



Ontario Convenience Stores Association (OCSA)

2022 Consultation

“Pre-Budget Submission to the Standing Committee on Finance & Economic Affairs”

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Please accept this document from the Ontario Convenience Stores Association. I am Dave Bryans, CEO of the Ontario Convenience Stores Association. It is a great opportunity every time I can present or participate in the Minister of Finance and President of Treasury Board in advance the past where I shared our industry's support for d this government's commitment to small business. It is a pleasure to be offer the input of over 6,000 family run convenience stores throughout Ontario.

This submission will cover three (3) main suggestions our members have for this government in relation to the upcoming Budget. These items have been well-researched by my organization as well as many respected third parties. If acted upon, these items will be warmly received by the public, they will provide a much-needed lifeline to Ontario's small business retailers, and, perhaps most importantly, will end up costing the government nothing.

These four recommendations are:

- 1) Government should **move quickly to open beverage alcohol retail to include c-stores** as promised over the last four years
- 2). There is a need for the government to explore **increasing lottery commissions** to retailers in Ontario
- 3.) Find solutions to correct the **illegal shipment and sales of untaxed (contraband tobacco) in Ontario** being produced and shipped from Indigenous reserves.
- 4) **The OCSA is leading in digital age testing technology for 'Smart Age'** in conjunction with Liquid Avatar and partnering with the Ontario government will benefit all age restricted products retailers in the province

The Ontario Convenience Stores Association is one of the largest small business advocacy groups in this province. Our association represents the interests of over 8,000 small business convenience stores. The industry employs 78,000 Ontarians and serves 3 million customers every single day.

Other facts I am proud to communicate to you today include that:

- We serve approximately 3 million Ontarians every single day
- Our channel facilitates \$3.1 billion in lottery sales every year for the province (80% of all sales)
- We collect \$4.7 billion in taxes every year
- Our hard-working employees pass government-imposed inspections at a rate of just under 96% (these are numbers sourced from Ontario Public Health)
- We proudly employ more New Canadians, seniors, and students than any other industry; and
- Our industry gives back to the neighbourhoods we operate in, recently having raised over \$100,000 for the Children's Hospital Foundation because of our "C-Store Day" and 'Convenience Week in conjunction with the Ontario Government (many of MPP's and Ministers participated)

Beverage Alcohol Retail

Beverage alcohol retail is the future for Ontario C-stores. We are encouraged by the commitment made by Premier Ford during the last election campaign, and then again in the Throne Speech and the Fall Economic Statement. Since this commitment, we have seen the expansion of beverage alcohol to more grocery outlets, additional LCBO Convenience Agency Stores and bars and restaurants allowed to sell beverage alcohol with takeout and delivered foods. The OCSA and the small businesses we represent – many of them family owned and are truly corner stores in every community – appreciate the support the Government of Ontario has shown us.

We are looking forward to working with the government as it moves ahead to implement its commitment to broaden the opportunity for beer sales beyond the foreign-owned beer store and the large grocery chains and other retailers that were given this competitive advantage by the previous government.

Ontario's convenience stores are ready for this responsibility. We are the best at age checks and selling age-restricted products. We have proven in the past to be better than the LCBO, and better than the Beer Stores using the government's own numbers to show it. We continue to work to improve every day – which is why our initiatives like Smart Age are so important. We never stop improving.

The commitment to expand the opportunity for beer sales to Ontario convenience stores is a critical policy to not only deliver something Ontario consumers have been asking for, but also to help boost local small retail businesses, which have been so hard-hit in recent years.

In anticipation of this, we have been talking to many Ontario brewers and wineries who are equally excited at the opportunity to boost their growing businesses by adding new retail points of sale, giving them valuable promotional opportunities.

The government's expansion allowing bars and restaurants to sell alcohol for take-out has made fulfilling this promise even more important for convenience retailers. Consumers have been incredibly supportive of this move, and the commitment to expand alcohol retailing into the convenience channel would be modest by comparison. With public health rules encouraging shoppers to make fewer stops, expanding the array of products available for convenience stores would make it easier for consumers to make fewer trips.

From an economic standpoint, it will put us on par with our competitors in an increased competitive marketplace given the new restaurant rules. Convenience retailers can also support other small community-based businesses like craft brewers and wineries by making shelf space available to these local businesses. Expanded access will mean even more jobs, investment, and stronger communities. These jobs and employment, especially in rural Ontario. Twenty new, good paying brewery jobs in a town of 30,000 means a lot for the community.

