WHO IS DRINKS ONTARIO?

The leading advocate for agents, suppliers and associations in the beverage alcohol industry

WE SOURCE BOTH CANADIAN AND GLOBAL PRODUCTS

allowing LCBO customers to 'shop the world'

WE OFFER THESE PRODUCTS TO THE LCBO

driving a vibrant marketplace

WE PROMOTE THESE PRODUCTS WHEN THEY REACH THE MARKET

partnering with the LCBO and the Trade to ensure product success

DRINKS ONTARIO & THE LCBO

Our members represent **95%** of alcohol products sold in the LCBO, by volume

In fiscal 2018, the LCBO offered **26,000** domestic and imported products through various channels

LCBO revenue exceeded **$6 Billion**, and paid a dividend to the Province of **$2.12 Billion**

www.drinksontario.com

Driving a diverse & vibrant beverage alcohol marketplace in Ontario

drinks ontario
wine • spirits • beer

ONTARIO

OBJECTIVE TO PROVIDE CONVENIENCE FOR ONTARIO CONSUMER WITH EXPANDED PRODUCT SELECTION

CHALLENGES

LCBO WHOLESALE WOULD NOT BE ABLE TO HANDLE EXPANDED RETAIL DISTRIBUTION/PRODUCTS

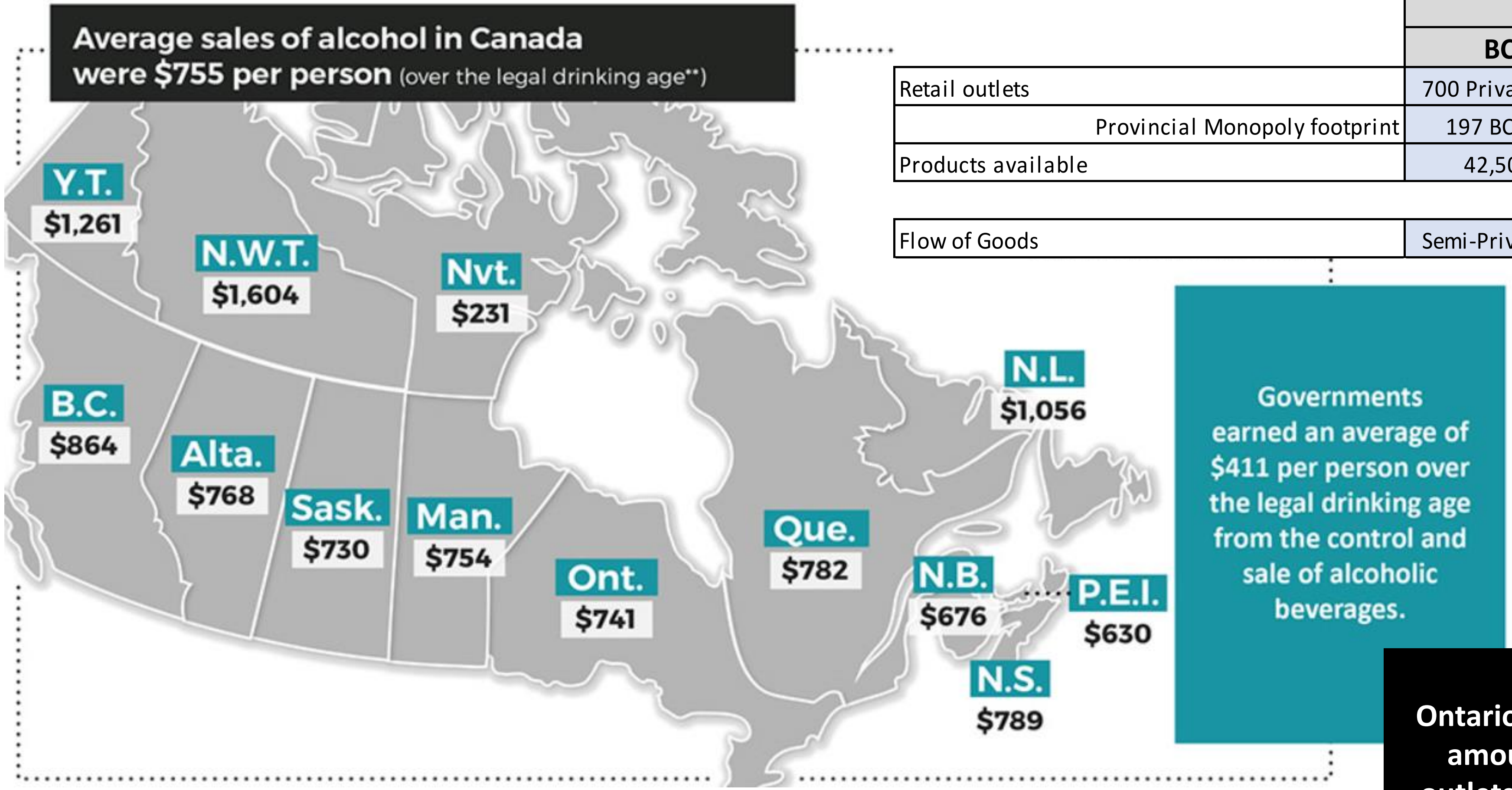
CURRENT PRICING MODEL DOES NOT PROVIDE FOR NEW WHOLESALE AND PRIVATE RETAILER OPERATING MARGINS

