Annual Report 1991-1992

LCBO

Balancing social responsibility with customer-focused retailing

Liquor Control Board of Ontario

Mission Statement

The LCBO, in a socially responsible manner, will be the best customer-focused and profitable retailer of beverage alcohol and related services.

The LCBO 1991-1992 Annual Report

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LETTER OF TRANSMITTAL

The Honourable
Marilyn Churley,
Minister of Consumer and
Commercial Relations

Madam Minister:
I am pleased to present to you the 1991-92 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,
Andrew S. Brandt
Chair and C.E.O.

Never in the 65-year history of the Liquor Control Board of Ontario (LCBO) has the business climate in which the Board operates changed so dramatically or so rapidly.

Increased competition from legal and illegal channels, cross-border shopping, the continuing economic recession and shifting beverage alcohol consumption patterns have combined to present the LCBO with many challenges.

An aging and budget-conscious population, increased moderation, and effective drinking and driving countermeasures have contributed to significant sales declines for provincial liquor control boards across the country. While the LCBO actively supports and encourages such positive societal changes tied to increased awareness, the resultant shifts in alcohol consumption patterns have had a negative impact on sales volumes and revenues.

Over the last several years, the ongoing public debate regarding alcohol and its role in society has become increasingly heated. A decrease in tourism and the resulting loss of income to the beverage alcohol trade, and the impact of the General Agreement on Tariffs and Trade (GATT) on beer distribution and retailing in the province, are additional issues which have heightened the industry challenge.

The years when an ever-expanding public demand for beverage alcohol automatically increased LCBO revenues are over. It is clear that even when the Ontario economy emerges from the prolonged recession that began in mid-1990, it will never again be business as usual at the LCBO.

This adversity has changed the very nature of the LCBO and has required staff and management to become more flexible and innovative in order to meet the challenges of the new marketplace.

1927 LCBO opens for business with 16 stores across the province; permits are required to purchase alcohol (cost $2)

1928 86 counter-style stores in

ANDREW S. BRANDT, CHAIR AND CHIEF EXECUTIVE OFFICER operation 1935 Wineries are allowed to operate one off-premise wine store 1943 Production of beverage alcohol is limited

Once a static, sometimes unyielding bureaucracy, Ontario's Liquor Board has evolved into a modern, progressive retailer.

As a result of effective financial management, successful customer service initiatives and operating efficiencies realized across the organization, the LCBO not only met provincial transfer payment objectives of $665 million in fiscal 1991-92, it exceeded them by $10 million. These funds support a wide range of important government social programs and services.

Expanded Commitment to Social Responsibility

In recent years, the LCBO interpretation of social responsibility has become much broader in scope. In addition to its control function, the LCBO is committed to protecting the environment, providing safer, more equitable and harassment-free workplaces for employees, and providing information and services designed to help consumers make wise decisions about the use of beverage alcohol.

Balancing the Board's twin mandates of revenue-producing retailer and regulatory control agency has meant adapting to a changing, more competitive marketplace, while fostering and encouraging moderation. Society has embraced the idea of individual responsibility when it comes to beverage alcohol. However, as identified by Addiction Research Foundation polls, the majority of Ontarians continue to support the LCBO's controlling influence. The challenge, as always, is to balance consumer convenience and commercial interests with the Board's responsibility for exercising control over alcohol importation, manufacturing and distribution in the Province of Ontario.

While remaining true to its guiding social responsibility mandate, the LCBO has made and continues to make the operational improvements necessary to remain competitive in the marketplace of the 1990s.

Through investments in people, stores and technology, the LCBO is positioning itself against the growing competition from both legal and illegal channels as the beverage alcohol retailer of choice in Ontario. Modern stores, quality products and consumer-oriented services will ensure a productive future for the LCBO and its employees, a reliable, cost-effective source of income for the Ontario government and a first-rate shopping experience for the Board's most important stakeholder, the customer.

Andrew S. Brandt
Chair and CEO

When it was founded in 1927, those responsible for the LCBO's operation immediately began to align themselves with public health and social welfare agencies of the day. With 11 years of Prohibition just ended, the LCBO's management was acutely aware of the controversial nature of alcohol and the potential for its abuse. However, the establishment of the LCBO also acknowledged the legal right of the public to have access to beverage alcohol.

Today, the Government continues to support the controlled sale of beverage alcohol, a function it has mandated to the LCBO under the provisions of the Liquor Control Act. While exercising its legislated responsibility for control, the LCBO also recognizes that the vast majority of Ontario residents are responsible consumers of beverage alcohol. As such, they expect to purchase beer, wine and spirits in clean, modern, conveniently-located stores, free from the social stigma of a bygone era. Moreover, the LCBO has learned from its successes: education, responsible marketing and consumer information have proven to be the most effective means of encouraging moderation.

The LCBO supports a wide range of public awareness campaigns, including MADD's Red Ribbon Campaign. Previous page: Wine Consultant Dinah Bigioni advises a customer on her Vintages' purchase.

FORGING STRATEGIC ALLIANCES

Evidence of the success of public information campaigns abounds. Since the early 1980s, publicly-funded education programs warning of the dangers of drinking and driving have produced a nationwide 45 percent decline in the number of motorists charged with impaired driving offenses. In recent years, groups such as Mothers Against Drunk Driving (MADD) have joined the effort with their own campaigns. Through in-store poster displays, anti-drinking and driving messages on LCBO bags, responsible service employee education programs, and the Challenge and Refusal program, the LCBO plays an active role in educating the public. The Board continues to forge alliances with public health and law enforcement agencies and works with suppliers to limit alcohol abuse and counter the negative effects of alcohol use in society.

A growing tendency by the public to purchase products with a lower alcohol content, such as beer and wine, has coincided with the emergence of brew-your-own-beer establishments and winery stores.

to 70 percent of pre-1943 levels; strict rationing at retail level

1947 Liquor Licence Board of Ontario is established to

...late licensed premises 1956 215 LCBO stores in operation in the province 1961 Liquor permits abolished after 34 years 1962 First Agency...

Brewers Retail Inc., also has capitalized on this trend with new-look stores and has expanded product selections. Meanwhile, sales in the higher profit categories of imported and domestic spirits have experienced a slow but steady decline for more than a decade. The shift in consumer tastes, combined with the decline in spirits' sales and increased competition for the growth product categories of beer and wine, have had a significant impact on LCBO revenues.

