



Memo

To: Heidi Nelson – City Manager
From: Stacie Kvilvang
Date: March 17, 2015
Subject: Discussion of Terms with Presbyterian Homes for Possible Inclusion in Amended Tax Increment Agreement

Presbyterian Homes (the “Developer”) is requesting changes to the development program for the East Block of their Wayzata Bay Center Redevelopment project. Because of this, the TIF Agreement must be amended to reflect any approved changes.

Staff met with the Developer on February 26, 2015 to discuss potential refined terms for the TIF Agreement. These terms would address not only the requested development program changes, but items/issues that have arisen since the Agreement was approved and construction of a significant portion of the project completed. At this time, no terms have been formally agreed to by either party and staff and the Developer are working on putting together the required information to determine next steps.

Following is a summary of the basic requested terms:

1. Change in the development program as follows:

Use	Approved	Updated Request	Difference
Hotel	100	88	(12)
Condos	0	29	29
Office	27,314	0	(27,314)
Retail	35,155	26,300	(8,855)

Note: Updated retail includes restaurant in hotel. Unit count and sq/ft are approximate and subject to change

2. Construction start and completion schedule will be updated to meet the needs of the updated development program
3. Developer will work with the City to determine the appropriate amount of parking to be constructed within the overall updated development. If they are unable to prove they are “self-parked” they will work with the City to determine a solution.

Heidi Nelson

Discussion of Terms With Presbyterian Homes for Possible Inclusion in Amended TIF Agreement

March 17, 2013

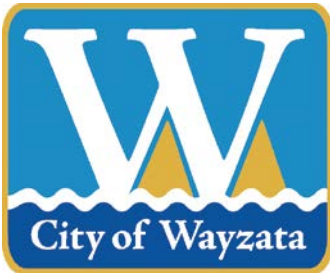
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4. The Developer would agree to be included in the City's parking district
5. The term Available Tax Increment would be changed from 95% to 90% (increases administrative fee available to the HRA/City)
6. Developer agrees to supply the documentation necessary to complete the lookback to determine the size of the TIF Note prior to approval of an amendment to the TIF Agreement
7. Developer agrees to release the Remnant Parcel form the Right of First Offer/First Refusal Agreement or make an offer to purchase prior to amending the TIF Agreement
8. Developer agrees to allow the City to direct public parking to the development while the public ramp is under construction, to the extent it does not negatively impact the parking required for the existing uses within the Development. The City will work with the developer on enforcement issues that arise during the construction period.

The developer is already working on addressing issues related to contractor parking in and around the site. They have agreed to work with City to put into place a parking protocol and enforcement policy. In addition, they will be replacing the existing covers on the illuminated parking signs from brown to blue to assure the public understands that they can park there when accessing retail businesses within the development. They have also agreed to work with the City to install additional wayfinding signage as appropriate to direct the public to parking within the Development.

Staff will continue to work expeditiously with the developer to come to a consensus on these issues to allow any development approvals to move along in tandem with required TIF development agreement approvals.

Please contact me at 651-697-8506 with any questions.



City of Wayzata
600 Rice Street
Wayzata, MN 55391-1734

Mayor:
Ken Willcox
City Council:
Jack Amdal
Bridget Anderson
Andrew Mullin
Tom Tanner
City Manager:
Heidi Nelson

MEMORANDUM

TO: Mayor and City Council

FROM: Heidi A. Nelson, City Manager
Don Uram, Administrative Services Director

DATE: March 12, 2015

RE: WWS and WBG Assessment Reports

Delaney Consulting has completed their business assessment project of the Wayzata Wine & Spirits retail liquor store and of the Bar & Grill. The goal of this project was to provide the city with an accurate view of the strengths, weaknesses and opportunities of each business from many vantage points - but primarily from a consumer point of view.

Included with this memo are copies of each report highlighting the results of the assessments as well as providing a list of prioritized recommendations. These recommendations are designed to help ensure each operations on-going profitability. The reports will become the basis for the new business plan developed by staff for the Municipal Liquor Operations going forward.

Flora Delaney will be present at the workshop to discuss the assessment results and to review their recommendations.

Report for Wayzata Bar & Grill

January 23, 2015

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Assessment Summary

After three months of investigation, we come away convinced that the Wayzata Bar & Grill is an asset for the community and is envied across the Metro for its physical plant and stable revenue stream. It is also sub-optimized and could be a much greater financial asset for the community. There are several significant changes that need to be made quickly to continue positive profits. Rather than position the changes as defensive, we strongly urge the management team to leverage these recommendations to develop a thriving and profitable enterprise that is a long-term advantage for the city and its residents.

Strengths, Weaknesses, Threats, Opportunities

Based on all of our findings and the assessment process, we have created the following SWOT. In a SWOT, Strengths and Weaknesses are functions of internal realities within Wayzata's business model while Opportunities and Threats are external realities. Additionally, these are long-term actualities and will take time and diligence to change, if they can be changed.

