the high end of the one
9 buying spectrum, and in addition, there is now the
10 Power Purchase Program for the folks that do want to
11 spend less than \$10 a bottle, to purchase their wine.

12 So I think that, you know, again, perception
13 and reality don't always meet when it comes to the
14 PLCB. The reality is that there are more Chairman's
15 selections, more Sommelier selections, and more Power
16 Purchase products available today to consumers than
17 ever before.

18 CHAIRMAN DONATUCCI: But the consumer doesn't
19 know about the extra premium selections with no
20 advertising.

21 MR. STAPLETON: Well, it could be, but again,
22 I think these customers are customers that shop our
23 stores, and anybody who walks into one of our stores
24 today is going to be overwhelmed by the number of
25 Chairman's Selection and Sommelier selection items.

1 The stores are already replete with those products,
2 and I think that most of our consumers understand that
3 they are there.

4 Again, you know, I can't tell you 100 percent
5 that the advertising program drives sales in those
6 areas, but it is certainly something that we are going
7 to examine very closely before we commit dollars to
8 it.

9 CHAIRMAN DONATUCCI: Well, one other quick
10 question.

11 As you know, our four Chairs are very
12 consumer friendly. One of our members in the House
13 approached myself and Chairman Raymond and said that
14 they were in one of the better stores, and they just
15 purchased some wine, upper-end wine, and they asked to
16 use a restroom, and they said, we don't have restrooms
17 at our facilities. Is that so or not? You know, if
18 you are consumer friendly, if you go into a McDonalds,
19 they have restrooms.

20 MR. STAPLETON: I am sure that---

21 CHAIRMAN DONATUCCI: What is your policy as
22 far as---

23 MR. STAPLETON: I will have to get back to
24 you on that question, but I am sure that that policy
25 would vary 630 different ways in 630 different stores

1 with different employees. I can't tell you that we
2 have a specific policy. I can tell you that, you
3 know, I was in a store a couple of weeks ago, and I
4 had my 6-year-old in tow, and she had to go to the
5 bathroom and she was able to. So I'm sure it varies
6 from store to store.

7 CHAIRMAN DONATUCCI: All right. Thank you.

8 Thank you, Mr. Chairman.

9 MR. STAPLETON: Thank you, sir.

10 CHAIRMAN RAFFERTY: Mr. Chairman, if I could
11 -- before I call on Representative Raymond -- I'm sure
12 Ron and I talked about this not too long ago about
13 only at Thanksgiving time hearing one commercial for
14 the Chairman's Selection on KYW---

15 REPRESENTATIVE RAYMOND: It's a policy of the
16 radio station, first Tony Romeo.

17 CHAIRMAN RAFFERTY: ---and I was a little
18 caught off guard when I heard this. It was kind of a
19 bland commercial.

20 Then I was at a cocktail party, a Christmas
21 party, well, a holiday party a couple weeks ago where
22 people were very much into wine -- I'm not; I'm a
23 beer drinker -- but the person with whom I was
24 standing, "What happened to the Chairman's Selection?
25 We don't hear about it anymore." And I said, "Well, I

1 think it's still going on in the Wine & Spirits
2 stores." So there is some validity to what
3 Representative Donatucci was saying, and I think you
4 ought to take a hard look at that.

5 MR. STAPLETON: Well, I absolutely agree that
6 we need to take a very close look at that, and I guess
7 the message today is that we have no intention to
8 disband that program. We are looking at ways to
9 actually improve and grow it.

10 So the best thing we need to do, we need to
11 figure out how to make sure our consumers are aware of
12 it. There is no doubt about that.

13 MR. GOLDSMITH: I think there is one
14 statistic you should be aware of. I believe we are
15 spending \$2 1/2 million to promote \$25 million worth
16 of business, and our total sales are \$1.7 billion. So
17 it is a matter of stepping back and saying, are we
18 properly focused, or should we be advertising on a
19 broader scale in different markets and other products,
20 and it would drive some focus on spirits as well.

21 So it wasn't so much a decision not to
22 promote the Chairman's Selection as it was to step
23 back and take a good look at how we are spending the
24 advertising dollars.

25 CHAIRMAN RAFFERTY: Understood, and in

1 advertising, a recognizable voice, as a recognizable
2 logo, are very important, and background music and
3 those few things, and I didn't hear that in the ad I
4 heard at Thanksgiving, so.

5 Representative Raymond.

6 REPRESENTATIVE RAYMOND: Thank you.

7 It is good to see all of you again, and I
8 welcome you. It's good to see you.

9 As you know, the main energies are looking at
10 the SLOs, increasing the place and needs discount back
11 to where it used to be years and years ago. And when
12 we hear about \$486,979,000 going to the General Fund,
13 I would suspect that is what drove a few hundred
14 million in there and then piggybacked to our licensees
15 who are generating a whole lot of profit for all of
16 us, which you will hear more from the four of us in
17 the coming budget talks. But I'm glad to hear you
18 mentioned it as well.

19 The SLOs, and I was trying to follow this --
20 and I'll talk to you, Joe, and I would thank you for
21 your time -- what are you doing with the SLO business?
22 I just noticed that you mentioned it--- Well, can you
23 speak on that a little bit?