Balance is the Key

As a government agency reporting to the Minister of Consumer and Commercial Relations, the LCBO has actively supported government policies and programs aimed at reducing alcohol misuse in society. As a progressive retailer, it has at the same time provided superior service, product selection and information to the beverage alcohol consumers of Ontario. In short, it has endeavoured to "merchandise the right products, to the right people, for the right reasons."

The LCBO has changed its approach to selling beverage alcohol. Gone are the old counter-style outlets and institutional retail store designs of yesteryear. Through extensive market research and testing, a new standard of LCBO store has been developed to meet the needs of Ontario beverage alcohol consumers of today and tomorrow. Through the Board's IMAGE Program (Innovate, Merchandise and Generate Enthusiasm), stores have been given an integrated look, consistent with that of other quality retailers. Over fiscal 1991-92, computerization provided instantaneous product availability information province-wide; cash registers in the LCBO's 618 stores were electronically linked to the five regional warehouses and to head office for more accurate inventory control; and warehousing reached state-of-the-art at the Board's automated Durham Regional Warehouse.

This modernization drive has changed the way business is conducted at the world's largest single purchaser of beverage alcohol. Everything from how individual LCBO stores are located and designed, to the integrated function of the organization as a single entity, is now carefully considered in a strategic context. Divisions actively engage in partnerships, sharing ideas and experiences to solve common problems. Through computerized sales tracking, extensive market research and targeted merchandising programs, the LCBO has

Stores (operated within existing privately-owned retail stores) are authorized by the LCBO to serve communities whose populations

Sixty-five stores have been upgraded under the IMAGE program, including this one in Scarborough, making them more efficient and customer-friendly. Previous page: Consumer information is readily available through resource centres at many LCBO stores.

cannot support regular LCBO stores 1965 Trainee wine consultants selected for new LCBO program 1969 First s

become more responsive to consumer needs and preferences. No longer simply focused on basic distribution, the LCBO has committed its resources to being "in a socially responsible manner, the best customer-focused and profitable retailer of beverage alcohol and related services."

The hub around which many of these changes have evolved is the never-ending drive to improve customer service. In today's recessionary economy, all retailers are re-examining the way they present themselves to more demanding customers. Increased competition for the beverage alcohol dollar has meant that, like other successful retailers, the LCBO has made improved customer service its number one priority.

A New LCBO "IMAGE"

The highest profile change at the LCBO has been the IMAGE program. Focus groups and customer surveys revealed that consumers wanted a clean, uncluttered approach to store layout and design. Under the IMAGE program, top-performing stores in the LCBO retail network have been outfitted with new signage, fixtures, floorplans and lighting designed to meet those customer expectations. Stores retrofitted or rebuilt under the IMAGE program incorporated such features as energy-efficient heating, cooling and lighting systems, asbestos removal in older stores, and improved access for disabled customers. By the end of fiscal 1991-92, more than 65 stores had benefitted from IMAGE program upgrades.

IMAGE stores also participate in merchandising initiatives designed to create consistent product presentation in LCBO retail outlets. To reduce waste from point-of-purchase materials, LCBO seasonal displays are reused for several years. Supplier-produced materials are either returned to the sponsoring company for recycling or offered to the public for use in schools, libraries and senior citizens' homes.

Results from the IMAGE program have been positive. According to LCBO analysis, stores upgraded with the IMAGE program recorded average sales of 3.5 percent higher than other Board outlets. This indicates the program is helping the LCBO recapture some of the market share it has lost to Brewers Retail stores and to winery outlets. On average, the cost of an IMAGE upgrade is recovered in less than one year. The LCBO will continue with the IMAGE program until the top 116 stores have been retrofitted. As renovations and relocations occur, the remaining 502 LCBO stores will be repainted and fitted with the new corporate signage, to keep them consistent with the Board's IMAGE stores.

Banking on Full Service

A high point in 1991 was the June re-opening of the LCBO's second full-service store (the first was the Crossroads store opened in Weston in 1989). Located on Bank Street in Ottawa, the 9,000-square-foot store exemplifies the new-look LCBO. It offers shoppers in the nation's capital attractive displays, customer service and tasting counters, chilled product offerings, and food and beverage matching seminars. An eye-catching Vintages' pavilion, featuring a frequently-changing selection of unusual and premium

products, is the focal point of the store.

Value-added services were provided to wine connoisseurs throughout Ontario with the reorganization of

the Board's private stock ordering system. Revamped and renamed Specialty Services in 1991, it provides a channel through which customers can order products not usually carried by the LCBO. Licensed wine agents also have access to a consignment warehouse where case-lot orders can be imported, primarily for use by wine appreciation clubs and the restaurant and hospitality trade. During fiscal 1991-92, more than 3,000 unique or hard-to-find products were imported through the Specialty Services Program.

QUALITY ASSURANCE SECOND TO NONE

Unseen by the general public is the daily effort that ensures products sold at the LCBO meet exacting federal and provincial government standards for quality assurance. A recognized world leader in technological analysis and research, the LCBO's Quality Assurance

Laboratory is depended on by liquor jurisdictions across North America. The head office facility performed 138,091 tests on 7,341 samples of beverage alcohol products in 1991 looking for contaminants such as lead, arsenic, mercury and pesticide residues. Of the prod-

ucts tested, 13.9 percent had deficiencies that required correction; 2.6 percent of the samples were found to be in violation of federal government or LCBO guidelines

serve LCBO store opens in Weston but decoration or advertising is still forbidden 1972 LCBO opens Rare Wines and Spirits store

From left: The Quality Assurance Laboratory. VQA, the symbol of excellence for Ontario wines. Products not regularly sold by the LCBO are available through the Board's Specialty Services Department. LCBO bottled products offer high quality at competitive prices. **Previous page:** The LCBO's Bank Street store in Ottawa.

a forerunner to Vintages 1975 LCBO becomes a crown corporation 1984 502 LCBO self-serve stores in operation in

and were rejected. When a product approaches two-thirds the allowable limit for certain potentially hazardous substances, the LCBO notifies the producer and advises that steps be taken immediately to correct the problem. If a product already on LCBO shelves is found to be unacceptable due to deterioration or sediment clouding it can be removed from sale almost instantaneously. The LCBO also regularly tests those products with a limited shelf life (such as beer), and recalls them if necessary. To further streamline operations, a new computerized Laboratory Information Management System was installed to increase productivity in the LCBO's high-tech facility.