Strengths	Weaknesses
▪ New, large facility in desirable location ▪ Management views decisions in the long term which supports strategic investments and management choices. ▪ Staff is stable and turn over is relatively low compared to the industry norms. ▪ Profits are returned to the community to support desired services and amenities. ▪ A reputation for affordability and family-friendly dining. ▪ A legacy for being a community asset. ▪ A large draft beer selection with popular local brews that is regularly updated.	▪ Menu offerings and pricing does not reflect market trends. COGS increases have not been passed on to customers which has pressured GP%. ▪ Little to no marketing with a focus on Trial>Repeat>Loyalty offers to build customer engagement. ▪ Lack of customer service standards for staff. A lack of shared vision with the staff. ▪ A large menu supported by a low-paid kitchen staff that executes inconsistent food quality. ▪ A muddy brand that is unclear of its meaning to customers – and even a muddy brand name.
Opportunities	Threats
▪ Brunch/Breakfast offerings could expand operating hours and profitability – especially on weekends. ▪ Creating a late night dining menu would limit kitchen staffing while profitably meeting customer needs. ▪ Reducing the menu offerings while increasing the quality and execution could support raising menu pricing and profitability over the next 2-3 years. ▪ Delivery and summer marina delivery options could expand sales and profitability while maintaining the current dining capacity. ▪ Creating a seasonal menu would support variety for a limited item standard menu and allow for testing new items and pricing along with local sourcing. ▪ Integrating technology into the dining experience as well as outside the facility could increase sales while holding down labor costs. ▪ Cross promotions are non-existent with the Wines & Spirits store despite shared customers and goals.	▪ New competition with 3 new restaurants opening within 2 blocks will create more choices for Muni diners. ▪ Demand for local sources and farm to table trends are mainstream and must be addressed by restaurants to stay relevant. ▪ Aging loyal customers require replacement by a constant pipeline of younger loyal diners and the offerings must reflect that. ▪ Pressure on parking space will continue to limit the perceived convenience of dining in.

Mystery Shop Findings

The Wayzata Bar & Grill experience is across the board an average experience: from the inconsistently pleasant customer service to the food and drinks. All mystery shoppers report: Average Number of Choices, Average Variety of Assortment and Average Prices. There was no example of rude behavior and only one outstanding example of customer service which was from Jean, a bartender. This pattern is consistent with a lack of customer service standards where the dining service is susceptible to the temperament of the person delivering the service.

Comments RE: Food Quality

- LOVED the Steak Bites
- Kids meals too small (Corn Dog meal)
- Walleye sandwich small for the price paid.
- Buffalo Salad presentation unappealing
- Patty Melt was nothing special but good.
- Burger was overcooked and dry.
- Burger was undercooked.
- Shaved Steak sandwich was tender & well seasoned. Ciabatta roll toasted & tasty. Well balanced, good sandwich. Good size.
- Chorizo Crusted Pork Tenderloin sandwich was good.
- Cuban Sandwich tasty but small.
- Chili is OK – nothing special. “Minnesota” chili = not spicy.

Competitive food experiences gave Gold Nugget higher than average food quality ratings. Lucky 13's, Red Rooster and Bunny's received similar ratings to Wayzata. In all, there is a dramatic step down from the Maynards/Lord Fletchers food prices and quality to the ones listed above as well as in the customer service. Menu “seems to jam everything on one page. There are a lot of choices – but what are they good at? What is their identity?”

Wayzata got across the board very high ratings for its cleanliness, TV's, maintenance and general atmosphere. While not creating a true reason for dining, if those areas are negative, they can become reasons for not returning. Wayzata should continue to maintain its standards in that area.

The bar experience was universally pleasant. Bartenders are efficient and, at times, friendly. Taps are fresh and there is a wide variety of draft options. Pricing is attractive. However, all mystery shoppers report an opportunity for bartenders to:

- Extend happy hour offerings and dining offerings to patrons (reliance on popcorn at the bar as the main item?)
- Showcase all the offerings on tap. Chalkboard tap lists are incomplete. Seeing what is on tap depends on where you are sitting at the bar.

Because so much of the marketing for the Bar & Grill is within the facility, there can be a lot of table toppers & clutter on small hightops and tables for two. Lucite collateral holders, mustard, ketchup, salt, pepper, menu, napkins and wrapped silverware can make dining tight at small tables.

Hostesses and seating is inconsistent. There is not an emotion from the greeters who typically begin with “Table? How many?” Instead of “hello” or “welcome.” The greeting and welcoming is neither consistently professional nor consistently friendly. There are inconsistent thank you’s upon completing a meal or drink. While patrons are often “thanked” there is rarely a request to return. Most “thank you’s” seem less than genuine and come on the tab when the diner is making a gratuity decision. Other than the mention on the upper right portion of the menu, there is not a reinforcement of the profits returning to the community upon paying the bill.

Survey Findings

The top 5 competitors to Wayzata Bar & Grill for dining frequency are:

1. Maynards
2. Lord Fletchers
3. Champps
4. Red Rooster
5. Bunny’s

When asked which competitor was their “favorite”, the survey respondents ranked the competition as:

1. Maynards
2. Gold Nugget
3. Lord Fletcher’s
4. Bunnys
5. Champps

When asked, 63% of the survey respondents say they patronize their favorite bar & grill more than once per month. 34% say they patronize it once a week or more frequently. The top reasons they select their favorite is:

1. Convenient to home or work
2. Friendly staff
3. Food quality

For the respondents who said that the Wayzata Bar & Grill was their favorite, they ranked their top reasons for selecting it as:

1. Convenient to home or work
2. Friendly staff
3. Atmosphere & Ambiance
4. I like to support the local business or municipality

5. The food is a good value
6. Food quality (This was reason #3 for all other dining establishments)

This reinforces the mystery shopper experience regarding inconsistent food quality – and shows that the food quality is not a driving reason to patronize the facility.

Survey respondents were asked: “what is a reasonable amount to spend on a 1/3 lb Cheeseburger, fries and a 16 oz (pint) of domestic beer? “The average response was \$13.45 with over 36% reporting \$15.00 or higher. Currently, the price at the Wayzata Bar & Grill is \$12.50 and \$11.75 at happy hour. This reinforces our market study which shows that WB&G pricing is below market and, apparently, below reasonable customer expectations.

Wayzata Bar & Grill customers care about dining trends. Only 25% claim they do not care about dining trends. Of the top 12 trends from the National Restaurant Association, our respondents said their top trends were:

Locally-sourced food (farm to table) *tied	34%
Craft beers & Pairing craft beers with food *tied	34%
Locally produced beers/wines/spirits	32%
Environmental sustainability *tied	16%
Mini and bite-sized desserts *tied	16%
Ethnic street foods	14%

WB&G does carry locally produced beers and spirits but does not address any of the other top interest trends and has no current plans to do so.