24 MR. CONTI: Well, at this point, we are going
25 to listen to the licensees and the vendors about our

1 SLO. We implemented a policy on SLO deposits, because
2 we are having a problem, believe it or not, we were
3 paying for product that wasn't picked up, and that is
4 simply not something we can afford. No retailer
5 should do that, let alone when you are a government
6 entity, shall we say. So we had to put in an SLO
7 deposit policy, which has seemed to have worked rather
8 well. We are going to formally measure it in a month
9 or two.

10 The SLO discussion we are having is really
11 being driven by our business resources initiative, and
12 I think we will be able to streamline and improve the
13 SLO ordering process through this technology.

14 By the way, this is years before it is
15 totally implemented. Wave one is in the next couple
16 of months, then there is a wave two. I mean,
17 best-case scenario, we will go live July 1 of '09. So
18 we have plenty of time to look at this, but we
19 certainly want to work with our partners to improve
20 the SLO policy.

21 REPRESENTATIVE RAYMOND: And SLO is the
22 special liquor orders, for those of you who don't
23 know. I would suggest that 98 percent of the buying
24 public doesn't know that there is a special liquor
25 order available to them out there, and they don't know

1 how to access it. What percentage of your business is
2 SLO business?

3 MR. CONTI: Is it 30 to 40 percent?

4 MR. STAPLETON: Of licensee?

5 MR. CONTI: Of licensee business.

6 Ninety-five to ninety-eight of licensee
7 business is the SLO.

8 REPRESENTATIVE RAYMOND: And what percentage
9 of your overall business?

10 MR. STAPLETON: I think a third.

11 MR. CONTI: A third. Yeah, it's a third,
12 roughly.

13 REPRESENTATIVE RAYMOND: It's significant
14 business, and I think it can be a bigger business if
15 the general buying public was aware of this.

16 MR. CONTI: The other thing, Chairman, if I
17 may, I mentioned the e-commerce site. We are going to
18 be looking at that. We hope that the public can place
19 orders in a more efficient manner than they are
20 currently, and some of the principles we may use in
21 our public Web site may be able to be used with SLOs
22 also, so.

23 REPRESENTATIVE RAYMOND: The special orders
24 that come in from the vendor to your facilities to
25 that final licensee never goes into the store. Am I

1 correct?

2 But I saw you mentioned bar codes. So
3 special liquor orders that don't go into the system
4 would be bar coded as well?

5 MR. STAPLETON: Yes.

6 REPRESENTATIVE RAYMOND: How about the wine?

7 MR. STAPLETON: This ERP program that we are
8 embarking upon is a multi-, multi-, multimillion
9 dollar program that will allow us to get our arms
10 around our accounting finance issues. Our current
11 system is being held together with duct tape and
12 bubble gum, and, you know, we are at risk of having
13 the entire thing collapse at any time. So this was a
14 huge investment for us.

15 We want to be able to know what our consumers
16 want and what they are drinking and in what velocity
17 they are buying. We need to know everything about
18 their buying patterns so we can better serve them.
19 This bar coding system will allow us to track every
20 bottle from the time it leaves the dock in Italy or
21 wherever until the time it ends up into a customer's
22 home. We will have a better sense of what to put in
23 our stores, what type of products, what mix of
24 products, what particular items. It's very important
25 for us as retailers to understand that.

1 Virtually every retailer in this country
2 requires bar coding. Certainly it is the way of the
3 future. It is a way for businesses to operate in a
4 professional manner, and it has certainly been best
5 business practices.

6 I know that there has been some pushback on
7 this, but we have offered to put the bar codes on
8 every bottle that someone at the winery or at the
9 distillery doesn't want to.

10 REPRESENTATIVE RAYMOND: I certainly think it
11 is good for you to control your inventory. It makes
12 sense to me. I like that idea.

13 MR. STAPLETON: And control of inventory, as
14 you know, Representative, is very important, because
15 it can keep our costs down dramatically and, again,
16 save us, you know, hundreds of thousands if not
17 millions of dollars.

18 REPRESENTATIVE RAYMOND: You mentioned that
19 you are cutting back on inventory. You all are
20 keeping it in your warehouses, and if you can't get
21 that Chairman's Selection in the stores now, if
22 anybody would go to the stores. How is the inventory
23 controls impacting in terms of you having it in the
24 warehouse and also in terms of what is available in
25 the stores when you need it?

1 MR. CONTI: Well, let me say, a few months
2 ago, our inventory, instead of being \$125 million, was
3 \$100 million. Interestingly enough, having that \$25
4 million of cash, if you will, in hand, I think we
5 generated \$3 or \$4 million of interest for our
6 shareholders, you folks, and the taxpayers of
7 Pennsylvania, so that is a good reason to do that.

8 Our inventory control initiative so far, to
9 be honest, has been people driven. We asked our
10 staff, instead of having a basically four-car stock to
11 go down to three, and it worked out fine. Our larger
12 stores, our managers would probably say it could go
13 down to two.

14 Now, I don't want to mislead you. That \$125
15 million figure is a tad bit higher in this December,
16 meaning we have a lot more inventory for this peak
17 season. But at the end of the year, when we sit back
18 and compare, that was in essence where we have it.

19 But as I said, we are going to go out for
20 major requests for proposal on our distribution and
21 supply chain to formally look at what is being done by
22 retailers' best practices. If you go to a Target and
23 ask to go to their storeroom, it is smaller than this
24 room. We would like to get to that at some point.