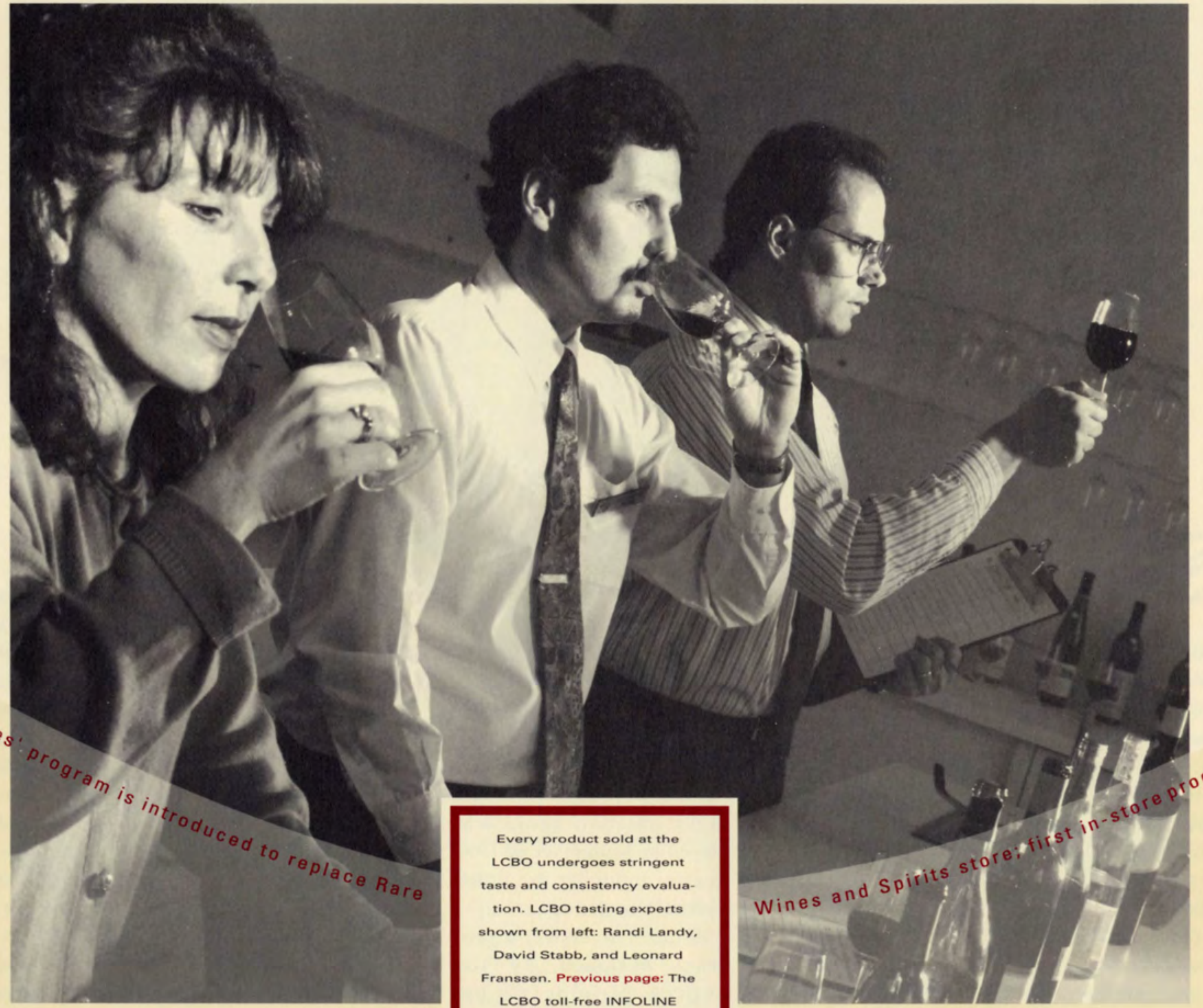
Testing incoming products does not end with laboratory analysis. LCBO product experts and wine consultants regularly screen new and re-ordered products to ensure they meet the LCBO's high standards for taste and consistent quality. LCBO wine consultants also sit on the Vintner's Quality Alliance (VQA) evaluation panel. The VQA designation has become widely recognized as the customers' guarantee of quality for Ontario wine producers' premium offerings.

Promoting Responsible Consumption

Product information designed to help consumers make informed buying decisions is readily available throughout the LCBO retail store network. Through supplier-produced materials or the LCBO's colourful quarterly publication, *LCBO Today*, recipes incorporating wine or spirits, or appropriate food and beverage matches are promoted as responsible choices for consumers. Home entertaining ideas and product knowledge seminars have become increasingly popular as value and health-conscious consumers seek more information about their beverage alcohol purchases. Recipe cards and product brochures are often distributed to the public free of charge at these in-store seminars and special events.

Successful retailers constantly identify ways to improve customer convenience and free up valuable staff time. The Express Selections' program, launched in 1991 at the LCBO's Pickering store, is just such an initiative. The displays promote responsible consumption by matching beverage alcohol with appropriate food categories, such as chicken, fish, cheese and pasta. These matches were developed in consultation with Foodland Ontario. Installed in about a dozen stores, the concept is popular with LCBO customers seeking advice on complementary food and product matches and new ways to save precious shopping time.

Comfortable and convenient shopping environments, increased availability of value-added services, products and information, and trained and courteous staff were just some of the ways the LCBO focused on customer needs in 1991-92.



in the province 1985 Vintages' program is introduced to replace Rare Wines and Spirits store; first in-store product tastings are conducted

Every product sold at the LCBO undergoes stringent taste and consistency evaluation. LCBO tasting experts shown from left: Randi Landy, David Stabb, and Leonard Franssen. **Previous page:** The LCBO toll-free INFOLINE annually answers more than 50,000 calls from customers.

1985 Relaxation of guidelines for advertising in LCBO stores leads to new program incorporating supplier displays and re-organ

Success in retailing is built on the foundation of a knowledgeable, motivated and customer-oriented workforce.

While many other major retailers experience a high degree of employee turnover and associated training costs, the LCBO has a stable and dedicated workforce. Job satisfaction, competitive wage rates, developmental opportunities and relative security have resulted in a high degree of staff commitment to serving the Board's many customers. LCBO employees continue to exhibit a dedication to service, a commitment to social responsibility, and a level of community spirit second to none.

Many programs have been developed or enhanced to assist LCBO staff in their quest to serve society better. In 1991-92, efforts have focused on making the LCBO a healthier, more equitable and more rewarding place for employees to work.

