LCBO Annual Report

1995-1996

Our *best* year *ever*

CANADA'S MOST PROFITABLE COMPANY –

Financial Post Magazine

Letter of Transmittal

The Hon. David H. Tsubouchi,
Minister of Consumer and
Commercial Relations

Dear Minister,

I have the honour to present to you the 1995-96 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
Chair and CEO

Our Mission Statement:

"As a government enterprise, the LCBO will be a customer-focused and profitable retailer of beverage alcohol, a leader in promoting social responsibility in its use, and an impartial and objective regulator of the beverage alcohol industry."

LCBO Board of Directors

During Fiscal 1995-96

Andrew S. Brandt
Chair and Chief Executive Officer

Chantal Haas
Vice-Chair

Rajula Atherton
Director; Chair, Audit Committee

Orrin O. Benn
Director; Member, Audit Committee

M. Sharon Broderick
Director

Gerald J. Charney
Director

Vernon C. Parrington
Director; Member, Audit Committee

Larry C. Gee
Executive Vice President

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The LCBO *at a glance*

THE LIQUOR CONTROL BOARD OF ONTARIO REGULATES THE PRODUCTION, IMPORTATION, DISTRIBUTION AND SALE OF ALCOHOLIC BEVERAGES IN ONTARIO.

The LCBO is the largest single purchaser of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 596 stores across Ontario. Through this integrated distribution and retailing network, nearly 5,000 products are available to consumers either by direct purchase or by special order. Customers can also obtain thousands more products not regularly listed in Ontario through the LCBO Private Stock ordering program.

The LCBO also operates four stand-alone Vintages outlets, which offer consumers a wide selection of premium wines, spirits and beers. Vintages products are also available in six Vintages boutiques and special sections of 135 regular LCBO stores. They can also be ordered through any LCBO outlet. More than 500 additional premium products can be ordered from each edition of the Vintages *Classics Catalogue.*

In partnership with the LCBO, established retailers operate 86 agency stores in communities without large enough population bases to support regular LCBO stores.

For air travellers, the LCBO operates two duty-free stores at Terminals 1 and 2 at Pearson International Airport.

The LCBO also regulates the sale of products through 436 Brewers Retail stores, 28 on-site brewery stores, 330 winery stores, two distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Terminal 3 and at Ottawa International Airport.

In the interests of consumer protection, the LCBO conducts approximately 180,000 tests on 9,200 different alcoholic beverages each year. This Quality Assurance testing ensures that all products sold by the LCBO, Ontario winery stores and Brewers Retail stores comply with the federal *Food and Drug Act*, as well as the LCBO's high standards for quality and taste.

FOR FURTHER INFORMATION ABOUT LCBO PRODUCTS AND SERVICES, CALL THE LCBO TOLL-FREE INFOLINE AT 1-800-ONT-LCBO (668-5226). IN METROPOLITAN TORONTO, CALL (416) 365-5900 OR VISIT THE LCBO'S TWO INTERNET SITES: *http://www.lcbo.com* (OUR CORPORATE HOME PAGE), AND *http://www.vintages.com* (THE VINTAGES WEBSITE). ●

LCBO
Board of Directors,
1995-1996

THE DIRECTORS OF THE LCBO, LIKE THOSE OF OTHER PROVINCIAL GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDER-IN-COUNCIL. APPOINTMENTS, USUALLY FOR A THREE-YEAR PERIOD, ARE SOMETIMES RENEWED.

ANDREW S. BRANDT: APPOINTED CHAIR AND CHIEF EXECUTIVE OFFICER FEBRUARY 6, 1991.

Now in his second three-year term as both Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in both the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations.

CHANTAL HAAS: APPOINTED VICE-CHAIR MAY 15, 1995.