25 REPRESENTATIVE RAYMOND: It has always

1 intrigued me, and you and I have had this discussion
2 over the years, and Tom Goldsmith and I have as well,
3 the number of items that are available in different
4 categories and the number of categories going up and
5 down the scale. I mean, some of our stores have an
6 enormous amount of items, and, you know, how many
7 vodkas you have and how many gins, and you go into
8 stores in other States, and you don't see anywhere
9 near what is available in some of our stores, and we
10 have some of the best than our neighboring States, bar
11 none. We have better resources available, better
12 selection available, from a low price point going up
13 to a high price point. Are we going to continue that
14 or are we going to cut back or are we going to look at
15 it?

16 MR. STAPLETON: Well, that's a very good
17 question, and that is really the focus of PLCB 75 --
18 to improve our store operations to the point where
19 consumers will walk out of our stores saying that they
20 had one of the best retail shopping experiences they
21 have ever had. That means the store will look
22 differently. It will be laid out differently. It
23 will have a different feel. Maybe the lighting will
24 be different. Maybe the carpeting will be different.
25 Maybe the paint tones will be different. The customer

1 service, one of our huge initiatives here is to
2 improve our ability to train our folks so that they
3 give the customers the best service they can possibly
4 have.

5 The alarming thing is that if you go--- The
6 average time that our customers spend in our store is
7 about 10 minutes. If you go to other major retailers
8 that are similar to us, the customer will stay in the
9 store 25, 35, 40 minutes. That is time that they will
10 be in the store looking for new products, looking to
11 experience new things, looking to learn about
12 products. It is our focus and our objective to make
13 it the best retail shopping experience in the country,
14 and that will allow shoppers to want to be in our
15 stores, to want to come to our stores more often.

16 So that is what PLCB on the retail side, the
17 major initiative is, to really improve our store
18 operations, and we think that is key to the future
19 success of this agency.

20 REPRESENTATIVE RAYMOND: The strides we have
21 made over these years have been great. I mean, you
22 guys have done a good job, and it has not just been
23 one person; it has been a whole group of people, the
24 people at the LCB over here and the employees. You
25 have made a lot of great strides, and this system has

1 been moved pretty much forward, and the plan here
2 today just hopefully will move it much more forward
3 and be successful, and I applaud you for all your
4 efforts on that.

5 MR. STAPLETON: Thank you.

6 REPRESENTATIVE RAYMOND: I'll be glad to help
7 in any way I can. Thank you.

8 CHAIRMAN RAFFERTY: Senator Logan.

9 SENATOR LOGAN: Thank you, Mr. Chairman.
10 Welcome, gentlemen.

11 Representative Raymond brings up a good point
12 about the discount, and for your information, myself
13 and Senator Rafferty introduced a bill to raise it
14 from 10 percent to 16 percent. I think at its highest
15 it was 18 3/4.

16 CHAIRMAN RAFFERTY: Of course we'll reflect
17 that. We're going to do 18 3/4.

18 SENATOR LOGAN: Perfect.

19 Can you give me then a summary of Sunday
20 sales, where we are in the number of stores that are
21 open and how we are doing.

22 CHAIRMAN STAPLETON: Yes, Senator.
23 Historically, as you know, we started off with 10
24 percent of our stores as a pilot program to see how
25 successful they would be, and of course we chose the

1 65 stores we thought would be the most successful.
2 When we were allowed to expand that to--- I believe
3 to 30 percent of our stores? 25 percent of our
4 stores, we did so. What we found was that for that
5 first 10 percent of the stores, they were all---

6 SENATOR LOGAN: And I also want to thank you.
7 When you heard of objections by members, that you
8 didn't open that store, and I thank you for doing
9 that---

10 MR. STAPLETON: Right.

11 SENATOR LOGAN: ---because we had some
12 members in some areas---

13 MR. STAPLETON: Sure.

14 SENATOR LOGAN: ---in certain neighborhoods
15 that it just wasn't right to do that, and so you
16 worked with the General Assembly, and I appreciate you
17 doing that.

18 MR. STAPLETON: Certainly you as
19 Representatives of your districts understand the
20 situation better than we do, and we were happy to
21 comply with your requests.

22 The first 10 percent were all successful.
23 When we got into the next 25 percent, the next number,
24 10 percent or so, were successful. As we got closer
25 to that 25 percent number, we saw that maybe the

1 success of opening some of the stores was marginal.
2 In fact, we found that certain stores were marginal
3 and certain stores have been closed that were open on
4 Sunday. Now, we are also looking at other
5 opportunities to maybe shift that to a different
6 location, to another store that may be more successful
7 from a retail practices standpoint.

8 So I can say that the program has been, I
9 would say a huge success, but I will say that I don't
10 believe we will be coming to you anytime soon saying
11 that we need 50 percent of the stores to be open on
12 Sunday.

13 MR. CONTI: Can I just expand just a moment?

14 If we are successful with this renaissance,
15 the history books will show that store profitability
16 -- admittedly, it started a year ago -- was the
17 genesis of us starting to act like a major retailer
18 instead of a government agency. It was the most
19 important initiative, I think, that this agency has
20 participated in. We are now looking at the
21 profitability of stores by market regions, not
22 anecdotally, number one.