Our stores are in every neighborhood and offer an untapped avenue for craft brewers to get their products in front of new customers – right in the very communities where the products are produced. It makes perfect sense, especially in these troubled economic times, for these retailers to help support other local community businesses – like Ontario Craft brewers, while creating new jobs.

Here is a recent example as to why it is so important to get reforms and have discussions around beverage alcohol is as follows.

The Beer Stores in July 2021 imposed a delivery fee of \$250 per shipment on all 400 LCBO Agency stores, located throughout rural Ontario. This cost equates to \$13,000 per outlet per year and creates a financial hardship for all 400 Agency stores who operate on 9.8% - 10% margins on beverage alcohol. Add in a delivery cost of almost \$3.00 per case from the LCBO and small businesses are struggling to pay the bills in every community.

A simple proposal is to allow all LCBO Convenience Agency Stores to sell beverage alcohol up to 10% more than the LCBO prices to recoup labour, delivery, and business costs. Customers would be more than willing to shop for the convenience, and this would cost the Ontario government nothing.

These costs are unfair to the hard-working families due to the present antiquated system of distributing and selling beverage alcohol in Ontario.

If there ever was a win-win policy for the government and Ontario small businesses, this is it. We look forward to working with you to make it a reality in 2022.

Lottery Commissions

We are requesting that the government, through the Ontario Lottery and Gaming Commission (OLG) increase sales margins for our retailers by 2% (from 5% to 7% on electronic and from 8% to 10% on scratch tickets).

This moderate increase in margin would inject over \$40 -\$50 million into our channel and would have a meaningful economic impact on not only our industry but for the province.

This small financial adjustment would represent the first time the margin has increased since the OLG first partnered with our channel over 40 years ago. The approximately \$40 million that would be put back into our small businesses represents less than .5% of annual OLG sales, with 2021 channel sales \$3.1 billion to the government each year. To protect the OCSA's 6,000 stores, and support, we feel this is a very reasonable request currently. Certainly, our membership would celebrate such an announcement, particularly in the context of the acute economic hardship that is currently being felt by small businesses across the country.

The following outlines the points made to our association by our members in the context of the 2% margin increase proposal:

1. **It would have a negligible impact on OLG revenues** – as stated earlier in this document, the 2% increase in margin would represent an approximately \$40 -\$50 million investment into our small business retailers. Given OLG's yearly average revenues of \$3.1 billion, this increase represents less than .5% of overall revenues. The increase in margin is even less impactful when considering that lottery revenues are on the upward trajectory thanks to the efficacy of retailers.
2. **Financial relief would be felt in a meaningful way for small business owners** – the average store generates approximately \$250,000 a year in sales for the OLG through their lottery terminals and scratch ticket displays. A 2% increase in margin at the point of sale would equate to an injection of \$5,000 per store, which would go towards: a) helping to deliver a livable income to store owners currently suffering; b) partially offsetting the loss in same-store sales due to COVID-19; c) allowing store owners to retain their full and part-time clerks; and c) helping stores re-invest in their stores to make them more sustainable.
3. **Margins are currently too low and have not been increased in 40 years** – considering OLG's reliance on c-stores to deliver their products, our members overwhelmingly feel that they are being "underpaid." Intuitively my members understand that lottery does not sustain their businesses. This is widely thought to be unfair by our members who understand that a 5% margin on any product is insufficient in any business model.

4. **Margins do not adequately cover the costs for retailers to apply for and operate the OLG terminal** - OLG requires retailers to apply for a terminal at their own expense. Our family-run c-stores must go through a special licensing and evaluation process when applying for a lottery terminal which carries a good deal of direct and indirect cost to the retailer.
5. **Lottery prices are controlled by OLG and do not adjust with inflation** – most product categories in each retail setting allow for the retailer to mark up their products to keep pace of inflation and to help drive increased revenue on speciality and premium items. Lottery is the only product in our industry that is unable to accommodate price adjustments to meet the economic needs of the retailer (controlled ticket pricing). Given this, retailers have been at an even more significant disadvantage as the value of their already small margins have eroded as inflation has increased.
6. **More customers are paying with credit cards and subjecting the retailer to offsetting transaction fees** – the advent of COVID-19 has led to an increase in contactless payment methods. This generally has meant a surge in “tap based” credit card purchases. Given that the average fee per transaction on the standard credit card is 2.5%, the actual realized profit margin for a standard lottery ticket is reduced in half from 5% to 2.5%.
7. **Lack of incentives for high growth in sales is influencing our channel** – it is a standard business practice to incent your best sales teams with higher commissions as they meet targets. This should be the same for our industry’s relationship with the OLG. Offering a margin increase would not only help entrench this already great partnership, but it would incent our members to continue to deliver the high quality of service that has helped it capture the 85% of all sales that the OLG currently reports today. We are very appreciative of the 2021 (January – March) increased commission to all retailers for the newest game ‘Plinko’ and demonstrates an appetite to help the 1000’s of family run C stores.