SUGGESTIONS

MADE IN ONTARIO, WHOLESALE / DISTRIBUTION PROGRAMS (IMPROVE ON SIMILAR PROGRAMS IN BC)

WHOLESALE PRICING MODEL FOR PRODUCTS SOLD TO PRIVATE RETAILERS

Canada – Alcohol Beverage Distribution Comparison



	2016/2017			
	BC	AB	QC	ON
Retail outlets	700 Private LRS	2,197	3073	1669
Provincial Monopoly footprint	197 BCLDB		327 SAQ	663 LCBO
Products available	42,507	24,334	13200	26000

Flow of Goods	Semi-Privatized	Privatized	Monopoly	Monopoly

LCBO	663
Agency Store	210

Reduced / Selective Offering	Grocer	247
	Ontario Winery Retail	470
	The Beer Store	450
	On-Site Brewery Retail	244
	On-Site Distillery Retail	33
	Land Border Point Duty-Free	10
	Airport Duty-Free	5
	Total	2332

Ontario has the least amount of retail outlets per capita as compared to BC, Alberta and Quebec

Ontario is below the national average sales of alcohol across Canada

Statistics Canada: Table 17-10-0005-01
LCBO 2017/18 Annual Report
SAQ 2017/18 Annual Report
BCLDB 2017-18 Annual Report; BC Electronic Price List
AGLC 2017/18 Annual Report
Statistics Canada: 11-627-M-Infographics-Alcohol Sales in Canada