Ms. Haas owns and operates a successful Toronto-based multilingual human resources organization, Bilingual Plus Inc., which specializes in French, English, Spanish and Japanese placements. In addition to leading her business, she participates actively in Toronto's French community. Ms. Haas has been a two-term president of Le Cercle canadien de Toronto. She is a member of the Board of Directors of the French Chamber of Commerce (Ontario) and Vice-President of Public Relations for Women Entrepreneurs of Canada. Ms. Haas is also a National Board Director with the Association of Professional Placement Agencies & Consultants and is an active member of the Employment & Staffing Services Association of Canada. She has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead and Step-Up mentoring programs.

RAJULA ATHERTON: APPOINTED OCTOBER 7, 1994.

Mrs. Atherton brings to the LCBO wide experience in increasingly responsible finance and administration positions with the Government of Ontario, including the Addiction Research Foundation, from 1972 until 1988. In 1988 she left the government to become a partner, with her husband, in a public accounting firm, Atherton and Atherton, and in a grape-farming operation, Atherton Vineyards. Mrs. Atherton has also designed organizational strategies to provide culturally appropriate client services and employment equity. She is active in community services such as the United Way and the Women's Rural Economic Development Organization.

ORRIN O. BENN: APPOINTED SEPTEMBER 8, 1994.

Mr. Benn has many years of experience in marketing management positions in packaged goods companies, mostly with Heublein Incorporated, where he rose to be Director of Marketing of the International Beverage Group. Just prior to joining the LCBO Board, Mr. Benn was a Member, Board of Governors, Exhibition Place, where he was Chair of the Audit Committee. He currently teaches international trade and marketing at Seneca College.

M. SHARON BRODERICK: APPOINTED DECEMBER 12, 1991.

Now in her second term on the LCBO Board, Ms. Broderick is a member of the Faculty of Business at Brock University in St. Catharines, where she teaches Marketing, Consumer Behaviour and Communications Studies courses. She also serves as a member of the Board of Governors of the St. Catharines General Hospital.

GERALD J. CHARNEY: APPOINTED MAY 4, 1995.

A full-time labour arbitrator with more than 30 years of experience in labour law, Mr. Charney has his own firm, Charney Arbitrations, and is also Vice-Chair of the Crown Employees Grievance Settlement Board. He has served as a facilitator/mediator on behalf of the Ontario government in the restructuring of Algoma Steel, the Algoma Central Railway and Spruce Falls Lumber. As a long-time wine collector, Mr. Charney has a special interest in the merchandising of beverage alcohol and in increasing consumer knowledge about these products.

VERNON C. PARRINGTON: APPOINTED SEPTEMBER 8, 1994.

Mr. Parrington brings to the LCBO Board the experience of a 30-year career in labour relations and workplace technology, mostly in the automotive and aerospace industries. Until his retirement in 1990, he served in a number of positions in the United Auto Workers, including Assistant to the Vice President and, later, the Canadian Auto Workers, where he finished his career as Director of the Skilled Trades Department. He has handled grievances at all levels, sat on arbitration panels, mediated disputes, and helped develop and upgrade apprenticeship and training programs for workers on behalf of the provincial Skilled Trade Advisory Boards. Mr. Parrington is now on the board of Teranet, which oversees all land registrations and titles in Ontario.

LCBO
685
680
675
670
THIS YEAR'S $680 MILLION TRANSFER TO GOVERNMENT WAS A RECORD - AND WE'VE RAISED THE BAR TO $685 MILLION FOR 1996-97.

A *record-breaking* year

AT 11 A.M. ON MARCH 28, 1996, LCBO TREASURER ELSPETH GAUKRODGER TOUCHED ONE KEY ON HER COMPUTER – AND HISTORY WAS MADE.

She transferred $10 million to the Government of Ontario's Consolidated Revenue Fund, bringing the LCBO's total transfer for the 1995-96 fiscal year to $680 million.

That's the largest single one-year transfer ever, surpassing the previous record of fiscal 1991-92 by $5 million.

It is also a $50 million increase over the previous fiscal year, and $95 million more than in fiscal 1993-94.