23 Number two, as the Chairman articulated, we
24 have no cap on how many stores we have, but we have a
25 25-percent cap. So as we closed our 20 to 30 stores,

1 we had to close Sunday stores to make that obligation.
2 That caused us to look, and I think he is right,
3 probably 10 percent of our Sunday stores are things we
4 are going to look at in the future and want to discuss
5 with you.

6 Perhaps they come up, at least renewal time
7 is the way our profitability committee operates, but
8 even generally, I think--- These are '05-'06. I'm
9 sorry I don't have the most recent year, but we had
10 about \$52 million in sales in '05-'06. Of course, I'm
11 sure that's higher by 7 or 8 percent, but just to give
12 you some idea.

13 I think in a lot of our stores, Sunday is the
14 second biggest day after Saturday, so. But we are
15 going to look at all of this and come back to you with
16 some thoughts on this in the future.

17 SENATOR LOGAN: Okay. And one final
18 question.

19 I might have the number wrong in the report.
20 I think it was PLCB 5, which was a report of the
21 makeup of the managerial structure? Can we have the
22 status of that?

23 MR. CONTI: There is no 5.

24 SENATOR LOGAN: Okay. Then---

25 MR. CONTI: It's vaporized. It's gone, out,

1 kaput.

2 SENATOR LOGAN: Do we have---

3 MR. CONTI: It was not appropriate for the
4 agency's future.

5 SENATOR LOGAN: Okay. Absolutely.

6 MR. CONTI: Can I clarify that at all,
7 Senator?

8 SENATOR LOGAN: I may not like the answer,
9 but we'll just let it go at that.

10 MR. CONTI: No, no, no; it is what it is.

11 CHAIRMAN RAFFERTY: Senator McIlhinney.

12 SENATOR McILHINNEY: Thank you, Mr. Chairman.

13 I have two issues that I just wanted to touch
14 on real quick, the first one with the--- I don't want
15 to beat a dead horse. I agree with you, P.J. I went
16 into my local liquor store to buy a couple bottles of
17 wine. I was overwhelmed. It took me an hour actually
18 to pick a good one, an hour to come down and walk
19 through all those choices and all the clubs. But I
20 was a little confused upon the differences of it. The
21 Chairman's club had the label and the rating, and it
22 was there. Was it a PLCB's club? And you said, other
23 than the price, the Sommelier and the club, what are
24 the differences? Are they a different category? Are
25 you still going to put the ratings on all of them, or

1 are you going to use the same--- Actually, I'm asking
2 for a buyer's guide, I guess, but what is the
3 difference in all this stuff.

4 MR. STAPLETON: Okay. As you know, the
5 Chairman's Selection Program has been around for
6 awhile. That is a program now of wine that we sell
7 between \$10 and \$30 a bottle. Now, the retail price
8 and what the price of this sold in other parts of the
9 country are significantly higher than that, but from
10 our perspective, we are selling those wines anywhere
11 from \$10 to \$30 a bottle, and the savings on those
12 wines are dramatic. They can be as much as 50
13 percent; they can be 30, 40 percent.

14 The Power Purchase Program, which is the---
15 And a lot of those wines have third-party
16 endorsements. In other words, if a magazine, the Wine
17 Spectator and the Wine Enthusiast, Robert Parker,
18 someone had an endorsement, we would include that
19 information on the marketing material so that the
20 customer understood that this is the type of wine it
21 is and it received a 90 rating by, say, the Wine
22 Enthusiast.

23 The Power Purchase Program is bottles of wine
24 that are under \$10 a bottle, and there are significant
25 savings to those bottles as well, that we are selling

1 them at under \$10 a bottle, but I think that you would
2 find that on average, they would average, you know,
3 between 30 or 40 percent higher at the retail market
4 price and the prices that are sold around the country.
5 And we try to, again, explain to the consumer what
6 that wine involves. And the endorsements aren't
7 necessarily there, because the Wine Spectator and the
8 Wine Enthusiast don't really rate wines in that price
9 range. So what we try to do is explain, you know,
10 maybe it has different flavors or it has a different
11 taste, so the consumer knows.

12 And then finally, the Sommelier Collection is
13 wines that are over \$30 a bottle, and those are highly
14 allocated, difficult-to-find fine wines from around
15 the world, and we are able to offer those wines at a
16 savings. They don't have the significant deep
17 50-percent savings the Chairman's Selection Program
18 does, because they are highly allocated,
19 difficult-to-find wines, but we do offer savings to
20 the consumer on those. And those wines also, most of
21 those wines, carry with them some type of third-party
22 endorsement as to the quality of the wine, how it will
23 sit up against its competitors, and so on and so
24 forth.

25 REPRESENTATIVE McILHINNEY: So a high

1 quality, good deal is still the Chairman's club. If
2 you are just looking for a good deal, the cheaper
3 wines, you go to the PLCB club. And if you wanted the
4 rarer one, you are going to pay for it; it is the
5 Sommelier clubs.

6 MR. STAPLETON: Yes. I think they are all
7 great deals, and I think for Christmas, I think you
8 need to go to the Sommelier clubs, and make sure all
9 of your friends and family have one of those
10 selections.