Wayzata carries categories of items on its menu that customers report not being interested in. Specifically, Hot Dogs and Pasta & Sauce. Customers show a greater interest in Pizzas & Flatbreads and Tacos & Burritos – both of which are not executed in today’s menu (frozen pizza aside.) This is confirmed by our cumulative sales report which reported that the six hot dog and pasta offerings are in the bottom quartile of all items on the menu.

Of Wayzata Bar & Grill’s customers who report that they regularly or occasionally frequent it, 19% are unaware that the profits are returned to the city. Among Wayzata Bar & Grill customers, 76% say that the knowledge that the profits are returned to the community does not affect their decision to dine there. This means that the majority of customers expect market-level food, prices, selection and service and do not “forgive” a less competitive experience because they support the municipality.

Pricing

Wayzata Bar & Grill is a low-priced option for its patrons. It has held prices and offerings to pre-move levels and has developed a reputation for low prices among its peer set. However, a competitive survey shows that WB&G runs below the market from \$1.20-\$2.30 on common

items such as Wings, Nachos, Rueben, Walleye Sandwiches and Cheeseburgers. Price increases across the board could be achieved with a compensatory increase in food quality and preparation. There is a common theme running across all measuring devices that shows that while WB&G has below market pricing that is attractive, there are below average food offerings that need to be addressed.

Correcting prices should be a gradual shift that adjusts prices to accurately reflect food and labor costs. A shift to a seasonal menu could help with making price adjustments less intrusive.

Promotion

The current marketing seems to have been for a goal of branding and brand awareness. The organization must create a promotional plan that delivers urgent calls to action that drive trial and repeat visits to maintain its market share.

Wayzata Bar & Grill does have promotions and events in the store. However, there is little outside marketing to make potential patrons aware of the events. The website highlights live entertainment and daily specials. But offers such as a Valentines or New Year's dinner special or gift card specials are on the Facebook page. The messaging is not consistent across platforms.

Marketing events outside the store within the community are not used to drive new trial visits by passing out trial offers. The Wine & Spirits traffic and Savour Rewards program and its email list are not used to drive cross traffic to the Bar & Grill. Regular promotional offers in the Town Planner, Lakeside News, Wayzata Community Ed Catalog, Minnetonka or Plymouth Magazine and other traditional media are not used as a means to raise awareness with urgent calls to action. Targeted digital methods (Facebook offers, Pandora Radio, etc) are not used to drive awareness and trial. There is no evidence of a loyalty program in use at the Wayzata Bar & Grill.

Selection

The Wayzata Bar & Grill has a wide range of offers for its patrons. Of the over 100 items tracked by name and number in the POS system:

- 8 represent the top 25% of sales
- 12 represent the next 25% of sales
- 19 represent the next 25% of sales

In other words, 75% of sales come from the top 39 items. This represents a clear opportunity to right size the menu selection and to add more trend-right items to the menu that could outsell the items they are replacing. The management has not demonstrated a method for regularly analyzing and changing items on the menu with a goal to increase sales and profits.

Despite a sufficient kitchen facility, the staff shares concerns of production capacity that could be alleviated if this approach were instituted.

The staff prides itself on over 60 home made soup recipes. However, that effort is not acknowledged by the diners. Creating more differentiating menu selections that are recognized by customers is more likely to yield sales and loyalty.

As a community asset that is charged with returning the most profit possible to assist the city in meeting its goals, the decision to not offer a brunch or breakfast selection is puzzling – especially during the summer hours when recreation begins very early on the lake. Breakfast can be the most profitable meal for restaurants once a menu and staffing is settled. Restaurants that execute breakfast well typically build a strong following of regulars who can be relied upon as a stable income base.

Service

There is a gap in service expectations, training and standards across the staff. Standard greetings, conversations with patrons and suggestive selling are inconsistent. Good customer service is more a result of the hiring and selection process rather than the training and standard operations of the facility. As such, it is not a sustainable asset as service varies as the staff varies over time.

The organization takes pride in a “Cheers-like” spirit and atmosphere, but we found no evidence of any explicit steps taken to deliver on that promise. While the low-key atmosphere, affordable prices and strong following by regulars probably bestows that belief among the staff, there is no evidence of delivering on that brand position by intermittent customers.

Prior to hiring Delaney Consulting for this assessment, the general management of the WB&G did not regularly solicit feedback from customers. As evidence of this, the management repeatedly cited parking issues and construction hassles as causes for business trends while ignoring real concerns about food selection and quality. Regulars and personal experiences are relied on more than true census measures.

Good service begins with listening to customers and anticipating their needs. The organization needs to put measures into place to improve “listening” to ensure that customer service is meeting its customers’ needs.

While offering take out, the WB&G does not offer delivery. A suggestion to test delivery – even within a limited range - could help defend market share as new competitors enter the neighborhood.

Environment

The new facility is clearly an asset for Wayzata and its customers. The good news is that there are no glaring issues that need to be addressed and there are no significant investments needed inside the building.

One major investment that could improve the entire downtown economic zone would be if a multi-level parking facility could be built nearby to handle the demands that ground lots and street parking are not meeting today.

Signage could be improved. A Wayzata Bar & Grill sign exists on the east side of the building facing Superior Blvd. However, the main sign on the front of the restaurant says “The Muni” which proliferates the ongoing brand confusion. While Delaney Consulting hasn’t done any research on which name to select, an establishment that calls itself two different things cannot help but create confusion in the market.

The decision to feature a nautical theme and reinforce vintage Wayzata photos supports the community well. It could be taken further with more photos and examples of assets that the bar & grill profits support. This could be done on the menu, table toppers, bathroom door signs, entryway showcase and other locations.

Competition

As more affordable competitors enter the immediate neighborhood, WB&G will experience more competition for its customers’ wallets. To combat the growing competition, WB&G has to create a differentiated position and deliver against its brand promise across the board.