(This figure solely represents profits from sales; it does not include the $183 million in Provincial Sales Tax sent to the Government by the LCBO during the fiscal year. The total payment of $863 million represents the largest single revenue source for the Ontario Government.)

DID YOU KNOW... **OUR NET SALES INCREASE OF 5.5 PER CENT IN FISCAL 1995-96 OUTPERFORMED ALL OTHER CANADIAN LIQUOR JURISDICTIONS.**

The LCBO was Canada's *most* profitable company of 1995, according to the *Financial Post.*

In the influential business magazine's rankings of the nation's top 500 companies, the LCBO placed *first* in profits with a margin of 35.6 per cent, based on the LCBO's 1994-95 fiscal year.

The LCBO also ranked *second* in return on invested capital, *third* in return on shareholders' equity, and *seventh* in net income.

What's more, the LCBO outperformed all other Canadian liquor jurisdictions. Our net sales were up 5.5 per cent in fiscal 1995-96. By comparison, sales in many other provincial liquor jurisdictions were flat.

BUCKING THE TREND

The LCBO's increased sales and record-breaking transfers come at a time when the proportion of income Canadians spend on beverage alcohol continues to decline: from a little over five per cent of the average household budget in 1981 to about three per cent in 1994 (the most recent Statistics Canada figures available).

Health Canada confirms the change in Canadian drinking habits: only 72.3 per cent of those surveyed in 1995 described themselves as "current drinkers," compared with 77.7 per cent in 1989; Ontario reported the greatest drop, from 77.6 per cent to 69.4 per cent.

The decrease in alcohol consumption is tied in part to the aging population – people tend to drink less as they get older – as well as to increased moderation, as society rejects drinking and driving and other forms of alcohol abuse.

Wearing our regulatory and social responsibility hats, we naturally support the responsible use of the products we sell. But wearing our retail hat, we must work hard to optimize the amount of money we turn over to the province.

"Great service, very pleasant personnel. Attractive displays. Excellent variety. A-1!"

SUGGESTION CARD FROM I. BRUNET, WAWA.

IMAGE AND REALITY

Today the LCBO is in a minority position when it comes to the sale of beverage alcohol in the province. We currently account for less than 40 per cent of the roughly $5.6 billion annual beverage market in Ontario. The rest is sold by Brewers Retail Incorporated (BRI) stores (37 per cent), winery stores (two per cent), U-brews and other legal channels (eight per cent), and the illegal market (estimated 14 per cent).

So, the reality is a little different from the image of the LCBO still held by many people. We aren't a monopoly, except for spirits, a product category that is only recently showing signs of recovery after many years of steadily declining sales; we have lots of competition, both legal and illegal. We aren't recession proof: our sales, like those of many other major retailers, are affected by swings in consumer confidence and the availability of disposable income.

The LCBO has faced these realities and overcome many challenges to achieve this year's outstanding financial performance. We're not just surviving in the more complex and competitive nineties – we're thriving.

As the analysis on page 35 explains, in fiscal 1995-96 we not only continued to increase the *value* of our sales by 5.5 per cent; for the second year in a row, we posted increases in sales *volume*. The total number of litres sold grew by nearly seven per cent, with all three major product categories showing significant gains. Our wine business was up 4.2 per cent, the second consecutive year of growth after volume declines during the six previous years. LCBO beer sales continued their pace-setting double-digit growth – up 11.5 per cent over the previous year. Most encouraging was the 3.3 per cent gain in spirit sales – the first volume increase in this battered but vital category in seven years.

THE STORY BEHIND THE SUCCESS

Now, none of this just happened. In fact, the effort behind this year's performance really started in 1987. That's when we decided to refocus the mandate of the LCBO: what had traditionally been a control-oriented distributor would become a customer-focused retailer.

New senior managers with extensive experience in retailing were brought in and the transformation began. A comment made at the time was that changing the LCBO would be like trying to turn around an ocean liner.