11 SENATOR McILHINNEY: I just like to act like
12 I know what I'm doing when I walk into the liquor
13 store.

14 MR. STAPLETON: That is Sommelier.

15 REPRESENTATIVE McILHINNEY: Thank you.

16 MR. STAPLETON: Well, if you spent an hour in
17 there, you know what you are doing, Senator.

18 SENATOR McILHINNEY: I also wanted to ask you
19 about the real estate contract that you saved between
20 \$500,000 and \$700,000. And correct me if I am wrong;
21 I'm just trying to find out the impact. Is that
22 something that you hired outside contractors and you
23 are now laying off in-house real estate personnel, and
24 how do you actually make that savings in there? Is
25 there something---

1 MR. CONTI: There was a strong incentive for
2 retirement by June 30 throughout State government. I
3 forget the exact figure; I can turn around. I think
4 our department of 22 went down to 12 by retirement, or
5 we had at least 5 to 10 retirements in our real estate
6 department. That caused us to look at that
7 department, and as we were looking at it, we found a
8 strategic source that the Rendell administration had,
9 the Staubach Company.

10 So we did not lay a single person off in
11 this. It happened through attrition. We are going to
12 be looking at the Staubach initiative. They have been
13 with us since August or September. We are taking a
14 snapshot in January. In 6 months, we will see how it
15 is working. Hopefully it works, but there certainly
16 was no job loss, if you will, other than retirements.

17 SENATOR McILHINNEY: I heard there might be a
18 surcharge?

19 MR. CONTI: There probably is going to end up
20 being a 4-percent lease -- 4 percent of the lease
21 charge.

22 SENATOR McILHINNEY: If you are the landlord
23 of the building that you own or that you rent from,
24 you are charging them a fee---

25 MR. CONTI: Well, Staubach will negotiate it.

1 If it's \$10 -- somebody help me with the math -- would
2 it be \$10.40? What is 4 percent of--- It is \$10 a
3 square foot; it would be \$10.40. So we will balance
4 that in an analysis versus the 10 or 20 people we
5 would have had to hire and pay their pensions over the
6 next 30 years.

7 SENATOR McILHINNEY: Is that a retroactive
8 fee placed on a building? The bureau has had that
9 lease, or is that for new leases that Staubach would
10 then negotiate going forward?

11 MR. CONTI: That's correct.

12 SENATOR McILHINNEY: ---or renew a lease, so
13 they would be paid---

14 MR. CONTI: It's not even--- The option is
15 not renewable and vice versa.

16 MR. STAPLETON: Yeah; on renewals that we---
17 It's only on new leases.

18 SENATOR McILHINNEY: That they negotiate.

19 MR. STAPLETON: That they negotiate, right,
20 and the lessor pays the fee to Staubach.

21 SENATOR McILHINNEY: And there again, if
22 Staubach does a good job, the landlord can lower the
23 rate, and they get a fee for that.

24 MR. STAPLETON: That's the theory.

25 SENATOR McILHINNEY: And if it does not work

1 out, then you can get rid of them and do it yourself.

2 MR. STAPLETON: Correct; yep.

3 SENATOR McILHINNEY: Fair enough.

4 Thank you, Mr. Chairman.

5 CHAIRMAN RAFFERTY: Thank you, Senator.

6 I was going to hold my questions, but I have
7 to do one followup on Senator McIlhinney's question.

8 Was there an RFP done for this outfit, or is
9 it just somebody in the Governor's Office said, hey,
10 Roger's a good guy.

11 MR. STAPLETON: We haven't had Roger
12 personally yet.

13 CHAIRMAN RAFFERTY: But what I am saying is
14 that we are getting hammered in the Legislature to do
15 more in the way of RFPs and contracting the bidding.

16 MR. STAPLETON: They are a State contractor,
17 under contract with the Commonwealth of Pennsylvania
18 through DGS. We are simply piggybacking on that
19 contract with the Commonwealth.

20 CHAIRMAN RAFFERTY: And did you get this from
21 the DGS Secretary or the Governor's Office?

22 MR. CONTI: Actually, our executives found
23 it, not through the Governor's Office, let's put it
24 that way, just working, we deal with DGS---

25 CHAIRMAN RAFFERTY: When you say the

1 Governor---

2 MR. CONTI: I said the Governor has a
3 strategic source initiative, which is throughout all
4 of government.

5 MR. STAPLETON: We have actually looked at
6 these types of companies that are already under
7 contract with the Commonwealth, and we have used
8 others as well, so.

9 CHAIRMAN RAFFERTY: I didn't realize they
10 were a part of this, so thank you.

11 Representative Payne.

12 REPRESENTATIVE PAYNE: Thank you, Mr.
13 Chairman.

14 Senator Conti -- I still find it hard not to
15 call you Senator, so excuse me, with all due respect
16 -- I don't want to talk about premium wines or the
17 Chairman's clubs, so let's be different.

18 The Sunday sales. You mentioned that the
19 program has been successful in probably 90, 95 percent
20 of the stores. You had some that you closed, but then
21 that must give you an allocation of suddenly more
22 stores that we could go to to stay within that law
23 that says how many we can open. Is that not correct?

24 MR. CONTI: No; we are at the limit. If it's
25 160 -- I forget the exact number. Of course, it

1 changes. Every month, we have another closing or two,
2 so we do not have room to open another store at this
3 point.