IMPROVED RELATIONS IN THE WORKPLACE

LCBO management maintained positive relations with the Ontario Liquor Boards Employees' Union during fiscal 1991-92 by emphasizing the need for greater co-operation in difficult economic times. A number of joint union/management committees were formed to seek solutions to challenging issues such as environmental management and employment equity. The formation of these committees reflected the desire of both parties to further open the lines of communication, build the level of trust, and avoid confrontation. Symbolic of the new spirit of co-operation, the first-ever union/management baseball game was played in September of 1991 to raise funds for the LCBO United Way Campaign.

Retail University, a program designed by the LCBO's Training Group, made a significant contribution to positive employee/management relations by improving front-line managers' understanding of their role in the multicultural workplace. During week-long seminars, participants learned effective management and communications techniques, employee relations' strategies, and employed situational analysis to test their managerial and people skills.

Creating healthy, safe workplaces has long been a priority at the LCBO. Basic Safety 101, an occupational health and safety plan, was implemented in 1991. Available to all employees, the educational program provided a forum for learning about health and safety issues related to the LCBO. In compliance with the Occupational Health and Safety Act, safety co-ordinators were appointed at every LCBO worksite. They monitor and report on health and safety-related issues on a monthly basis.

Encouraging employees to be innovative and materially rewarding their suggestions has paid major dividends to the LCBO. Significant improvements and cost-savings involving a number of LCBO operations have been realized by implementing employee suggestions received through the Innovators' Suggestion Awards Program. A special program category

store layouts 1986 New LCBO and Vintages' logos and visual identity program introduced; drive-in Brewers Retail stores are

Assistant Manager Joe Dorich of the Victoria Park and Danforth store shows why LCBO employees have been rated highly by the public in customer service polls.

Previous page: Fork-lift truck training sessions were held at all five LCBO warehouses during fiscal 1991-92.

approved 1987 Duty-free stores are opened at border crossings. New store in Toronto's Chinese community is first LCBO

offered cash awards for environment-related suggestions that benefit the LCBO or society at large. The application of one such notable employee suggestion resulted in an almost total elimination of the release of ozone-depleting freon during servicing of air conditioning systems at the LCBO's giant Durham Regional Warehouse.

Employment Equity Advances

Many progressive steps were taken during 1991-92 to implement employment equity initiatives at the LCBO. Two comprehensive staff surveys were conducted to determine employee attitudes and to provide a baseline from which progress in the employment equity program can be measured.

More significantly, employment equity policies and practices are now integral components of LCBO strategic and operational plans. Managers regularly receive information, training and support to assist them in establishing meaningful employment equity goals and timetables. Outreach recruitment has enabled the LCBO to make significant progress in developing a workforce that is more reflective of Ontario's diverse population. Major advances

also have been made in removing systemic barriers to hiring and advancement, creating a more equitable and productive workplace.

Information Systems Plot HR Needs

A new Human Resource Information System has been developed to support payroll functions and many other human resource programs. When fully implemented, the new computer system will enable the LCBO to track career paths and identify developmental opportunities for employees, thereby enhancing overall operational effectiveness.

A project designed to assist LCBO employees in balancing work and family responsibilities also was launched in 1991. Recognizing the impact of an aging workforce, parent and child-care concerns, and the constraints placed on families with either a single parent or two working partners, the Work and Family Program will help the LCBO to attract and retain the best possible workers now and in the future.

Continuous Learning a Priority

Staff training and education is another area critical to the LCBO's future success. To support front-line employees, product knowledge training was enhanced with the introduction of Level III of the Board's Product Knowledge Correspondence Course. Available to retail, distribution and head office employees, all three levels of the program were developed by LCBO staff. Employees also are encouraged to engage in diverse outside programs of study and are given financial support through the LCBO Tuition Reimbursement Program.

To supplement product knowledge courses, province-wide seminars were held last year, in co-operation with suppliers, to familiarize staff with some of the thousands of products sold by the LCBO. These seminars covered everything from how liqueurs are made to the art

of appropriate food and product matching. Every month, the LCBO's employee newsletter, *The Exchange,* publishes product knowledge columns written by LCBO wine consultants. These articles are designed to increase employee understanding and appreciation of LCBO products and services. *Exchange* articles also keep employees informed about developments affecting the LCBO and the beverage alcohol industry at large.

SPIRIT OF GIVING

No discourse on people at the LCBO would be complete without mentioning the emphasis individual LCBO employees place on charitable work, both on the job and in their communities. The LCBO's most successful United Way campaign was mounted in 1991, raising more than $114,000. Numerous other charitable drives, awareness campaigns and sporting events are conducted in any given year, raising thousands more dollars for worthy causes. The proceeds from these campaigns are supplemented by the charitable and volunteer-based contributions employees make on behalf of the LCBO in communities located across Ontario.

On a corporate level, proceeds from carefully supervised in-store product tastings, frequently sponsored by suppliers, are regularly donated to charity. Each month organizations such as the Canadian Cancer Society and the Liver Foundation are invited to place donation collection boxes in LCBO stores. These drives are responsible for raising many thousands of dollars each year for worthwhile Canadian charities.

let to reflect the personality of a specific neighbourhood **1988** Wine chillers are introduced in 26 stores. Tasting counters are

From left: In-store tastings. Employees are encouraged to complete the Board's Product Knowledge Courses. The face of the LCBO is changing to reflect the diverse society it serves. Executive VP Larry Gee briefs LCBO Auditors Marshall Bir, Natalie Lorenzi and Steve Mazza.
Previous page: Retail staff May Murphy, George Babb and Tony Miele.

added to selected LCBO stores. LCBO customer publication LCBO Today distributed for first time 1989 LCBO Quality Assuran

Faced with continuing sales declines in almost every product category, the LCBO fell short of its planned sales and gross margin targets in fiscal 1991-92. As a result, of sales totalling more than $1.8 billion, overall profits realized for the year were 3.1 percent ($20.8 million) less than plan.

Despite the decline in overall sales, aggressive balance sheet management and cost-containment, reductions in inventories, and improved warehousing, distribution and banking practices enabled the LCBO to exceed by $10 million the $665 million government transfer payment objective set for the 1991-92 fiscal year.

Noteworthy exceptions to the overall shrinking market were the performances of imported and domestic beer, which recorded sales gains of $6 million and $4.8 million respectively, and Ontario wines, particularly VQA designated brands. Beer sales were buoyed by an unusually warm summer, while extensive advertising, in-store tastings and promotions held by the Wine Council of Ontario in co-operation with the LCBO supported the success of Ontario wines. As a measure of that success, 1991-92 sales of high-quality VQA brands increased 40 percent over the 1990-91 fiscal year. Within the boundaries of international trade agreements, the LCBO continues to work closely with Ontario grape growers and wine producers to support the development of these important provincial industries.