The truth is, if the Bar & Grill AND the Wine & Spirits store is considered one entity we need to point out that the Liquor Store side will experience more devastating competitive pressure. Using the Bar & Grill defensively could help Wayzata weather the coming months and years of market upheaval as Total Wines upsets the market balance across the Metro. Developing a more profitable and robust business model on the Bar & Grill side would allow the Liquor Store to make necessary adjustments while maintaining flat to negative growth through the worst of the market disruption. Once the market sheds the weakest competitors, Wayzata will be able to continue to improve its business. We suggest taking a strong strategic stance that requires the Bar & Grill to deliver a greater proportion of profits to the city than it has historically.

Risk/Opportunity

- Cross promotions with the Wines & Spirits store could increase shared customers and profits.
- Staff training and development that emphasizes customer service and delighting customers could stimulate sales and profits within the same client base.

- Brunch/Breakfast offerings could expand operating hours and profitability – especially on weekends.
- Creating a late night dining menu would limit kitchen staffing while profitably meet customer needs.
- Reducing the menu offerings while increasing the quality and execution could support raising menu pricing and profitability over the next 2-3 years.
- Delivery and summer marina delivery options could expand sales and profitability while maintaining the current dining capacity.
- Creating a seasonal menu would support variety for a limited item standard menu and allow for testing new items and pricing along with local sourcing.
- Integrating technology into the dining experience as well as outside the facility could increase sales while holding down labor costs.
- A promotional plan that is well-executed and communicated across the potential geographic customer base could keep WB&G top of mind for dining destinations, despite a small population base within Wayzata.
- There is a limit to the speed of change that can be absorbed by the staff. It will take strong leadership and a smart sequence of changes to ensure that the team can continue to meet its daily demands while making improvements. Leadership needs to anticipate obstacles and make plans for addressing them in the face of possible political and financial pressure.

Prioritized Recommendations

There are steps to meet the strategic goals outlined in this report. We recommend that the organization tackle them in this order. (See the attached 2X2 Matrix.)

1. Implement a Customer Service training program for staff to deliver a defined level of service to customers. Mentor and coach customer service throughout the management team. Hold the team accountable for delivering to outstanding customer service standards.

2. Work with current and potential suppliers and the kitchen manager to build a plan for adjusting the menu over time. The goal should be a series of changes to the permanent menu to eliminate slow sellers, adjust prices to more accurately reflect food and labor costs, improve quality and highlight local and regional items. The menu does not reflect any efforts to locally or regionally source meat or produce. Given the importance of that trend to diners, we suggest that all ingredients that are local or regional be called out as such and that more effort is made to establish local sources.

Other sub-goals would include building a late-night menu that streamlines kitchen preparation after 10:00pm, food & wine/craft beer pairing suggestions, testing popular food trend items such as tacos, mini-desserts and ethnic street food. We suggest a change to a limited permanent menu and a seasonal menu that changes quarterly.

A higher standard of food quality and presentation needs to be implemented across the kitchen staff. Portion sizes, plating, garnishes, and dishware should be open for consideration.

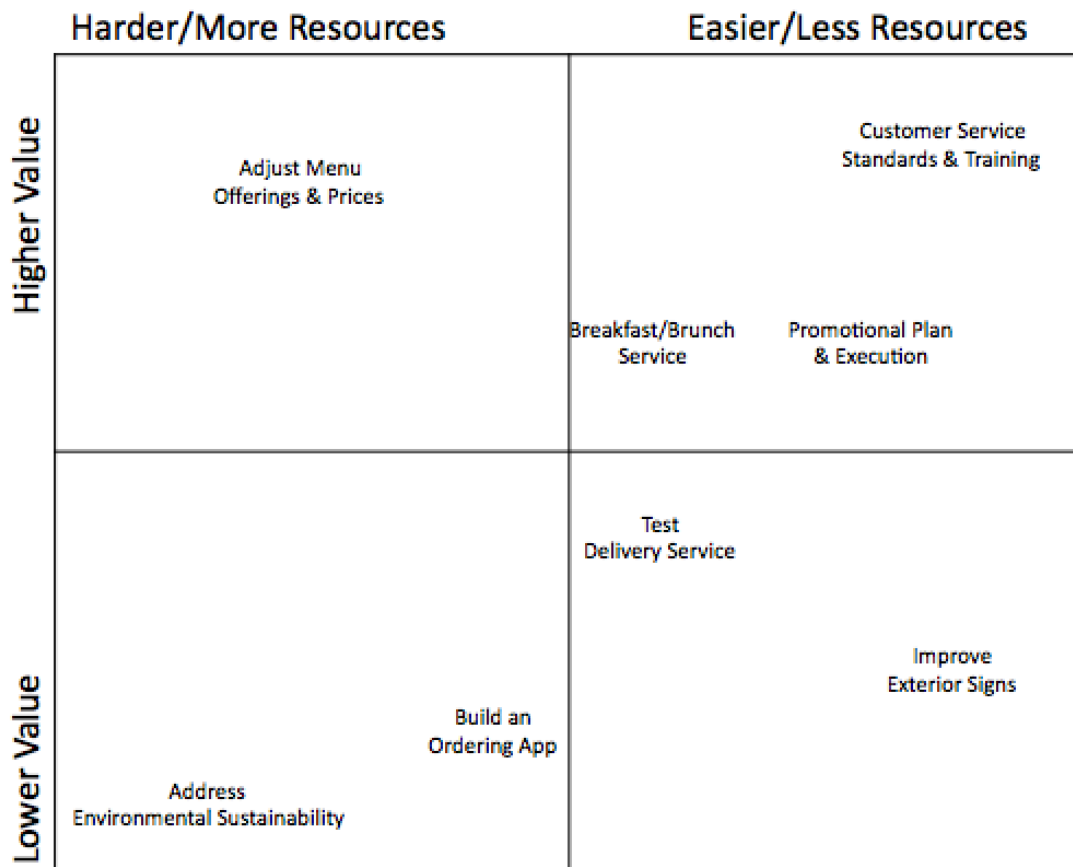
Based on industry norms, as the operation makes a combined change in food pricing and purchasing, we estimate an increase in profits of \$150-200,000 per year is not unreasonable – on food alone. We would also call for a detailed examination of the beverage side where there are no red flags on COGS but we should look at shrinkage and waste.