Fast forward to 1996: the 69-year-old ship has not only turned, it is sailing in the right direction, with many of the same senior managers who charted the course still at the helm. By introducing a number of retailing initiatives, while simultaneously containing its operating costs, the LCBO has achieved a level of profitability unmatched in Canada.

COMBINED EFFORTS ON MANY FRONTS

The modern, clean and appealing shopping environments we've created in our 596 stores are one key factor in the LCBO's success. But many retailers whose sales weren't satisfactory in fiscal 1995-96 also have attractive stores. There's more to our banner year: exciting and imaginative marketing and merchandising programs; a broad array of customer services based on consumer research; extensive and intensive staff training in product knowledge and in relating to customers. Our combined efforts on all these fronts have helped the LCBO live up to its mandate to be "a customer-focused and profitable retailer of beverage alcohol…."

Guided by market research, we've upgraded and relocated a number of our stores, and where we've renovated, added refrigeration or expanded services and selection, we've seen increased sales and a healthy payback on our investment. Tailoring different store formats to the requirements of individual communities has proven equally successful, and an important part of the LCBO's overall strategy in controlling expenses.

Another major reason for the LCBO's retail success in 1995-96 was its *Shop the World* integrated merchandising program. Launched during the previous fiscal year, the program highlights the LCBO's international product selection. *Shop the World* came into its own in fiscal 1995-96 with four "world events": *Taste the World of Beer* in May/June, *Shake it Up!* in June/July, *Olé* in July/August and *The Wines of Ontario* in October/November.

These theme promotions have been enthusiastically received by our customers. And in each case, the featured products have enjoyed greatly increased sales. (For details see page 26.)

The LCBO began offering credit and debit cards at selected stores in mid-1994. By the fall of 1995, these payment options were available in all our stores. This added convenience also contributed to the LCBO's strong sales performance.

The first-ever opening on a Sunday, December 24, helped boost LCBO net sales during the crucial holiday period by 5.4 per cent over December 1994, representing an additional $5 million in profits.

Then there's the contribution of our retail training programs – many of them jointly presented by our suppliers and industry trade groups. It's no coincidence that following the introduction of our *That's the Spirit!* product knowledge and customer service training program, sales of total distilled spirits increased for the first time since 1989.

But the bottom line isn't the only measure of success at the LCBO. Equally important is our ability to help protect the health and safety of all Ontarians. Here again, 1995-96 was a good year. Both the number of challenges and refusals at our stores were up considerably over the previous year. (For details see page 29.)

WHAT THE PUBLIC THINKS

Our efforts to better serve the public have not gone unnoticed. We know from our extensive customer research that the public likes and values what the LCBO is doing. The vast majority of the letters, faxes, E-mail messages and phone calls we receive is also complimentary. The same is true of the many suggestion cards customers fill out at our stores.

Public opinion polls show that more people than ever think we're doing a pretty good job – that we are both profitable and socially responsible.

The LCBO has also received nearly 40 awards since 1990, many won by Retail Store Development and Corporate Communications for excellence in their fields. Almost all of these honours have been achieved through competitions, many of them open to both the public and private sectors, some international in scope.

DID YOU KNOW...
LCBO SPIRIT SALES BY VOLUME INCREASED FOR THE FIRST TIME IN SEVEN YEARS IN FISCAL 1995-96.

When one looks at these awards, at the record transfer payment, our performance compared to other liquor jurisdictions, our *Financial Post* rankings, our standing with the public, our successes in modernizing, our ability to implement our strategic plan in a complex and changing marketplace, one can see why we believe we can compete with the best.

One can see why fiscal 1995-96 was in many ways the *best* of times.

"Your selection is the best in the world."

SUGGESTION CARD FROM M. KUHN, WATERLOO.

RETAILING IN A "FISHBOWL"

While the provincial government's planned modernization review of beverage alcohol retailing and distribution was not initiated during the first year of its mandate, the issue was frequently debated in the media and elsewhere: when would the review commission be appointed? what options would be considered, and what would be their impact on selection, prices, public health and safety? what has been the impact of privatization in Alberta?