The LCBO's Shrinking Market Share

A growing number of external forces have made it increasingly difficult for the LCBO to live up to its revenue-generating obligations. Aggressive marketing and increased competition from legitimate sources such as Brewers Retail, private winery stores, brew-your-own-beer establishments and cross-border shopping have seriously affected LCBO profits. As a result of this increased competition, LCBO sales for fiscal 1991-92 represented only 39.7 percent of the $5.3 billion total beverage alcohol market in Ontario. Illegitimate sources such as smuggling, bootlegging and illegal manufacturing are estimated to account for 13.5 percent of the provincial beverage alcohol market.

This illegal trade represents an enormous loss of revenue to the LCBO and consequently to the provincial government. At a time when vital government social programs are threatened by a lack of funds, it is crucial that the illegal flow be stemmed. Of equal concern is the absence of quality control on illegally imported and manufactured products, and the associated health risks to consumers.

The LCBO is working closely with Liquor Licence Board of Ontario (LLBO) and Canada Customs' officials to tighten controls at border points to reduce beverage alcohol smuggling. In addition, inspectors employed by the LLBO have been equipped by the LCBO with portable alcohol testing machines to assist them in identifying bootlegged products being sold in some of the province's 14,000 licensed establishments.

To reposition itself in the face of growing competition from both legal and illegal channels, the LCBO has invested in store improvements, employee education and training, computer technology, and expanded customer service. The LCBO emulates other successful retailers in these critical performance categories to remain viable as a revenue generator for government. Failure to respond to consumer demand for improved service and product selection would only add to the illegal trade.

A SYSTEM WITH IMPACT

A major milestone in the LCBO's drive toward modernization and greater cost-effectiveness was the completion of the Board's computerized inventory control and cash register system, IMPACT. The four-year development and installation of IMPACT has produced far-

reaching effects on inventory forecasting, marketing and business control functions at the LCBO. The store network, five regional warehouses and the Toronto head office are now linked electronically. As a result, store order delivery times have been cut in half and inventory control has been vastly improved. Enhancements to the business forecasting system planned for the coming year will capitalize on gains made possible with the completion of the system.

In addition to providing data to drive the LCBO's automatic stock replenishing process, the IMPACT system enabled the LCBO to target merchandising strategies to localized customer needs. Moreover, the project's completion laid the foundation for developing a direct interface with new corporate information systems already or about to come onstream. As well, electronic data interchange (EDI) has been made possible with such diverse interest groups as Statistics Canada, LCBO trading partners and suppliers, and with other provincial liquor jurisdictions.

COST-SAVING INITIATIVES

Competitive tendering for overseas shipment of freight resulted in a saving of $3 million in 1991-92. Cost-saving initiatives were not

oratory opens. IMAGE program (Innovate, Merchandise and Generate Enthusiasm) begins. Crossroads store in Weston opens as a

Liquor Licence Board of Ontario Investigator Charles Clarke tests for illegal liquor with a portable testing machine supplied by the LCBO. Previous page: The Great Ontario Wine Test Sweepstakes, a joint LCBO / Wine Council of Ontario initiative, was one of many successful in-store thematic promotions in fiscal 1991-92.

prototype for future full-service stores 1990 New business case approach adopted by LCBO Store Planning Department. V

limited to the Distribution Division. Tendering for banking services in the Finance Division resulted in a $600,000 reduction in 1991-92 service charges. Interest paid on cash deposits in transit from the retail store network resulted in added interest income of approximately $300,000.

Increased emphasis has been placed on effective cash management practices across the Board, including balancing product buying activities with the cash flow generated by sales.

IMPROVED PRODUCT MANAGEMENT

Completion of the IMPACT system also allowed for the implementation of a new, more customer-driven brand listings policy. To ensure fairness, a formal review process was incorporated into both product listing and delisting procedures.

With the increasing segmentation of the beverage alcohol market, the ability to address small but significant markets provided many opportunities to improve profitability in 1991-92. Socially-responsible strategies to generate additional income included low-alcohol products, gift certificates, product demonstrations, and complementary gift-giving ideas. Thematic promotions, undertaken in co-operation with suppliers to promote the products of specific countries or regions, also have been well received by LCBO customers.