3. Build a promotional and marketing plan that can be executed with the resources available to drive trial and repeat visits. Highlight events, promotional prices and specials. Expand marketing efforts to the Savour Rewards members. Measure promotional effectiveness to make strategic changes for improvement.

4. Create a Brunch/Breakfast offering. Expand operating hours. We recommend testing this option over the weekends in the summer when recreation begins early on the lake and to take advantage of the patio seating area. This MUST be done with a well-planned communication plan to ensure that potential customers are aware of the new hours and offers.

5. Test a delivery service that can be shared with the Liquor Store. We suggest leasing a vehicle that can be wrapped with brand messages. Besides residents and local businesses, we identify summer marinas as a strong market opportunity. To create true differentiation, build an app for ordering while on the lake for marina delivery.

6. There is an opportunity for Wayzata to carry forward its “community asset” brand further by highlighting ecologic sustainability: addressing how it is using gray water or other water quality issues, composting, and adding more local menu items to a seasonal-based menu.



January 23, 2015

Conclusions

We see great reason to be optimistic about growth for WB&G. It has been successful to date with relatively little focus on some of the opportunities outlined throughout this report.

In our opinion, it is critical that the City optimizes this resource to create as much value as possible for its residents. Because its profits support the services and amenities that benefit the entire populace, an efficient enterprise that maximizes the City's investments should be priority number one. Every effort should be made to make the location productive 24X7.

Report for Wayzata Wine & Spirits

January 23, 2015

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Assessment Summary

Wayzata Wine & Spirits has the physical plant and desirable location to make it a long-term competitor in the Metropolitan liquor business. Implementing key retail practices will keep the operation competitive. The city's investments in programs like the Savour Rewards program can reap more rewards than it is currently enjoying. The good news is that the changes that need to occur to make the store a more thriving operation are not expensive to execute: they take appropriate training, resources and consistency in management to improve.

Strengths, Weaknesses, Threats, Opportunities

Based on all of our findings and the assessment process, we have created the following SWOT. In a SWOT, Strengths and Weaknesses are functions of internal realities within Wayzata's business model while Opportunities and Threats are external realities. Additionally, these are long-term actualities and will take time and diligence to change, if they can be changed.

Strengths	Weaknesses
▪ New facility in desirable location with an affluent customer base. ▪ Management views decisions in the long term which supports strategic investments and management choices. ▪ Profits are returned to the community to support desirable services and amenities. ▪ A legacy for being a community asset. ▪ A high proportion of wine sales creates a more profitable sales mix.	▪ New management team. ▪ Little to no marketing with a focus on Trial>Repeat>Loyalty offers to build customer engagement. ▪ Lack of customer service standards for staff. Need for some product training. ▪ A lack of merchandising within the store to call out values and drive incremental, unplanned sales. ▪ No plan for marketing and promotional activities with the current resources. ▪ The staff doesn't have a clear purpose regarding the customer experience. ▪ Current in-store events are not attracting and retaining customer loyalty to the degree that would be expected.
Opportunities	Threats
▪ The Savour Rewards database is not being used for promotional offers and urgent calls to activate the shopper base. ▪ The restaurant pulls in traffic within feet of the store but there are no cross-promotional offers to diners. ▪ An unclear pricing strategy gives away margins with the Savour program without driving incremental sales with it. Staff should be trained in how to use the Savour program to drive incremental sales. ▪ Delivery and summer marina delivery options could expand sales and profitability while sharing costs with the restaurant. ▪ Tastings at local events are not used as a promotional opportunity to drive new customers to the store. ▪ A wine cellar and strong wine selection should differentiate WW&S from the competition. Need to identify early affluent drinking trends and change the store selection accordingly.	▪ New competition that will attract current shoppers with low prices and unique offerings. WW&S could see loyal shoppers move from shopping for all their needs to shopping for convenient “fill in trips” which will reduce dollars per transaction and overall transaction counts. ▪ Possible regulatory changes will mean that the store will have to operate differently and with a different labor model.

Mystery Shop Findings

The Wayzata Wine & Spirits store gets high marks for its visual appearance inside. The windows/shared vestibule and exterior signing makes it difficult to identify immediately as a liquor store. All shoppers commented on the attractiveness of the store, but its “clean, upscale brand image” makes it difficult to determine what is on sale. Many endcap items do not have signs and the sale price signage is inconsistent. It is clearest that there is promotional activity when the vendors place their signs on sale items.

From our Mystery Shoppers’ perspectives, there was a genuine intent to serve if a store associate was engaged with the customer. In other words, they tried to help. But a lack of product knowledge and sales focus left a lot of opportunities unmet. No shopper conversation included information about the Savour Rewards program that would have informed potential shoppers that they could save on their purchase until they were at the cash register (too late to induce an incremental sale.) Sales associates asked about the Savour program at the cash register about half of the time. It was used to provide a discount at the cash register without capturing emails for three new members who signed up. The program could be a much more powerful promotional and loyalty program that binds customers to the store, but is currently used to reduce prices that, while a pleasant surprise to customers, may simply erode margins without driving loyalty.

Greetings at the store were not crisp. We define greetings as “Hello”, “Good Morning” or “Welcome” - something to that effect. Most associates begin conversations with “Can I help you find something?” or the surprising “Yes Sir!” Setting an intention to greet customers before helping them is not part of the WW&S customer service platform.