This debate was kept in the public eye, at least in part, by a high-profile advertising campaign by the Ontario Liquor Boards Employees' Union (OLBEU) and by union efforts to get municipal councils to pass anti-privatization resolutions.

While the debate has been extensive, like the review process itself, it is far from over. In fact, by year's end both were still taking shape.

An important announcement came in May of 1996, during the government's first budget statement, when Finance Minister Ernie Eves announced plans to establish a special Cabinet Committee on Privatization, which he would chair.

This is another step in a process which, according to the government itself, will be open and consultative, with ample opportunity for all interested parties, including the LCBO and its employees, to contribute ideas and opinions on how to continue to modernize beverage alcohol retailing in Ontario.

The government understands the need to strike a balance between social responsibility and profitability, as the LCBO has done in the past.

It also recognizes that any significant change to the LCBO retail and distribution system would have a major impact not only on Ontario wineries and their stores, but also the distillers and the brewers, particularly Labatt and Molson who, along with Sleeman, own the Brewers Retail store network.

In short, it is a complex issue, with far-reaching implications.

At the LCBO we look forward to being part of the review process, and to working with all stakeholders to develop a "made in Ontario" plan that meets both the government's and the public's goals and expectations. We have a number of sound ideas which we believe could make the LCBO even more effective, profitable and responsive to Ontario's beverage alcohol consumers, while continuing to protect the interests and safety of the public.

OPERATIONAL AGENCY REVIEW

While the modernization review was still pending, the LCBO was included in another review process. As part of its overall deficit reduction strategy, the government initiated reviews of its 75 operational agencies, including the LCBO. This Operational Agency Review (OAR) process was announced in the Fall 1995 Economic Statement. The LCBO's OAR was undertaken early in 1996 by staff from Management Board of Cabinet and other ministries, along with an independent retail consultant, who examined all divisions of the LCBO.

This team compared the LCBO to other modern retailers, drawing on many existing LCBO studies.

Many of the team's recommendations match up well with our own plans for continuing to improve our retail network, in-store merchandising and overall customer service.

We plan on cutting $41.9 million in spending in the 1996-97 fiscal year, and another $13.9 million the year after that, in our drive for maximum efficiency and cost-effectiveness.

Working with our suppliers, we plan to reduce our investment in warehouse and store inventory by about $30 million, while still keeping our stores adequately stocked through supply-chain improvements and expansion of our consignment program.

The Bottling and Processing Plant now operating in the Toronto Warehouse will be shut down as a cost-saving measure. This is expected to be completed by September of 1996, when existing bulk inventories will be exhausted.

I HAVE SEEN THAT CHANGE CAN AND DOES CREATE ALL KINDS OF NEW POSSIBILITIES FOR THE LCBO, ITS EMPLOYEES AND ITS CUSTOMERS. I HAVE ALSO SEEN THAT INVESTMENTS IN THE LCBO STORE NETWORK, IN TECHNOLOGY AND IN STAFF TRAINING ARE BOTH PROFITABLE AND BENEFICIAL. I BELIEVE TODAY'S LCBO IS A VALUABLE AND VALUED PUBLIC ASSET.

Head office administrative activities are being reviewed, to increase efficiencies and reduce costs by $8 million over two years. We have reduced our capital budget by more than $12 million over two fiscal years. Retail and distribution activities are also being examined to identify additional productivity gains and savings. The latter will be made easier by the recent signing of a new, more flexible two-year collective bargaining agreement between the LCBO and the Ontario Liquor Boards Employees' Union.

OUR COMMITMENT TO EXCELLENCE

The LCBO is committed to achieving savings without cutting the high level of service our customers expect from us. We will also ensure any changes do not reduce our ability to generate revenue for the government and people of Ontario in a socially responsible manner.