Canada – Alcohol Beverage Revenue Comparison

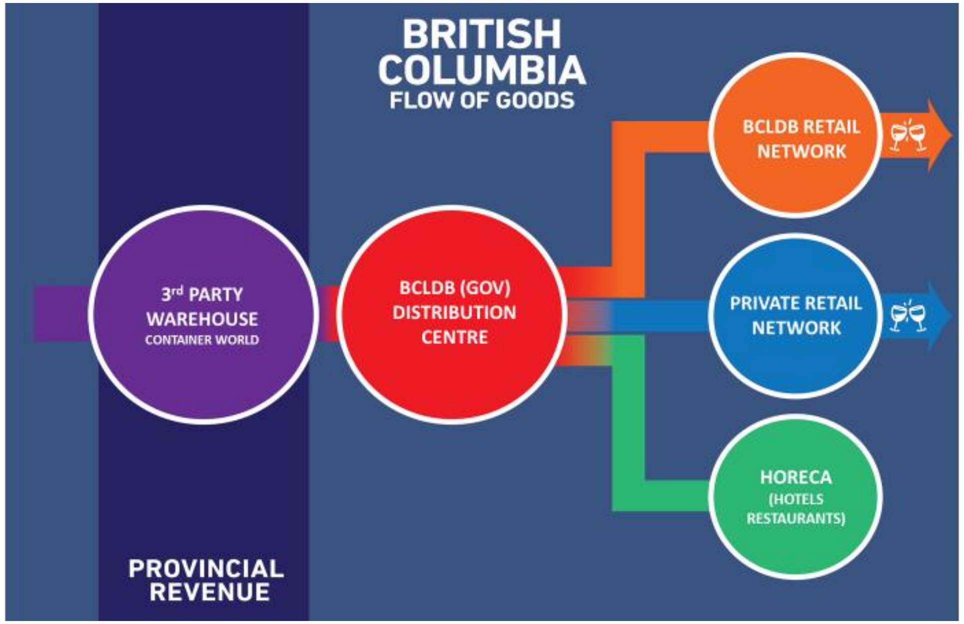
	2016/2017				2015/2016			
	BC	AB	ON	QC	BC	AB	ON	QC
Volume of Sales Litres	429,697,000	358,601,000	1,110,911,000	760,223,000	429,438	377,978	1095948	762,481
Gross Sales Dollars	$3,329,139,000	$2,545,015,000	$5,893,239,000	$3,122,556,000	$3,155,568	$2,634,202	$5,571,433	$3,073,557
Net $ Income / L (index)	$ 2.52	$ 2.38	$ 2.11	$ 1.43	$ 2.40	$ 2.26	$ 1.80	$ 1.40
Gross Profit	$ 1,407,556	$ 877,038	$ 2,949,819	$ 1,654,120	1,345,987	872,170	2,786,520	1,637,731
Gross Profit/Gross Sales Dollars (index)	42.28%	34.46%	50.05%	52.97%	42.65%	33.11%	50.01%	53.28%
administrative and general expenses					326,023	34,920	871,046	633,580
G&A cost to generate $1 (index)	10.17%	1.52%	16.14%	20.25%	10.33%	1.33%	15.63%	20.61%
$/L cost to operate market (index)	$ 0.788	$ 0.108	$ 0.856	$ 0.832	$ 0.76	$ 0.09	$ 0.79	$ 0.83
Net Income of Liquor Authorities	$ 1,083,245	$ 855,255	$ 2,339,697	$ 1,085,691	1,031,271	855,793	1,969,351	1,066,964
Net Income / Gross Sales $ (index)	32.54%	33.61%	39.70%	34.77%	32.68%	32.49%	35.35%	34.71%

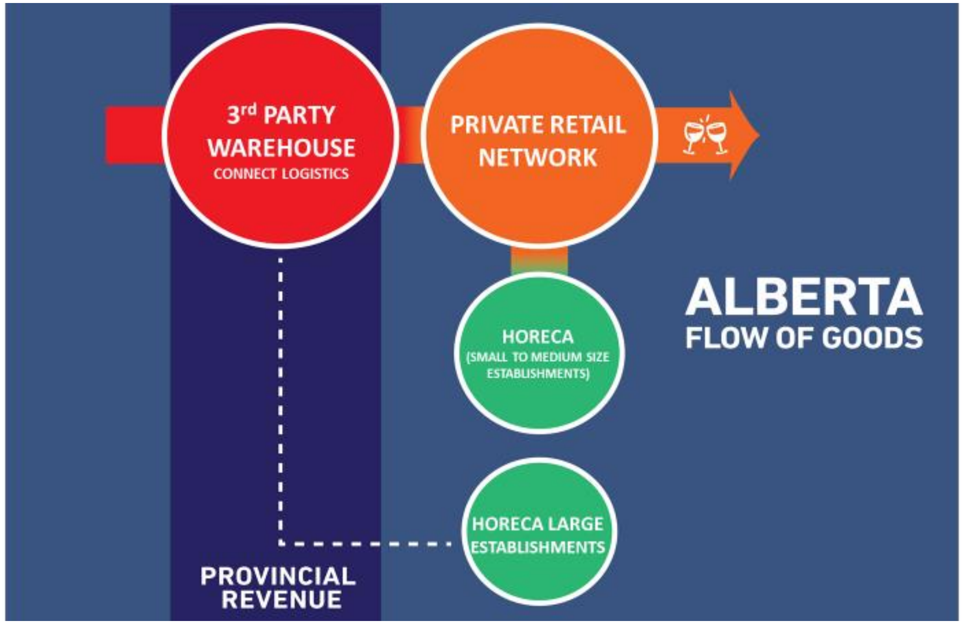
	2014/2015				2013/2014			
	BC	AB	ON	QC	BC	AB	ON	QC
Volume of Sales Litres	413,152	380,220	1,056,863	761,676	394,223	369,585	1,043,060	786,921
Gross Sales Dollars	$ 3,092,479	$ 2,540,109	$ 5,215,976	$ 3,006,277	$2,943,695	$2,402,714	$ 4,955,119	$2,934,912
Net $ Income / L (index)	$ 2.26	$ 2.01	$ 1.72	$ 1.36	$ 2.22	$ 2.02	$ 1.67	$ 1.27
Gross Profit	1,207,833	781,745	2,625,558	1,600,256	1,164,062	758,251	2,463,608	1,554,455
Gross Profit/Gross Sales Dollars (index)	39.06%	30.78%	50.34%	53.23%	39.54%	31.56%	49.72%	52.96%
administrative and general expenses	321,029	32,257	841,322	633,980	299,557	30,303	776,620	610,487
G&A cost to generate $1 (index)	10.38%	1.27%	16.13%	21.09%	10.18%	1.26%	15.67%	20.80%
$/L cost to operate market (index)	$ 0.78	$ 0.08	$ 0.80	$ 0.83	$ 0.76	$ 0.08	$ 0.74	$ 0.78
Net Income of Liquor Authorities	935,233	765,772	1,817,375	1,032,700	876,979	747,026	1,745,594	1,002,000
Net Income / Gross Sales $ (index)	30.24%	30.15%	34.84%	34.35%	29.79%	31.09%	35.23%	34.14%