Assistance was friendly and tried to be helpful if they were engaged, but product knowledge is uneven across the staff. Given the “White Glove” appearance of the store, not one shopper had a “White Glove” customer experience. No shopper stated that they were “wowed” by an associate who provided great service. A standard line of helpful open-ended questions followed by on-point suggestions as a standard practice to assist and then close the sale was missing.

Transactions at the counter were swift and friendly. While customers were usually acknowledged/thanked in some fashion, they were not invited to return.

Truthfully, the competition did not excel at customer service either. Shopping Vicksburg liquor, Long Lake, Total Wine, Big Top, and Haskells during this holiday season, our mystery shoppers commented on assortment and selection but did not experience great customer service anywhere. This is an outstanding window for WW&S to create a point of differentiation by providing a level of service that is unusual for the area. If WW&S could elevate its in-store experience through improved product knowledge and a successful sales process, sales and profits could improve without requiring a commensurate increase in expenses.

Survey Findings

The response to the Wine & Spirits customer survey was not as great as for the Bar & Grill survey. Nevertheless, we can learn some things from the survey:

Wayzata's most frequently mentioned competitors are:

- 1) Costco or Sam's Club
- 2) Haskells
- 3) Byerly's (a distant third)

This supports the affluence of the Wayzata shopper as none of these are a low-priced option. Further, with Haskell's focus on wine and the recent store manager hire from Haskell's we may see more strength among our wine shoppers.

Among the shoppers who said Wayzata was their favorite, the reasons given were:

- 1) Convenient location
- 2) Wide selection of products
- 3) Helpful store associates
- 4) Loyalty program

In-store events, coupons, and enticing sale prices were not ranked at all among Wayzata's shoppers.

While 75% of all survey respondents knew that municipal liquor store profits were returned to their community, 91% of those respondents who identified themselves as Wayzata Shoppers knew that. 30% of Wayzata's shoppers say that is a contributing reason for their loyalty.

Pricing

Wayzata Wine & Spirits pricing is slightly above market (5%) on the top 50 SKU's that were measured. However, once the Savour Rewards discount AND the "everyday" promotional prices are accounted for, Wayzata is at or below market averages – even with Total Wines.

What is missing in the pricing equation is:

- 1) A **pricing strategy** that accounts for Savour Rewards discounting. For example, the wines we comparison-shopped were 3% above market. Given the 10% discount, it would seem that there is room for adjusting the prices upward and still give Savour members a fair price. Compare this to Spirits which were 10% above market average –exactly what we would expect given the rewards program discount. Beers were within the market by -2%. However, low value, high volume domestics like Coors Light, Mich Golden Light and Budweiser were 8-12% below market averages.
- 2) A way to sign the prices so that customers can see the value of the Savour Rewards program at the shelf while making their purchasing decisions.

- 3) A consistent endcap and case stack pricing sign package so that customers know the price of all products not in their home locations.
- 4) Signs in the store that explain the Savour program and its implication on prices.

Promotion

The current marketing seems to have been created with a goal of branding and brand awareness. Only 5 of 13 of the ads created for 2014 showcased a product and price. Even the wine sale at 15% off did not have an urgent call to action. It simply stated “Spring Wine Sale March 10-29. 15% off all regularly priced wine selections with purchase of 3 bottles or more.”

The organization must create a promotional plan that delivers urgent calls to action that drive trial and repeat visits to maintain its market share. As evidence of this, of the 61 respondents to the survey to date who say they shop Wayzata regularly, no one mentioned that they shopped it because of “A great deal on products on sale” or “a coupon or email offer.” Our past results show that those levers usually drive 3-9% of all shopping trips to liquor stores.

Wayzata Wines & Spirits does have promotions and events in the store. A recent example would be the Pappy Van Winkle give away that collected over 300 entries. A marketing opportunity exists to collect emails on those entries and use that list of 300 to market bourbons, scotches and whiskeys to this niche audience. (Same note re: Goose Island Bike Giveaway and Wine Cooler Giveaway in December.) Similarly, collecting emails at tasting events could create stratified customer lists so that emails could be targeted and effective in driving customers to the store. There is no evidence that the tastings and events in the store are driving increased sales and loyalty. Furthermore, the events are not catered by the restaurant and used to facilitate loyalty to both establishments.



The loyalty program and its ensuing email list is not being used regularly and effectively to drive promotional sales. WW&S needs a promotional plan, an email and marketing plan and execution to improve the situation. To date, the city has made investments into the loyalty program with sub-optimized payback. Furthermore, there needs to be effective measurements of promotional campaigns to drive future improvements in promotional effectiveness.

Wayzata Wine & Spirits communication at large is ineffective compared with the Bar & Grill. Case in point, the Facebook fans of both pages:

Wayzata Bar & Grill	1226
Wayzata Wine & Spirits	295
Glen Lake	374
Haskells (Excelsior)	566
Lakeside Wine & Spirits	502

Of the promotions we have seen advertised outside of the store, only 5 of 13 of the ads created for 2014 showcased a product and price. While WW&S does not want to compete on price, it does need to make a price impression on customers. The recent summer promotion on select cases of beer drove sales and is an example of how calling out specific brands, sizes and prices can drive incremental sales.

Selection

The store prides itself on its wine selection and its deep niche products in spirits. However, there was only one ad that informed customers outside of the store that they could expect an above-average selection in wines or spirits. (“From our cellar to yours”) If a retailer wants to use selection and assortment as a differentiating attribute, it **MUST** make that a focus of its communications. Customers are very slow to recognize assortment differences on their own. (As opposed to pricing or customer service which is easier for customers to recognize.) Wayzata needs to use its niche products to talk to its potential customers about the variety of cocktails and unique offerings they could have if they took advantage of WW&S’s assortment of hard-to-find items. Otherwise, it is carrying slow-moving inventory without a customer-relevant strategy behind it.