Prior to the Operational Agency Review, we had established three benchmarking programs, examining administration, customer service and supply-chain management (the process of getting products to our store shelves). These internally-driven reviews will help us become even more efficient, cost-effective and customer-focused. In addition to reducing our costs, they will help us achieve our transfer target of $685 million for fiscal 1996-97.

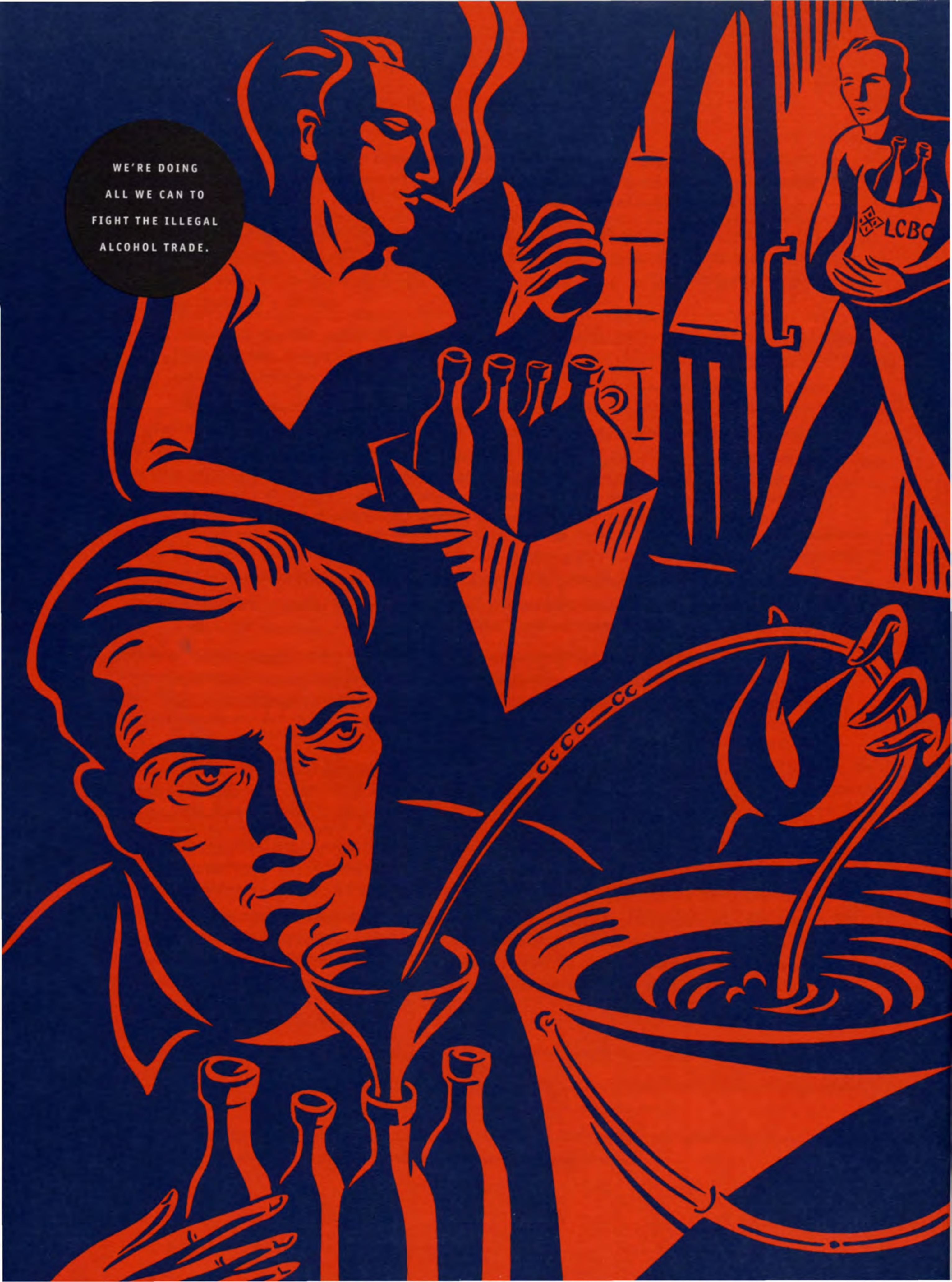
I have been LCBO Chair and Chief Executive Officer for more than five years. In this time, I've come to respect, appreciate and value the ability of LCBO employees to meet a challenge; to take full advantage of an opportunity; to be flexible and responsive to changing events, circumstances and marketplace trends.