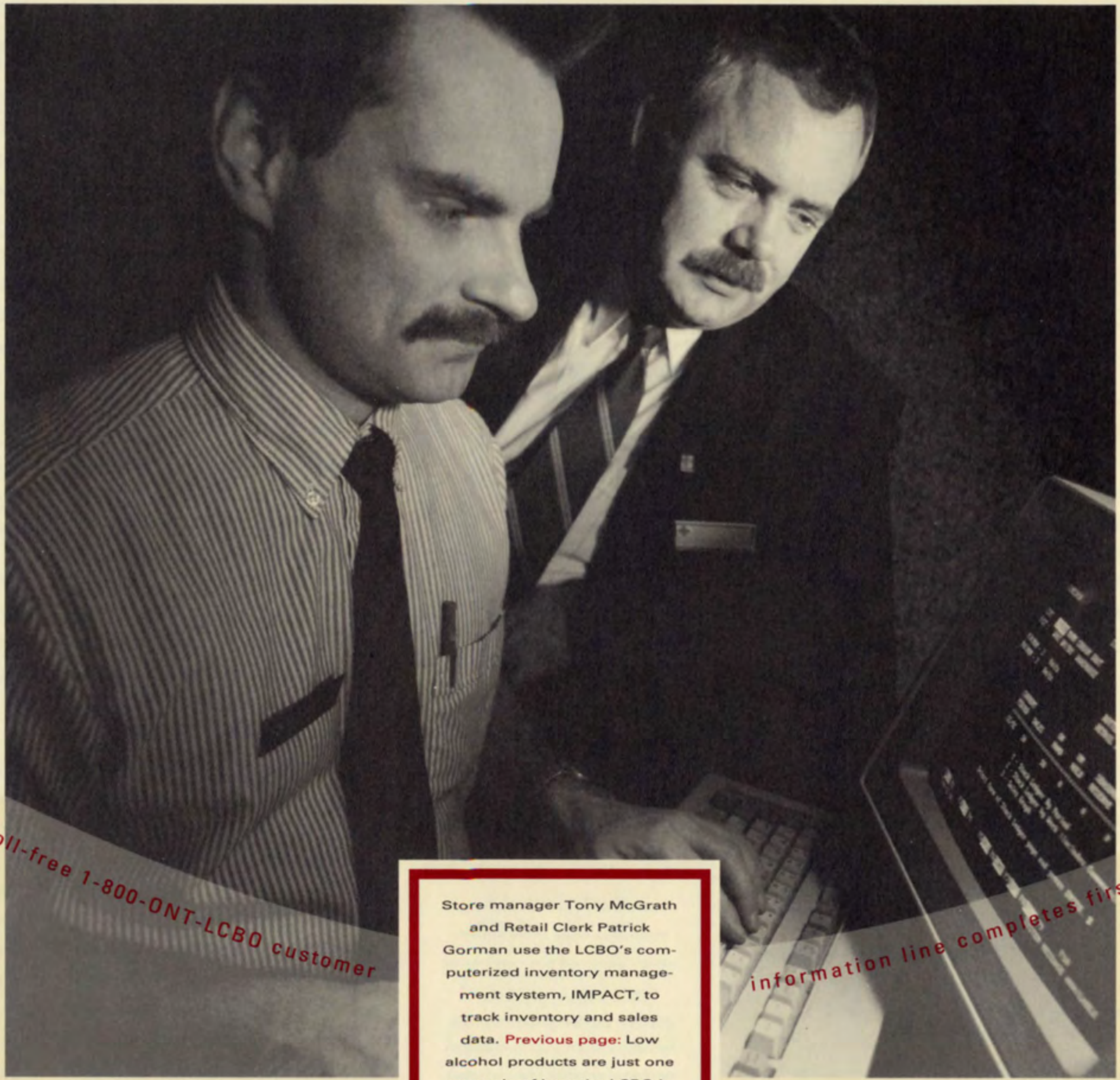
Together with the IMAGE program, these strategies enabled the LCBO to gain standing as a progressive and innovative retailer while advancing the Board's financial objectives.

SERVING MANY STAKEHOLDERS

To ensure such developments were in keeping with LCBO and government policies, two new divisions were created late in 1991. Corporate Services develops and monitors LCBO policy and oversees operation of the Environmental Management, French Language Services and Freedom of Information departments. Corporate Relations ensures that LCBO policies and procedures are clearly communicated to employees and to the many LCBO stakeholder groups within government and in the private sector.

The drive for profitability is constantly balanced with the LCBO's social responsibility mandate. Merchandising policy changes are evaluated for their suitability in a controlled-substance context. Supplier-produced point-of-purchase materials must not promote over consumption or target youthful consumers. Both Corporate Services and Corporate Relations work closely with the operational divisions to ensure LCBO initiatives remain focused on the Board's dual mandates of retailer and regulator.

Improved communication with both employees and external stakeholders is critical to the LCBO's future success. Policy and issues management and improved government and media relations also are considered essential



sultants in a total of 40 stores. Toll-free 1-800-ONT-LCBO customer information line completes first full year of operation. Retail Test

Store manager Tony McGrath and Retail Clerk Patrick Gorman use the LCBO's computerized inventory management system, IMPACT, to track inventory and sales data. Previous page: Low alcohol products are just one example of how the LCBO is catering to changing consumer tastes.

Facility opens at head office in Toronto. 1991 Computer links all stores and warehouses with head office. Second full-se

if the Board is to successfully adapt to changing economic, social and political conditions.

THE GREENING OF THE BOARD CONTINUES

Another major corporate priority has been the ongoing effort to reduce, reuse and recycle materials at Board workplaces. Many programs supporting the "three Rs" were implemented during fiscal 1991-92. Fine paper recycling was introduced at the LCBO's Toronto and regional headquarters. The use of electronic mail and other forms of communications technology has considerably reduced the paper flow from the warehouses and head office to the retail store system. Purchasing policies also have been developed that emphasize recycled or recyclable products, and low-cost reusable canvas shopping bags were made available for sale to LCBO customers.

The results of a study conducted by consultants Proctor and Redfern concerning beverage alcohol container recycling were published in late 1991. Commissioned by the LCBO, the study subsequently underwent a review by numerous stakeholders including the Ministry of Consumer and Commercial

Relations, the Ministry of the Environment, and the Ontario Liquor Boards Employees' Union. In addition to beverage alcohol containers, the Provincial Government is also examining ways to divert soft drink containers from the waste stream. By combining its review of both beverage alcohol and soft drink containers, the Government plans to develop a comprehensive environmental strategy for all such containers.

Low-cost reusable cotton shopping bags have significantly reduced the number of paper bags used in LCBO stores. Recycling bins were installed at 26 LCBO stores in connection with tests of various bottle recovery options in fiscal 1991-92.

The practical applications of a number of options outlined in the Proctor and Redfern Report were explored by the LCBO in 1991-92. Recycling bins were provided at 26 LCBO stores, a glass crushing and return-to-the-manufacturer program was tested, and an automated system of bottle returns was installed at a number of retail outlets.

While there are costs to the LCBO associated with each of these recycling initiatives, there also have been opportunities for cost recovery. Redemption fees paid by glass and paper manufacturers have helped offset pilot program costs while helping to reduce tipping fees at local landfill sites. The LCBO will continue to conduct 'real-life' tests of recycling options and work closely with government and other stakeholders to determine a practical and cost-effective solution to the challenging problem of waste container disposal.

The LCBO has learned it has much in common with other major retailers. More and more, profitability is based on careful cost-control, strategic and integrated planning, improved customer service, creative merchandising and the ability to respond quickly to the changing marketplace.

Continuing evolution in the beverage alcohol industry promises to make fiscal 1992-93 a year of many challenges. Staff at the LCBO are committed to meeting these new challenges in a forthright, progressive and businesslike manner.

Tactics designed to manage change are outlined in the LCBO's 1992-93 strategic plan. Some remain constant: the commitments to customer service, support for Ontario beverage alcohol producers, and profitability balanced with social responsibility. Others, such as modernizing the retail store network, increasingly sophisticated category management and integrating computer information systems, are objectives that have been evolving over the last several

years. Many are already providing a significant return on the LCBO's investment.

Innovative new strategies focus on continuous quality improvement and employee training and development. Enhancements to the organization also will be achieved through employment equity, environmental, and occupational health and safety initiatives. Emphasis will be placed on maintaining healthy labour/management relations, and on building alliances with other LCBO stakeholders and trading partners the world over.