While selection is an important attribute, maintaining an aggressive inventory turn rate is imperative to remain financially sound. We did not identify any standard process or reporting to highlight inventory issues or slow sales reporting nor a standard for clearing out old product to free inventory dollars for more attractive items. The beer freshness requirements by the distributors and brewers keep the beer moving at an acceptable level. However, that is managed by the delivery teams rather than the store management team. The store management team needs to implement a regular cycle of inventory reports and evaluation to highlight slow movers and make adjustments accordingly. Financial considerations need to be made when weighing selection diversity with sales rates.

Service

To provide the optimal level of service, the store needs to have staff available on the floor that understand that their primary responsibility is helping customers and the knowledge to achieve that goal. The store has recently had a history of inadequate staffing at some peak periods. Nevertheless, even with adequate staffing, role definition is not clear among the

entire staff that assisting customers is their first priority. In short-staffed situations, task management can get prioritized over customers.

The store does not have a defined method for product knowledge training for new hires. There is a reliance on a few select individuals and an expectation of “tribal knowledge” getting passed on from associate to associate. While there is a strong relationship with many vendors who provide ancillary training through their tastings with the staff, there is not a planned program to identify knowledge gaps within the staff and address those gaps.

The staff and management rely on personalities and personal knowledge to provide customers with assistance. The organization does not have nor sustain a professional expectation for guiding a customer through the sales process. Because of this gap, customer service is inconsistent and is not the advantage that some staff members believe.

Wayzata Wine & Spirits does not “officially” offer delivery. However, the staff has taken it upon themselves to deliver large orders to a select customer base. This is an asset that is not being promoted among potential delivery customers who would be loyal to WW&S if the service were made public. A suggestion to test delivery – even within a limited range - could increase sales and defend market share as new competitors enter the neighborhood.

Environment

The store is new and uniformly described as high end. This is primarily due to the interior finish choices, the wine boat at the front entrance, the wine cellar, cigar humidor and lack of vendor point of purchase materials. However, in the pendulum of upscale/clean to gritty/loud the store may have become too sterile to effectively induce impulse sales.

Promotional signs and sales are difficult to find. It is hard to identify “what’s a good deal in the store this week.” This COULD be mitigated if customer service was superb and customers did not have to serve themselves throughout the store. But that is not the case.

The Wine Cellar creates its own difficulty in a serve-yourself environment. Customers may be intimidated to go in there assuming everything inside is over their budget. Even if customers enter the Wine Cellar, we found that the staff is not providing the immediate assistance you would expect when it is clear that a potential customer is considering purchasing upscale wines. The challenge is to use the space effectively to make it friendly and inviting and to make it easier to close sales.

The front of the store is less productive than it should be.

- 1) The wall carrying the *Winery of the Month* is rarely full. Perhaps the issue is that as the inventory draws down, it contains more and more “holes.” Perhaps the transition from one month to the next is not occurring quickly enough. Perhaps the program does not require so much store space. In any case, that is a location in the store that could be more productively used with a “stack it high and let it fly”

- approach. Making it the location for the “best deal in the store” with a strong signed presence could boost impulse sales.
- 2) The wine boat at the front with the highly rated wines is a stagnant presence in the store. Is it possible to use the same fixture to highlight a revolving selection of products? One quarter it is Spanish Wines, the next American Chardonnays, the next wines over 90 points, the next French sparkling wines, etc. For the space and the location in the store, it should reinforce your brand message about your deep wine selection and expertise. The best way to do that is to keep the assortment and selection on it fresh.
 - 3) The register counter area does not support impulse add-on sales. There should be items within easy reach that could be suggestively sold to customers to help them complete a satisfying transaction. Adding even one more \$1.00 to every sale can change the profitability of the store. Merchandising around the register has to be organized, fresh and combined with staff training to make the incremental sale.

Competition

We have listened to the common objection that Wayzata is a small community and the limits that sets for the store and its potential customer base. The truth is; Wayzata is a magnet for lake activity that draws for miles. As the only liquor store within walking distance to the lakeshore and the thriving downtown, it has the ability to deliver the best kind of profits to the city of Wayzata – profits from sales to non-residents.

Other municipalities would be deeply envious to have a destination shorefront that pulls non-residents in as prospective customers. As Wayzata begins to increase its marketing, it should extend its messages beyond the city’s borders to include all the neighboring communities that are on the lake and share similar commuting traffic patterns.

Risk/Opportunity

- Cross promotions with the Bar & Grill store could increase shared customers and profits with near immediate results.
- Staff training and development that emphasizes customer service along with product knowledge would delight customers and stimulate sales and profits within the same client base.
- External and vestibule signs that change with seasonal messages could remind customers to enter to make their purchases.
- A robust in-store signage program that highlights promotional and new items as well as the savings of the Savour Rewards program would incentivize customers to make incremental unplanned purchases.
- Creating a robust email marketing campaign to Savour members as well as emails collected through give aways and local events would have a number of benefits: 1) it could

create a strong sense of community and reinforce a “my store” relationship with loyal customers; 2) it could reactive lapsed shoppers with exclusive offers; 3) it could accelerate new item sales by announcing new products to customers most likely to be interested in them; 4) it could be the most cost effective way to market sales and promotions; 5) it could improve attendance at in-store tastings and events.

- Delivery and summer marina delivery options could expand sales and reduce the city’s liability to the “unofficial” delivery being done today.
- The front of the store and its merchandising needs to be re-conceived. Included in the re-merchandising scope should be the cigar humidor, the wine cellar and the cash register area.
- A promotional plan that is well executed and communicated across the potential geographic customer base could keep WB&G top of mind for dining destinations, despite a small population base within Wayzata.

Prioritized Recommendations

There are steps to meet the strategic goals outlined in this report. We recommend that the organization tackle them in this order.