4 REPRESENTATIVE PAYNE: All right. I mean, I
5 heard somebody say that, well, I don't think we will
6 ever get to 50 percent. If we are running it like a
7 private business, that might be one of our goals; we
8 would want to get 50 percent of our stores to operate
9 7 days a week, because at the end of the day, you are
10 paying for the real estate. You are paying to heat or
11 air condition that building when it is not open, maybe
12 not the full temperature as when it is open, but you
13 are still paying out something to maintain that
14 building. Do you look for the need for an expansion
15 of the Sunday sales?

16 MR. CONTI: I would say not at this point. I
17 understand your comments about acting as a retailer,
18 shall we say. We have to balance that with the
19 personnel costs, which are negotiated, which are a
20 little unique to us, and we do them in 4-year
21 increments. So perhaps working with our labor
22 association over a 3- or 4-year period, we can look
23 and discuss with you if there's a need to increase
24 that 25-percent ratio. But at this point, because of
25 the personnel costs involved, we are not coming to you

1 seeking an increase in that.

2 REPRESENTATIVE PAYNE: Okay, because I had
3 heard there were stores that wanted to go to Sunday
4 but couldn't because we are maxed out, am I right?
5 What a terrible thing for a private retailer-type
6 operation. I worked for Hershey chocolate for 30
7 years. We worked to find a way to get those stores
8 open to make that income.

9 How about the supermarket program? Being
10 from Hershey, we have a store inside one of the
11 supermarkets that, at least prior to the change of
12 ownership, seems to be doing very, very well. Are we
13 looking at that program?

14 MR. STAPLETON: Yes, sir, we are. Presently,
15 we have about 25 of these one-stop shops, we call
16 them, stores within supermarkets, and I would say that
17 the great majority of those, 20 or 21 or 22 are
18 successful, and a couple have not lived up to our
19 expectations, but certainly we are happy with the
20 program. We are looking to expand it.

21 And, you know, again, it is a function of
22 whether the supermarket is willing to lease us space,
23 and as we improve our retail operations and become a
24 stronger retailer, we would expect that the
25 opportunities within the supermarket chains are going

1 to improve as well.

2 REPRESENTATIVE PAYNE: And you have no
3 limitations from us on that? I mean, there is nothing
4 keeping you from expanding that any more?

5 MR. STAPLETON: No, sir.

6 REPRESENTATIVE PAYNE: Okay. Last question
7 then.

8 There have been some comments, and again, I
9 think the Senator hit the nail on the head, we are
10 under scrutiny here, open records, everything, open
11 everything. Are we doing the best we can with those
12 dollars?

13 There have been questions about the
14 transportation costs from the time that it is unloaded
15 in the pier in New York down to Pennsylvania versus
16 unloading that stuff from Philadelphia and
17 transporting it to us. Do we have a breakout of the
18 costs to the LCB for shipping from the pier to our
19 warehouse in Pennsylvania and then from the warehouses
20 to the store? I'm proud to tell you that I was a
21 cosponsor of the bill to have it come into Philly.
22 While a lot of people like to say, you know, give them
23 jobs and money, I don't understand why we as
24 Pennsylvania don't unload our liquor in Philadelphia,
25 don't give the jobs to Pennsylvania ship workers,

1 don't store it in Pennsylvania warehouses, and don't
2 truck it with Pennsylvania trucking firms instead of
3 going to New York. So I am just interested, not
4 today, but if you could get to me the costs of storage
5 and transporting that stuff from New York down to us
6 and then from us to the stores.

7 MR. STAPLETON: We will certainly provide you
8 with that information, Representative, and, you know,
9 I think one of the problems is trying to find reliable
10 information to analyze. There are a number of vendors
11 in the room today, and I can tell you that I probably
12 have tried to be on every single one of them to ship
13 their product to Philadelphia as opposed to New York
14 or Richmond or wherever they choose.

15 It is an ongoing effort. We are very
16 interested in trying to build the Port of Philadelphia
17 and the port of Eddystone where some of the product
18 comes into now. As a matter of fact, we have a
19 contract with Georgio Gori as our consolidator from
20 Europe, and they have made a concerted effort to
21 entice other companies to ship through Philadelphia.
22 The problem had been historically the regularity of
23 service to Philadelphia from Europe. We have good
24 service from Australia now. We have good service from
25 some Latin American destinations, but we do have

1 problems with service from Europe where the majority
2 of our product comes from.

3 We, Joe and I, met with John Estey, who is
4 now the chairman of the Philadelphia Port, and we are
5 going to continue to work with him. He's got it
6 right; he needs to entice more shipping lines into the
7 Port of Philadelphia. If you can bring shipping lines
8 into Philadelphia and provide service, we will provide
9 product for them to bring. At this point, it's a
10 question of having shipping lines, and Joe and I will
11 continue to work with John and others in the Port of
12 Philadelphia to try to make that a go.

13 And I just also note that the port in the
14 Penn Terminals facility in Eddystone has been a great
15 plus to us, and we continue to use them quite often.
16 In fact, some of the product that was coming to
17 Philadelphia is now coming to Eddystone because of
18 cost issues and other reasons. So it is certainly
19 high on our agenda.

20 REPRESENTATIVE PAYNE: Okay. Thank you, and
21 that is all the questions I have, Mr. Chairman.

22 CHAIRMAN RAFFERTY: Thank you.

23 Representative Waters.

24 REPRESENTATIVE WATERS: Thank you, Mr.
25 Chairman, and I want to thank our colleague for

1 mentioning Philadelphia in high regard. We will
2 definitely be supportive of helping to make sure that
3 we make that possible through our docks.