Contraband Tobacco

Illegal untaxed tobacco continues to infiltrate every community in Ontario through an elaborate distribution and production network that is well known to all levels of government.

Convenience stores are the largest retailer of legal tobacco products in the province. Because of this function, we are an important tax-collector for governments, and

equally as important, gatekeepers who prevent age-restricted products from being accessed by minors.

Our industry was encouraged with the government's inclusion of anti-illicit tobacco measures in past budgets and were also pleased to see some activity in the areas of new enforcement measures. These will be helpful in addressing the illegal tobacco trade, which we know has resulted in a reduction of revenue for the government and our small businesses.

The fact of the matter remains, that the rate of illegal tobacco remains the highest in Ontario than any other province in this country. In the period April 2020 -July 2020 with tobacco shops on Indigenous reserves voluntarily closing in Ontario, legal tobacco sales had a 30-40 % sales growth in C stores and the Ontario government released a major increase during this time frame of tobacco taxes with the Ontario government receiving \$ 6,368,817 in additional tobacco taxes. Since August 2020, and to the legal market's disappointment, we have now experienced tobacco sales returning to pre Covid 19 sales in the legal markets thus once again hurting hard working family stores.

It should be noted that the answer to solving Ontario's deficit cannot come at the price of another increase in tobacco taxes. This only increases the appeal of the illegal market and sends tobacco users to cheaper alternatives. Customers will not curb smoking following a tax increase, with 70% saying they would find another, cheaper source for their product.

We have conducted these annual contraband studies in recent years and what is most troubling are the consistent findings of illegal products in every community.

This is greatly concerning for law-abiding retailers as it means tobacco smokers and customers of C stores, are still finding access to cheap tobacco products. We are equally concerned by the implications that these products are coming from our stores – this is simply not the case.

We share the concerns of government in terms of youth access, and we partner with government as part of our social responsibility by ensuring we are the most reliable gatekeepers between youth and age-restricted products. However, the solution to preventing youth access can only be partially addressed by more tobacco enforcement.

Recommendations:

- 1. No tax increases:** The first pillar of a successful plan to combat illegal tobacco is a prudent tax policy that keeps legal tobacco costs from rising until illegal tobacco can be significantly removed from the market. Provinces and the federal government should institute a freeze on any tobacco tax increases.
- 2. Empower law enforcement:** Provinces should seek the federal government's agreement to empower all police forces to enforce the federal Excise Act 2001, and provincial law enforcement should be provided greater resources and incentives to pursue contraband tobacco infractions. This increased enforcement approach has been deployed in Quebec, with considerable success and a demonstrated return on investment for several years.
- 3. Tackle illegal tobacco collaboratively:** Illegal tobacco is moving across provincial borders, so without a concerted interprovincial effort that involves Canada's federal government, meaningful action in one jurisdiction will be undone by lacking enforcement in a neighboring province. Provinces should call on the federal government to exercise its powers to aid in interprovincial efforts to stop the trade and sale of illegal tobacco.
- 4. Increased Enforcement:** Ontario should seek the federal government's agreement to empower all police forces to enforce the federal Excise Act 2001, it should remove the "in plain view" provision from the Smoke-Free Ontario Act, invest more money in Ontario's Contraband Tobacco Enforcement Unit and allow local police to keep fines and disposal of assets seized as proceeds of crime arising from enforcement action against illegal tobacco, thus providing greater resources and incentives for local law enforcement.
- 5.** We would appreciate the tabling of the Tobacco Strategy Group report that was started in 2019 to address several options or approached to addressing unregulated tobacco in Ontario. It would be great for all stakeholders to have the opportunity to weigh in on the recommendations from the consultations over the last 2 years.

Dave Bryans

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