1. The Savour Rewards database is not being used for promotional offers and urgent calls to activate the shopper base. A focus on email marketing could be a cost efficient way to activate shopping trips.

2. Implement a customer service model that focuses the staff on assisting customers as their top priority and gives them the tools to be effective on the sales floor. Concurrently develop a plan for addressing product knowledge gaps amongst the staff. Reinforce all training with consistent management, mentoring and oversight to ensure that old habits do not creep back into how the store operates.

3. Management needs to hold the organization responsible for creating a promotional plan and communicating that plan. Measuring sales on promotions, transactions during the promotion and % of transactions containing a promotional product. A micro-targeted media campaign that could use the Sun Sailor, Facebook, Pandora radio, Community newsletters, Lakeshore News, and other neighborhood channels needs to be implemented to get messages beyond the store regulars.

4. Implement a pricing strategy for new and current items which takes into account the Savour Rewards program. Construct a pricing plan that delivers the required margins overall while allowing for pricing flexibility within subcategories and brands to remain attractive.

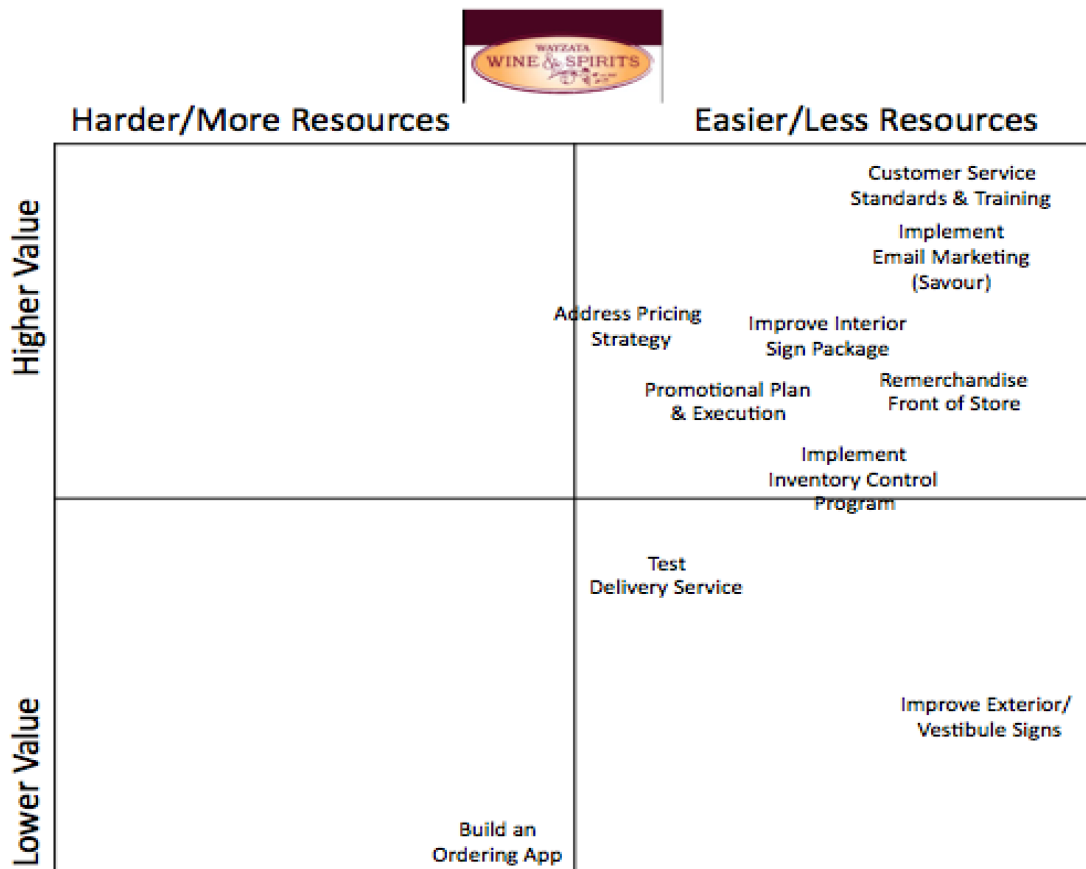
5. Implement a shelf pricing label for wines and spirits that shows the Savour Discount for every bottle. Customers are making purchase decisions at the shelf assuming they will pay the full price only to be pleasantly surprised at the cash register when they either use their card or enroll in the program to get a 10% discount. Informing customers of the savings through the program at the shelf will encourage larger purchases through

additional sales or larger bottles. Today, the way the rewards program is practiced; customers learn about the savings too late to make an additional purchase.

6. The store management team needs to implement a regular cycle of inventory reports and evaluation to highlight slow movers and make adjustments accordingly.

7. Test a delivery service that can be shared with the Bar & Grill. We suggest leasing a vehicle that can be wrapped with brand messages. Besides residents and local event locations, we identify summer marinas as a strong market opportunity. To create true differentiation, build an app for ordering while on the lake for marina delivery.

8. The signs that can be seen from the exterior of the store and in the vestibule need to give shoppers an urgent reason to shop. The store does not have to lose its upscale brand image by using flamboyant and garish promotional signs. But there needs to be more seasonal signing and more calls to action to induce shopping visits.



Conclusions

Under new management and with a new focus on sales and customer service, we are optimistic that Wayzata Wine & Spirits can improve its past performance even in the face of new competition. To succeed, it needs to be-laser focused on its customer base and differentiate itself on SERVICE, SELECTION and EXPERIENCE while maintaining a reasonably competitive stance on PRICING. As the only liquor store in Wayzata, it is a convenient choice for many potential customers. Having said that, it is urgent to make changes happen soon as the competitive environment will change swiftly and tentative changes will not be enough to address the exodus of customers that can happen once a Total Wines opens in Maple Grove or potentially the Ridgedale area of Minnetonka.