

MAINE STATE LEGISLATURE

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Jan 19, 1967

STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE
REPORT ON
LIQUOR INVENTORIES

103 10

Submitted by
Louis Jalbert, Chairman
Legislative Research Committee

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INTRODUCTION

On November 15, 1966, a Portland accounting firm of Peat, Marwick, Mitchell and Company submitted an independent audit report of state accounts as required by law at least once every four years. The audit included the Maine Liquor Commission which prompted the following notation: "Our review of liquor inventories indicated a probable overstocked condition in numerous brands. We suggest that this point be studied with the purpose of establishing realistic stock levels for each brand and the programing of reorder points." The recommendations put forth in this audit were carefully examined by the Legislative Research Committee and were quickly acted upon. This report is primarily concerned with the above notation concerning liquor inventories. In pursuit of facts on which the Legislative Research Committee could hopefully act, the Chairman scheduled a public hearing for November 18, 1966, at the Legislative Research Committee hearing room 228, State House, Augusta, Maine. The firms of Peat, Marwick, Mitchell and Company, Ernst and Ernst, Addressograph Multigraph Corporation, National Cash Register and members of the State Liquor Commission and the Bureau of Accounts and Control were invited to attend this hearing with a view toward enlightenment on the latest methods of electronic accounting of liquor. Much

valuable information was gathered at this hearing and shortly thereafter on December 21, 1966, a second public hearing was called to discuss liquor sales and inventory with members of the Liquor Commission and the Bureau of Accounts and Control and other interested persons. The discussion centered along lines that pointed to a basic underlying problem, that of manual inventory control of liquor.

Based on the information assembled during the course of the public hearings, the Research Committee Chairman was in a position to suggest one of two meetings, the first held January 13, 1967 and the second held January 18, 1967, both of which were held at the Liquor Commissioners' office, in Hallowell, for the express purpose of assembling a combination of talents who could readily solve the vast and varied problems presented by physical liquor inventory control in a monopoly state.

Both meetings were extremely productive in paving the way for a new coalition between man and machine to achieve a dual objective of lowering liquor inventories while improving consumer service thereby reducing the amount of capital committed to inventories and resulting in expected savings to Maine taxpayers.

Following are three documented statements prepared for the Legislative Research Committee at the request of

its Chairman: Proposed Computer Assistance in Inventory Control by John G. Carrick, Chief, Data Processing and Systems, Bureau of Accounts and Control; Inventory Management - Maine State Liquor Commission by Henry L. Cranshaw, State Controller, Bureau of Accounts and Control; Inventory Control and Purchase Procedures by Herman D. Stover, Administrative Division of the Maine State Liquor Commission. The text of these summary statements clearly identify the issues which have been under consideration and reflect a cooperative spirit, based upon a sound course of action toward establishing an efficient, well managed inventory control system by joint action so indicated.

PROPOSED COMPUTER ASSISTANCE
IN
INVENTORY CONTROL

STATE OF MAINE

Inter - Departmental Memorandum Date January 13, 1967

To Rep. Louis Jalbert Dept. Legislative
From John Carrick, Chief, Data Processing Dept. Bureau of Accounts and Control
and Systems
Subject _____

There is general agreement that liquor inventory value, brand sales, variable demand and various shipping points present a maze of problems which are increasingly difficult to analyze. In order to provide the best possible return from the least investment, all the variables must be considered and constantly reviewed if a business is to be successful, when the business is a government operation each error is suspect.

An important step toward more efficient liquor management will be made by increased use of computer generated data presented in a form which can be readily understood. The computer can perform many tedious calculations or comparisons without fatigue and will follow the exact instructions provided. Certain rather direct computer programs, developed within the Bureau of Accounts and Control, have indicated that the ability of a computer to perform repetitive arithmetic operations can point out seeming excesses, for management review.

Proven inventory management programs are available today which will provide the Liquor Commission with computer programs which can be tailored to their exact needs and requirements. These programs do not run the business but will provide management information which will include experience factors applied to each and every item.