LCBO Has Not Been Recession-Proof

Fiscal 1991-92 was shaped by the persistent recession and overshadowed by concern over the provincial economy. As a major retailer in Ontario, the LCBO was not insulated from these negative forces. Overall sales dropped 5.3 percent in 1991-92, following a 3.6 percent decline in the previous fiscal year. Meanwhile, operating expenses increased 2.1 percent, largely as a function of wage settlements negotiated under the collective agreement. As a result, pressures are mounting on the LCBO to further reduce expenses and to rationalize the staff complement to reflect the decreased demand for beverage alcohol.

Complex Trading Environment

The LCBO also must deal with the implications of international trade agreements and the globalization of the Ontario economy.

Express Selections promote responsible consumption by pairing beverage alcohol products with appropriate food matches. Installed in about a dozen stores, the concept is popular with LCBO customers seeking new ways to save precious shopping time.

tore incorporating new IMAGE program opens on Bank Street in Ottawa. Revamped Specialty Services Department opens.

From left: Legal and illegal competition is increasing. One of a growing number of mature shoppers enjoys the quarterly publication, *LCBO Today*. Recipe cards have proven popular with LCBO patrons. The Suggestion Card Program is a valued source of customer feedback which has resulted in service improvements.

1992 IMPACT inventory management and sales tracking system installed in virtually all 618 LCBO stores province w

The Canada/U.S. Free Trade Agreement and rulings under GATT have already significantly affected the LCBO's ability to independently set pricing, listing, mark-up and distribution policies. Disputes concerning trade barriers to the free flow of beer between the United States and Ontario illustrate the volatility and complexity of the trading environment of the nineties. In June of 1993, foreign beer producers will gain access to the Brewers Retail network of 438 stores, resulting in increased imported beer sales competition for the LCBO. These changes to the beverage alcohol distribution system, brought on by GATT panel decisions, are expected to decrease LCBO revenues.

As well, alternative sources of beverage alcohol will become increasingly available and the trend to decreasing consumption will undoubtedly continue. The aging of Ontario's population will also influence the demand for alcoholic beverages both in volume and product type.

FACING THE FUTURE

The LCBO will continue to diversify its product offerings to satisfy changing consumer preferences. A new generation of customer-friendly stores and convenient services are in place to meet the needs of increasingly sophisticated beverage alcohol consumers. Investments in human resources and information technology will continue to optimize LCBO operations and enhance profitability.

The LCBO commitment to delivering superior customer service and actively supporting the domestic beverage alcohol industry is as strong as ever. In a socially responsible manner, the LCBO will continue to apply its considerable retailing, financial and regulatory expertise to fulfil its revenue generating responsibilities and to serve the best interests of the people and the Province of Ontario.

LCBO at a Glance

The Liquor Control Board of Ontario (LCBO) is responsible for the importation, quality assurance, distribution and sale of alcohol in 618 government-run retail stores across Ontario. The LCBO also regulates and supplies agency and duty free stores in the province. In addition, the LCBO regulates the brewing of beer and its sale through 438 Brewers Retail stores. It also oversees the production of Ontario wine and its sale through 270 retail outlets owned by various wine producers operating in the province.

The Liquor Licence Board of Ontario (LLBO) regulates and licenses premises where beer, wine and spirits are sold. The LLBO also regulates and licenses beverage alcohol manufacturers and monitors the advertising of alcoholic products.

LCBO Operations

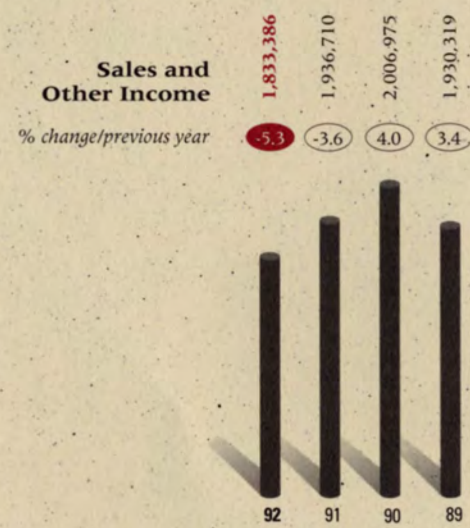
	1992	1991	1990	1989
Number of Permanent Employees	3,233	3,305	3,484	3,396
Number of Regular Products Listed	2,391	2,570	2,825	2,974

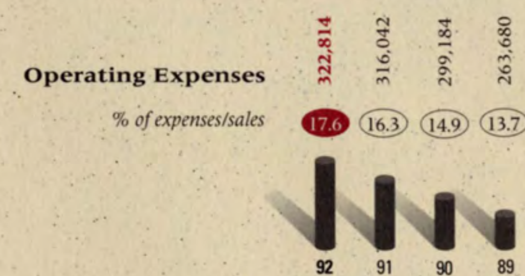
Types of LCBO stores

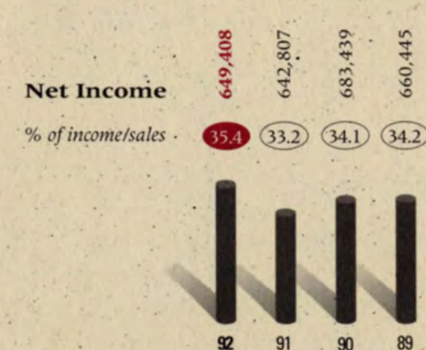
Regular stores	616
Agency stores	77
Duty-free stores	12
Airport stores	2
Total stores:	**707**

Financial

Year ended March 31 ($000)







Ontario Beverage Alcohol Market Share in Value

Challenge and Refusal Program

During fiscal 1991-92, approximately 160,000 persons who appeared to be intoxicated or under the legal drinking age were challenged by LCBO retail staff under the Challenge and Refusal Program. Of these, 57,000 were subsequently refused service.

Revenue Payments

Levies on beverage-alcohol sold in the Province during the year contributed an amount in excess of $1.4 billion to the Treasurer of Ontario, and revenue paid to the Government of Canada was approximately $631 million. These amounts do not include corporation, realty and business taxes paid by the distilleries, wineries, breweries and licence holders. Ontario retail sales tax collected by licence holders and agency stores on sales of beverage alcohol is excluded from these figures.