- **Net Income Ratio for markets balanced 30%-35% considering varied operating solutions (Monopoly/Semi Private/Privatized)**
- **Net $ Income / L index historically shows hybrid model (semi-privatized) in BC to be the most effective model. BC generates $0.41/L more than Ontario**
- **Greatest cost efficiency (G&A/Gross$) found in Semi-privatized and Privatized models. Ontario is 16 times more expensive to operate than AB and 1.5 times more expensive than BC.**
- **Spend per capita ratio found higher in Semi-privatized and Private models**

Statistics Canada: Table 10-10-0011-01

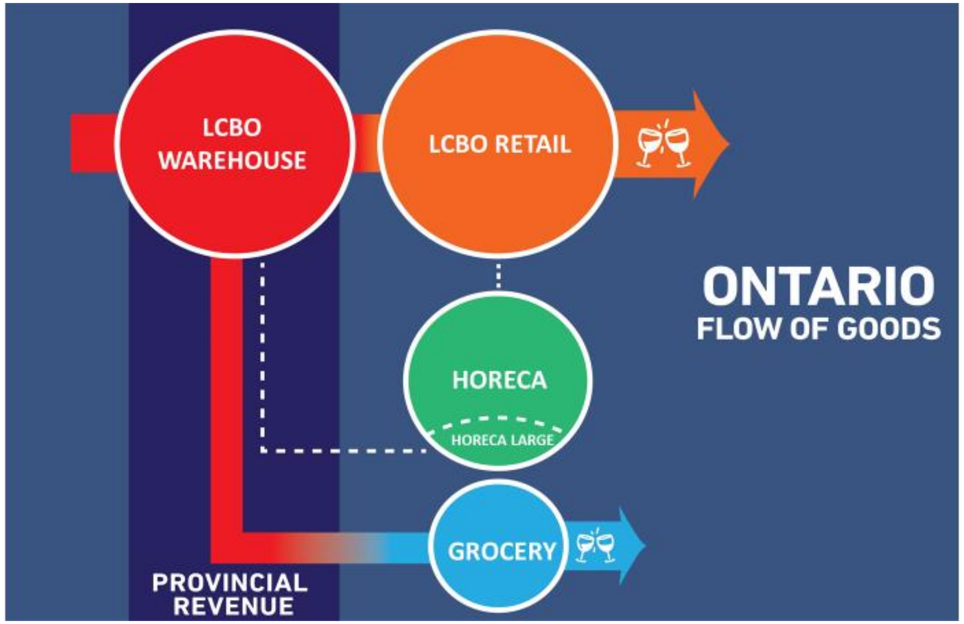
Canada – Alcohol Beverage Provincial Route to Market