Training of personnel in the use of such a system will take time and effort, as will formally describing the desired rules for the computer. The management rules mentioned would insure that order to delivery time, economical order quantities, shipping costs, forecast sales, seasonal trends are all applied uniformly. The sheer volume of items and various sources of supply have reached the point where real manual control is impossible, the computer can help solve these complex problems.

Existing and planned computer equipment in the Bureau of Accounts and Control can be used on a cost reimbursement basis, eliminating an expensive hardware conversion. When the basic inventory management system is operational (estimate one year from end of personnel training) the effect of daily sales reporting can be judged and the possible economics evaluated.

JC:c

INVENTORY MANAGEMENT
MAINE STATE LIQUOR COMMISSION

TO: Rep. Louis Jalbert, Chairman

Legislative Research Committee

FROM: Mr. Henry L. Cranshaw, State Controller

Bureau of Accounts & Control

SUBJECT: Inventory Management - Maine State Liquor Commission

For the past three legislative sessions a small appropriation was made available to take a cautious but deliberate approach towards computerization. In view of the groundwork accomplished during this period, we are now able to offer computer operation to some departments and agencies.

In response to your inquiry regarding utilization of the computer towards more efficient inventory management, we are now in a position to assist the Liquor Commission in this matter. I would, however, wish to point out that the system and program effort must be the responsibility of the agency concerned. It would also be my recommendation that the Liquor Commission employ a Systems Analyst either on a salary or contractual basis.

I would expect the Systems Analyst to establish the requirements of the Liquor Commission, set up proper communications and design a system most suitable from the data currently available. It would appear that our present equipment is sufficient to handle a system of this nature on a monthly basis.

There are available proven inventory management programs such as IMPACT developed by the I.B.M. Co. This system tackles such major problems as:

Customer Service vs. Safety Stock

Inventory Cost vs. Purchasing Cost (cost of ordering and delivery)

Quantity to Buy (discount) vs. Cost of Carrying Inventory

Classifying items in a demand pattern vs. Treating all items based on Buyer experience alone

Establishing demand items

" trends

" seasonal trends

" Vendor lead times

Effective Forecasting

Dynamic monitoring - Be able to know at all times what is going on

These are some of the "tools of management" that may be expected from a properly designed computer program under the direction of a Systems Analyst.

We would be happy to provide you and your committee, as well as the Liquor Commission, any additional information to carry out this plan.

INVENTORY CONTROL AND PURCHASE PROCEDURES

STATE OF MAINE

Inter-Departmental Memorandum Date January 19, 1967

To Rep. Louis Jalbert, Chairman

Dept. Legislative Research Committee

From H. D. Stover, Administrator

Dept. Liquor Commission

Subject Inventory Control and Purchase Procedures

Your conferences of January 13th and 18th attended by members of the State Controller's staff and Liquor Commission representatives were, in our opinion, most productive and satisfying and we are appreciative of your efforts in bringing them about. They provided an opportunity for each department to understand the other's position and problems and to find a mutually feasible method to accommodate both.

As brought out during the discussions, the liquor operation has attained a size and complexity wherein manual methods of analyzing sales, seasonal fluctuations, trends, shipment pooling, lead times and ordering quantities will no longer suffice.

It was gratifying and heartening to learn that an analysis of the work load in the central machine room indicates that capacity is now available for the development of a meaningful program of computer assistance. We can foresee that such a program will greatly enhance our ability to cope with the aforementioned problems and insure a control of inventory and purchases not previously possible. It justifies our research and planning these past several years.

Although not discussed prior to the conferences, it was pleasing to learn that we all shared a common approach to the implementation of the program, i.e., to acquire the services of a liaison man who is well versed in our own activities and equally knowledgeable of the scope and capacities of the machine room equipment. Under such an arrangement we propose to develop a system of computer reports to fit our needs and which can be produced on a fixed schedule basis by the central machine room.

Although this by no means provides the ultimate in computerization, it will certainly be a substantial gain within the realm of existing facilities with no appreciable additional cost.

This seems to be the best possible course of action until such time as we are able to provide our stores with equipment which would produce input data in a form that would be usable by the computer.

Again our thanks for your interest and attention to our most pressing problem.

HDS:as