4 I have a legislative initiative question that
5 I would like to ask of you, and that is, the House
6 passed a bill that I sponsored earlier this session
7 dealing with the RAMP program, the responsible
8 management program, and I don't know whether you had a
9 chance to look at that or if you had any feelings or
10 opinions about expanding that program to make it more
11 of a mandatory program for people, businesses who sell
12 alcohol products, basically at least the owner or the
13 manager of the facility, to have them trained through
14 that program.

15 MR. STAPLETON: Yes, Representative, we are
16 aware of the legislation, and we are fully supportive
17 of it.

18 REPRESENTATIVE WATERS: You are fully
19 supportive of it?

20 One of the questions that I had, too, is that
21 when we expand it and it becomes law, the bill right
22 now is in the Senate, and how do you figure that will
23 be handled with the training, if more and more people
24 have to come to a training, to get training?

25 MR. CONTI: If I may, we were working on what

1 is in essence a fiscal note, our legal shop and our
2 licensing division last week. I'm sorry I don't
3 remember the specifics of that, but we will be happy
4 to share it with you. Frankly, whatever it takes, we
5 will do. I just don't remember the specifics of the
6 cost of that, but we will certainly train our people,
7 get more people in the field, which will be needed,
8 and I know there's a specific number that we feel will
9 be needed based upon the legislation. I just don't
10 recall it at this time, but we'll be happy to share it
11 with you.

12 REPRESENTATIVE WATERS: And just the last
13 question for you. You had a chance to look at it; did
14 you see anything that you would like to see added to
15 it or that would complement the bill?

16 MR. CONTI: I think we are happy with the
17 bill as it is at this point. That is certainly up to
18 your deliberations, and the Senate will give it a
19 good, um--- See, I'm rusty. There will be a full and
20 active deliberation on your bill in the Senate of
21 Pennsylvania.

22 REPRESENTATIVE WATERS: Thank you.

23 Thank you, Mr. Chairman.

24 CHAIRMAN RAFFERTY: You are welcome,
25 Representative.

1 Representative Costa.

2 REPRESENTATIVE COSTA: Thank you, Mr.

3 Chairman.

4 I thank you all for being here with us.

5 Before I begin, I want to thank Chairmen Logan and
6 Rafferty, Donatucci and Raymond. Out of all the
7 committees that I serve on and have served on, this is
8 the only one that does a joint committee between the
9 House and Senate, and I think this is a great thing
10 for all of us, because we hear questions from other
11 members that we might not normally hear, and I wish
12 that other committees would follow your lead. I think
13 this is great, so thank you for that.

14 Joe, what do we all call, just Joe?

15 MR. CONTI: Joe; Joe.

16 REPRESENTATIVE COSTA: Thank you, Senator.

17 Under marketing and licensing and all this
18 other stuff, I see you are going to be starting your
19 75th year.

20 My question is, direct wine shipment. Where
21 do you guys stand on this? Can we do it quickly,
22 or---

23 MR. CONTI: Well, you can talk with the
24 Chairman. I don't know.

25 I think our agency is a resource for the

1 General Assembly and the Governor on this issue, and
2 whatever you collectively, the direction you would
3 want to go in, we would respond to your initiatives.
4 But this board, I don't think, is going to be pushing
5 or forwarding any particular solution to that legal
6 matter. When you folks call us, we will respond and
7 have to address that issue.

8 CHAIRMAN RAFFERTY: Can I interrupt, please?

9 The four Chairs have had discussions with the
10 Governor's Office, and--- I'm speaking out of line;
11 let me back up. The four Chairs have one idea, or
12 pretty much one idea, and the Governor has another
13 idea, so we have to come to some kind of meeting of
14 the minds and agreement. But there has been
15 discussion going on; it's not an issue that has been
16 shelved.

17 REPRESENTATIVE COSTA: Thank you, Mr.
18 Chairman.

19 CHAIRMAN RAFFERTY: Any other questions?

20 Representative Raymond.

21 REPRESENTATIVE RAYMOND: Just one point.

22 In defense of the shipping question, our
23 problem has been, and we worked on this for years and
24 years, we can't find freight to put back in the ships
25 to ship out of Philadelphia is the problem. So that's

1 been our problem, and we have tried, especially for a
2 number of years, to try to get that, but we will
3 continue to work on that, unless we can send
4 Pennsylvania wine back to France or something like
5 that. I don't know; there's your problem.

6 CHAIRMAN RAFFERTY: Representative Donatucci.

7 REPRESENTATIVE DONATUCCI: Going back to the
8 Sunday sales, originally myself and Joe Conti and
9 Representative Raymond were the ones that got to that
10 10 percent. When you got to 10 percent, it was an
11 uphill battle, and after it went into effect, members
12 hollered, ah, people won't come and we won't open more
13 stores. At the time, Chairman Newman, I believe,
14 asked for 50 percent. We weren't ready for 50
15 percent, and I don't feel that we could get 50
16 percent. So that's the reason that I started the 10
17 to 25.