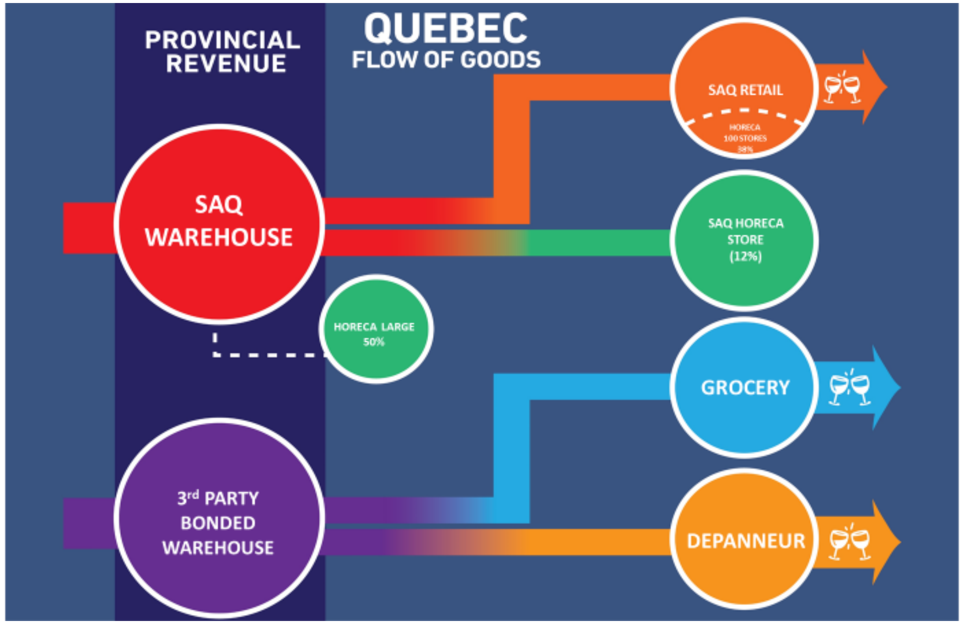




BC:
Semi Private Market

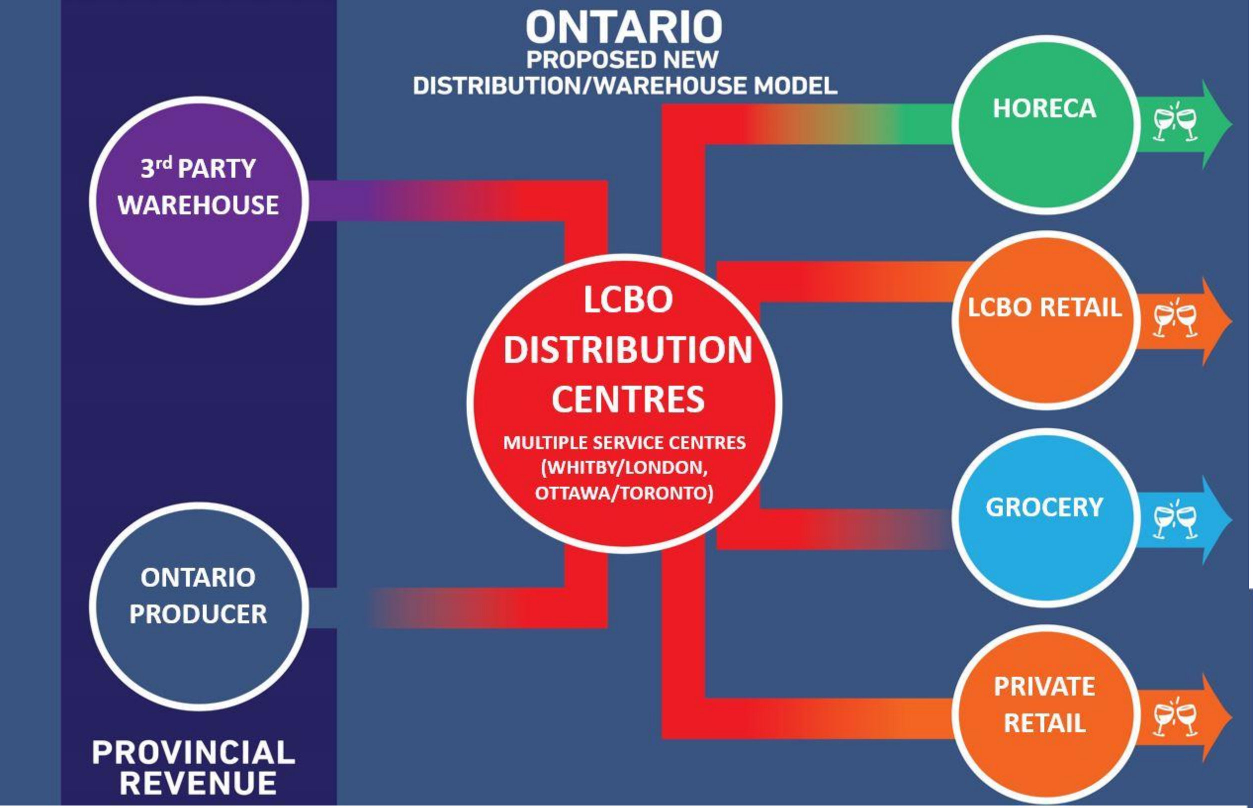
AB:
Private Market

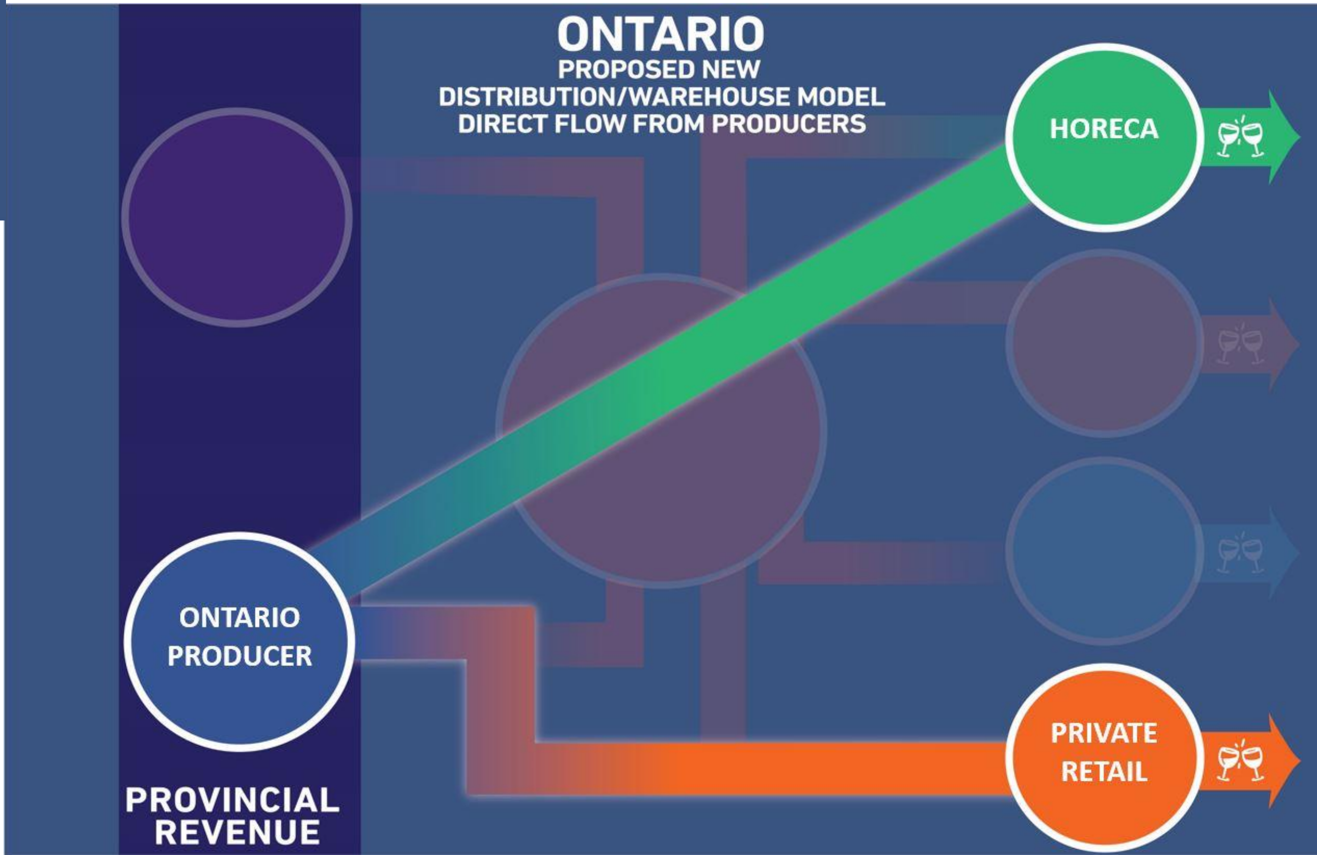




ON:
Monopoly Market

QC:
Monopoly Market


ONTARIO
PROPOSED NEW
DISTRIBUTION/WAREHOUSE MODEL
3rd PARTY WAREHOUSE
ONTARIO PRODUCER
PROVINCIAL REVENUE
LCBO DISTRIBUTION CENTRES
MULTIPLE SERVICE CENTRES (WHITBY/LONDON, OTTAWA/TORONTO)
HORECA
LCBO RETAIL
GROCERY
PRIVATE RETAIL


ONTARIO
PROPOSED NEW
DISTRIBUTION/WAREHOUSE MODEL
DIRECT FLOW FROM PRODUCERS
HORECA
ONTARIO PRODUCER
PRIVATE RETAIL
PROVINCIAL REVENUE

Standing Committee on Finance & Economic Affairs - Small and Medium Enterprise – Presented by Drinks Ontario

Presenters:

- ✓ Jim Lisser – Executive Director (Presenter)
- ✓ Dan Shorrocks, Vice President Select Wines & Chair Government Relations Committee, Drinks Ontario
- ✓ Andrew Von Teichman, President Von terra Estate & President, Drinks Ontario

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Good afternoon and thank you. **Drinks Ontario** appreciates the opportunity to provide input and offer feedback moving forward into the government's numerous actions to support small and medium businesses.

As way of introduction, **Drinks Ontario** is the leading advocate for businesses in the Ontario beverage alcohol industry; a membership-based trade association, we represent manufacturers, agents, marketing groups and trade offices of beverage alcohol.