Treasurer of Ontario	($000)	($000)
Remitted by the Liquor Control Board		
• on account of profits	675,000	
• Ontario Retail Sales Tax on liquor sales	182,298	
	857,298	
Remitted by the Liquor Licence Board		
• on account of licence fees and permits	483,356	
Remitted by others		
• Ontario Retail Sales Tax on sales made through Brewers Retail stores and retail wine stores	154,181	1,494,835
Receiver General for Canada		
Remitted by the Liquor Control Board		
• customs and excise duties	257,408	
• Federal Sales Tax on spirits, wines and imported beers	91	
• Goods and Services Tax	58,538	
	316,037	
Remitted by others		
• malt duties, GST and other taxes on domestic beers and wines	315,768	631,805
Ontario Municipalities		
Remitted by the Liquor Control Board		
• grants in lieu of realty and business taxes		5,224
Total Revenue Payments		**2,131,864**

SALES (DOLLARS)

Year ended March 31	1992 (000)	1991 (000)	INCREASE (DECREASE)
Canadian Spirits	793,188	871,565	(78,377)
Imported Spirits	283,148	305,523	(22,375)
Canadian Wines	144,879	143,171	1,708
Imported Wines	372,925	396,053	(23,128)
Canadian Beers	119,319	114,483	4,836
Imported Beers	96,959	90,882	6,077
Total sales by Board stores *(including sales to licensed establishments)*	1,810,418	1,921,677	(111,259)
Sales by Ontario wineries and winery stores	54,913	50,591	4,322
Other winery sales	901	504	397
Sales by breweries and Brewers Retail stores *(exclusive of container value)*	1,785,851	1,727,065	58,786

SALES (LITRES)

Year ended March 31	1992 (000)	1991 (000)	INCREASE (DECREASE)
Canadian Spirits	43,656	47,333	(3,677)
Imported Spirits	11,733	12,367	(634)
Canadian Wines	24,711	24,796	(85)
Imported Wines	44,017	45,814	(1,797)
Canadian Beers *	43,176	43,242	(66)
Imported Beers	38,400	33,382	5,018
Total sales by Board stores	205,693	206,934	(1,241)
Sales by Ontario wineries and winery stores	8,844	8,168	676
Other winery sales	636	388	248
Sales by breweries and Brewers Retail stores	706,642	736,680	(30,038)

** Litre sales of Canadian beer by Board stores is estimated on actual dollar sales.*

PRODUCT LISTINGS

Domestic	March 31, 1992	March 31, 1991
Canadian Whisky	136	150
Canadian Blended Rums	92	91
Canadian Gin	34	33
Canadian Vodka	59	64
Canadian Brandy	4	4
Canadian Blended Brandy	12	12
Canadian Spirit Coolers	19	24
Fruit Spirits	6	6
Miscellaneous Liquors	15	6
Canadian Liqueurs	81	92
Ontario Wines	478	525
Ontario Wine Coolers	19	21
Other Canadian Wines	11	10
Canadian Cider	6	6
Canadian Beer (incl. beer coolers)	215	214
Alcohol	6	6
Miniatures	9	9
Bitters	3	3

Imported	March 31, 1992	March 31, 1991
Scotch Whisky	75	95
Irish Whiskey	3	4
American Whiskey	6	8
Gin	12	14
Rum	13	17
Vodka	20	23
Tequila	7	6
Brandy	55	83
Fruit Spirits	1	3
Miscellaneous Liquors	30	36
Liqueurs	49	70
Wines	833	836
Cider	0	1
Beer and Sake	61	72
Miniatures	11	17
Bitters	10	9
Total Regular Listings	2391	2570
Vintages' Wines and Spirits	1506	700
Duty-Free Listings	154	107
TOTAL PRODUCT LISTINGS	**4051**	**3377**

BALANCE SHEET
As at March 31, 1992

ASSETS	1992 ($000)	1991 ($000)
Current		
Cash and short-term investments	36,218	55,648
Accounts receivable, trade and others	3,540	16,391
Inventories, at cost	165,525	157,250
Prepaid expenses	1,872	1,923
	207,155	**231,212**

LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	118,212	116,677
Retained income	88,943	114,535
	207,155	**231,212**

See accompanying notes to financial statements.

APPROVED:

CHAIR AND
CHIEF EXECUTIVE OFFICER

ACTING VICE PRESIDENT,
FINANCE AND ADMINISTRATION

STATEMENT OF INCOME AND RETAINED INCOME
Year Ended March 31, 1992

	1992 ($000)	1991 ($000)
Sales and other income	1,833,386	1,936,710
COSTS AND EXPENSES		
Cost of sales	861,164	977,861
Retail stores and marketing	225,540	216,330
Administration	43,928	43,319
Warehousing and distribution	27,592	26,642
Fixed assets	25,754	29,751
	1,183,978	**1,293,903**
Net Income for the year	649,408	642,807
Retained income, beginning of year	114,535	121,728
	763,943	764,535
Deduct payments to the Treasurer of Ontario on account of net income	675,000	650,000
RETAINED INCOME, END OF YEAR	**88,943**	**114,535**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 1992

1. SIGNIFICANT ACCOUNTING POLICY

The Board's financial statements are prepared in accordance with generally accepted accounting principles, except for fixed assets, which are written off to operations at the time of acquisition.

2.INSURANCE

The Board follows the policy of self-insuring its store assets for property damage such as fire, water, vandalism or theft. All other material assets are insured by insurance companies.

3. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	($000)		
1993	21,669	1996	10,593
1994	15,651	1997	7,956
1995	13,300	Thereafter	11,832
			81,001

4. PENSION PLAN

The Board provides pension benefits for its permanent employees through participation in the Public Service Pension Fund established by the Province of Ontario. The Board's share of contributions to the Fund during the year was $15,207,196 (1991 - $15,076,861). This amount includes current contributions and additional payments required to cover the Board's share of the Fund's unfunded liability on January 1, 1990. These additional payments will continue over the next 38 years.

5. CONTINGENT LIABILITY

Major airlines have taken legal action against the Board contesting the Board's right to collect mark-up on any liquor which is imported into Ontario by the airlines. The outcome of this action and the amounts involved are not determinable. Judgement, if any, against the Board will be accounted for as a prior period adjustment in the year the claim is resolved.

PROVINCIAL AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Consumer and Commercial Relations:

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 1992 and the statement of income and retained income for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1992 and the results of its operations for the year then ended in accordance with the accounting policy described in note 1 to the financial statements.

TORONTO, ONTARIO,
JULY 16, 1992.

J.F. OTTERMAN, F.C.A.,
ASSISTANT PROVINCIAL AUDITOR