18 What percentage of your profit are Sunday
19 sales on your total sales? Do you know that offhand?

20 MR. GOLDSMITH: We have that figure. I think
21 the controlling issue now on whether you want to
22 expand is the profitability issue, and I think the
23 threshold of being profitable, staying open on a
24 Sunday, was about \$2,000 in sales per day. So if you
25 could not generate \$2,000 in sales, it wasn't

1 profitable to do it. Remember, with some of those
2 sales, you are going to get them other days of the
3 week. I'm not saying we are not overall getting
4 Sunday sales, but some of it is coming from other
5 days.

6 REPRESENTATIVE DONATUCCI: Thank you.

7 CHAIRMAN RAFFERTY: All right. I have a
8 couple quick questions.

9 The different organizations that were
10 mentioned as being involved in the LCB now, Kroll and
11 Associates and Science Associates and Landor, are our
12 expenses up at the LCB?

13 MR. CONTI: Our expenses are not up, Mr.
14 Chairman. As I articulated, our expenses are down,
15 and in fact we will be able to better define by
16 appropriations time. It is our thought at this time
17 that the PLCB 75 initiative will not be an increase in
18 spending for the agency but a reallocation of total
19 current budget spending. We'll get back to you on
20 that. As I said, we can't today give you the specific
21 figure of the Landor contract. We will be able to in
22 very short order, and in fact that is something we
23 would like to share with the Chair and the committees
24 in another venue. But it is not going to be
25 additional spending from our perspective at this point

1 but a reallocation of current spending.

2 CHAIRMAN RAFFERTY: I think it is important
3 to note here at the public hearing, there is not an
4 increase, because when you start hearing these
5 businesses being involved, you start thinking that.

6 Regarding the stores themselves, is there
7 anything that you think that we as the Chairmen should
8 be aware of and the committee members here on the
9 Senate Law and Justice and the House Liquor Control
10 Committees that we should be looking at to assist you,
11 Mr. Chairman and CEO Joe Conti, along with your
12 efforts to expand the LCB and the resources of the
13 LCB?

14 MR. STAPLETON: Absolutely, Senator. As a
15 matter of fact, once we get this contract signed with
16 Landor, the first stage of that is investigatory. In
17 other words, they will want to hear from us, our
18 consumers and others, including you and your
19 committees. So we would like to bring you into the
20 process along with our employees so that we have a
21 better understanding of what we need to do to rebuild
22 this retail system, and certainly once we get this
23 contract signed, one of the first steps that we are
24 going to take is going to involve you and give you
25 some more information as to what this actually

1 involves.

2 CHAIRMAN RAFFERTY: What I actually would
3 like to do, and Senator Logan and Representative
4 Raymond and Representative Donatucci and I had this
5 discussion, is maybe twice a year to have a public
6 hearing on updates of where we are and where the LCB
7 is headed. At the same time, I think Senator Logan
8 and I felt about doing the State Police as well.
9 While we are there, we can always have the
10 Pennsylvania State Police.

11 So I think it's good for us all and the
12 members have a chance to hear about your plan and have
13 an opportunity to ask questions. It certainly gives
14 you an opportunity to interact with us and get to know
15 us better and tell us what you need in the way of
16 legislation or appropriations that we can help out.

17 Any other questions before I adjourn the
18 meeting?

19 MR. STAPLETON: Senator Rafferty, one thing
20 if I could, just briefly.

21 Joe and I have had the opportunity to talk
22 and explain some of our positions and give you some
23 answers, but I just wanted to give Bob Marcus an
24 opportunity to say hello, because this is his first
25 hearing, and he can tell you about his first month on

1 the job, I guess.

2 CHAIRMAN RAFFERTY: Chairman, you are
3 absolutely correct. Do you want us to break him in?

4 MR. MARCUS: And I thought I was going to get
5 away without having to say anything.

6 Senators, Representatives, it's a pleasure to
7 be here. I'm an interested observer, actually, having
8 been on the job for a month, but I know that this
9 agency has come a long way in the last 10 years.

10 But as I listened to the Chairman and our
11 excellent CEO present future plans, I think what you
12 are seeing is a business best-practices approach to a
13 reformation of a 75-year-old business. When we talk
14 about Web sites as the last thing we are going to do,
15 it might be the biggest thing we are going to do.
16 But, you know, I think you really ought to be proud of
17 the organization that has been created over the last
18 year.

19 I know this choice of CEO was tough, but
20 Mr. Conti is doing a heck of a job, and if you peruse
21 the materials that were presented to you, I think you
22 have to have a lot of respect and confidence in the
23 way Chairman Stapleton and Tom Goldsmith and the CEO
24 have run things.

25 I have been privy to things over the last

1 number of months. Even though I wasn't confirmed
2 until approximately a month ago, they have allowed me
3 to help and assist along the way, and I'm just glad to
4 be part of this. There's a lot of best business
5 practices that are being instituted, and I think you
6 will be very proud of this organization. So I'm glad
7 to be part of it. Thank you.

8 CHAIRMAN RAFFERTY: Thank you, Mr. Marcus,
9 and we welcome the changes and the initiatives that
10 you are beginning. Sometimes, you know, when you try
11 to make changes to the way liquor is handled in
12 Pennsylvania, you got to drag them kicking and
13 screaming. So best wishes, and we will be working
14 together.

15 This committee meeting stands adjourned to
16 the call of the Chair. Thank you.

17

18 (The hearing adjourned at 11:20 a.m.)

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1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

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Jean M. Davis, Reporter
Notary Public

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