We support over 3,000 jobs in Ontario. In the last fiscal year, we helped to drive LCBO revenue to exceed $6 Billion - 95% of this revenue is represented by agents.

Feedback & Review

We thank the government for its efforts and strategies throughout the Covid-19 pandemic in keeping Ontarians healthy. We commend the government, its ministries such as Finance, Attorney General and Small Business and its agencies (LCBO and AGCO) in implementing measures to sustain and to propel Ontario into recovery.

Measures such as allowing for restaurants to sell all beverage alcohol with take-out/delivery food items provided important an additional revenue stream for these businesses to survive financially, whilst allowing distribution outlets to continue for our members.

Mixed case(s) through the LCBO Specialty Services program enhanced service and choice levels to consumers with contactless delivery – members have now further developed their business models. Marketing initiatives to support our local Ontario producers has had a positive impact.

We want to publicly applaud the Liquor Control Board of Ontario, its senior leadership and all its employees in ensuring a continued high quality of service levels throughout the supply chain and its retail distribution points. The LCBO's strong operation allowed for members to continue to operate and to provide a foundation for recovery.

Recommendations

Looking ahead, Drinks Ontario has developed recommendations for the committee, whilst also considering the long-term goal of this government to modernize beverage alcohol in Ontario and provide additional convenience and choice. **We agree with the government that Ontario deserves the best marketplace for beverage alcohol distribution in North America.**

However, we do suggest that the Master Framework Agreement (MFA) continues to be the major impediment to substantive change. We understand that negotiations continue - we encourage a speedy resolution to enact the change that will drive small and medium sized Ontario businesses.

In the meantime, here are our recommendations that can be implemented in the short term:

Immediate implementation of the Cost of Service Differential (COSD)

Every three years, an audit of LCBO operations is conducted. The audit is designed to evaluate the extra tax levied on foreign producers of beverage alcohol due to the increased cost to the LCBO of importing these products. The 2019 audit stated that dramatic reductions in the costs related to importing product were discovered. The audit outlines the requirement in the reduction in the Cost of Service Differential (COSD) pricing and would be a welcome cost adjustment for our members. Our ask is that the MOF immediately implement the audit results into LCBO pricing calculations for Period #7, September 13, 2020.

The September implementation of the new COSD rates will assist members/Agents in recovery. These Ontario businesses are drive significant net capital in-flows to the economy. Thousands of dollars will go back into these small businesses, allowing them to increase employment, investment in sales and marketing initiatives and business development.

Restaurant Support – continue take away distribution

Restaurants are vital to the long-term success of the economy and our culture. We believe support mechanisms for this industry is a top priority. Drinks Ontario was delighted with the amendment to Regulation 719 in the Liquor License Act. However, the proviso expires on December 31st, 2020. We encourage the committee to recommend that the take-away/delivery for Beer, Wine, Cider and Spirits be permanently implemented by the Ministry of the Attorney General and its agency, the AGCO.

Amendment will continue to facilitate the continued existence of many restaurants and allow them to pivot to sell take away food and beverage alcohol together. This strategy meets the government’s ultimate goal of providing additional choice and convenience for Ontarians.

Expanded Product Choice

Supporting small and medium businesses by meeting the needs of the marketplace, we encourage the committee to allow for expanded product selection. Understanding the limitations surrounding the MFA, Drinks Ontario proposes the following:

- ✓ **Expanded Wine Selection** – currently, only General List wines can be distributed through the Grocery channel. By enabling businesses to offer a more diversified offering such as Vintages Essentials, this will boost consumer choice immediately and provide businesses further opportunity to expand their sales.

- ✓ **Equal Access for Spirits** – Drinks Ontario would like to reiterate the importance of value, choice and fairness. We continue to support Spirits Canada call for equal access for spirit-based products through the current grocery channel; this would facilitate business growth and provide additional choice for the Ontario consumer.

- ✓ **Bag-in-Box** – Our domestic members are grateful for the opportunity to broaden the local bag in box assortment and we thank the Government. Drinks Ontario has been promised that the opportunity for Ontario businesses to offer imported bag in box wines will soon be forthcoming – we expect in September. We wanted to reiterate the demand - Ontarians shop 32% Domestic vs 67% Imported wine and that imported bag in box format sales have grown +30% vs the industry growth of 3% in total since March. To best serve the Ontario consumer and provide value, fairness and choice we recommend a minimum of 5 new skus. However, the revenue potential for the Ministry would dictate 10.

Wholesale Pricing model

As a follow-up to previous discussions and with the objective to truly modernize Ontario 'best in class' beverage alcohol distribution, Drinks Ontario recommends further exploration into the implementation of wholesale structure and removing uniform pricing requirement. Please see appendix slides for further review.

The current route to market for goods flowing through Ontario, the LCBO warehousing and pricing systems do not allow for flexibility for multiple retail channels nor the revenue required for entrepreneurs to operate sufficiently.

A wholesale environment like the BC model would foster new retail (restaurants as food and beverage alcohol specialty shops), increased product selection, create a diverse but competitive marketplace and new jobs. The model would allow for enhanced pricing for restaurants (i.e. 20%) and grocery; at the same time, wholesale would not jeopardize the Government of Ontario's annual revenue transfers that are currently in place.

Conclusion

As Ontario continues to adapt and to move ahead in our "new normal", Drinks Ontario looks forward to working together with the government and its agencies to develop an even stronger beverage alcohol sector in Ontario.

The opportunity to modernize the sector is now upon us and we encourage the following three next steps :

- ✓ Adjusting the LCBO Pricing mechanism to reflect the audited COSD results
- ✓ Support restaurants by permitting the continuation of take away/delivery beverage alcohol sales
- ✓ Expand product choice both in grocery with additional beverage alcohol options and in LCBO with new imported Bag-in-Box skus

The government has embarked on the road to modernization of beverage alcohol. We support the evolving mandate and strategy of "choice, convenience & fairness" for consumers. Implementation can only occur once Ontario is free of the MFA and we continue to support this action as soon as possible.

Then, looking to the future, these innovative changes would fuel tremendous opportunities for the beverage alcohol sector and associated industries, enhancing the existing LCBO model to drive jobs, entrepreneurship, and government revenue.