I have seen that change can and does create all kinds of new possibilities for the LCBO, its employees and its customers. I have also seen that investments in the LCBO store network, in technology and in staff training are both profitable and beneficial. I believe today's LCBO is a valuable and valued public asset.

With the support of the Board of Directors, management and staff of the LCBO, I will do everything possible to ensure the LCBO continues to be a reliable, cost-effective and socially responsible source of revenue for the Ontario government. Working with government, the OLBEU and our trade partners, the LCBO will continue to create an increasingly positive shopping experience for our customers. ●

ANDREW S. BRANDT,
CHAIR AND CHIEF EXECUTIVE OFFICER
JULY, 1996

WE'RE DOING ALL WE CAN TO FIGHT THE ILLEGAL ALCOHOL TRADE.



Illegal alcohol: *the battle rages on*

SOME PEOPLE THINK THAT BUYING ILLEGAL ALCOHOL ISN'T REALLY A CRIME.

Bringing back a few extra bottles from the U.S. in the glove compartment. Buying a jug of cheap red wine from the industrial complex in the suburbs. Going to the bar that sells shots at very low prices for "special customers".

What's the harm in taking advantage of a bargain? It's just a form of tax revolt, isn't it? Who does it hurt?

DID YOU KNOW... SMUGGLED LIQUOR AND ILLEGALLY MADE WINE SIPHON OFF AN ESTIMATED 14 PER CENT OF THE $5.6 BILLION ONTARIO BEVERAGE ALCOHOL TRADE.

Well, it isn't that simple. It isn't that innocent. Bootleg booze can and does hurt us all. Illicit alcohol is a well-organized, multi-million dollar business, with a sophisticated underground production, distribution and sales network that reaches into communities throughout Ontario.

The LCBO estimates that 14 per cent of the $5.6 billion Ontario beverage alcohol trade is being siphoned off by the black market. That's nearly $800 million a year – about $500 million in smuggled liquor and $300 million in illegally made wine.

If these products were sold through the LCBO, Ontario's Treasury would get approximately $475 million for hospitals, schools and roads. Instead it goes to smugglers who also deal in drugs, weapons and other contraband. Profits from smuggling and bootlegging often support other, sometimes violent crimes.

NOT A VICTIMLESS CRIME

Need more evidence that illegal alcohol isn't a victimless crime? Consider these facts:

- Criminals don't pay taxes on their ill-gotten gains. But they do compete with hard-working taxpayers for access to limited public resources and services.
- Smuggling and illegal manufacturing threaten thousands of jobs in the beverage alcohol trade and associated industries such as agriculture, bottling, transportation and warehousing.
- Law-abiding bar and restaurant owners and their employees must compete against others who flout the law and pocket illegal profits from bootleg booze.
- Seized illegal alcohol tested by the LCBO Quality Assurance Laboratory is often found to contain chemical and organic impurities. Bootleg wine is often made, stored and shipped under unsanitary conditions.
- And illegal operators don't care if they sell to underage or intoxicated individuals.

"I want to take this opportunity to acknowledge the support and co-operation our industry has received from the LCBO, particularly over the past year, to drive Ontario wine sales."

LETTER FROM BRUCE WALKER, CHAIRMAN, ONTARIO WINE COUNCIL.

AN UPHILL BATTLE

The LCBO is doing all it can to stem the flood of illegal alcohol in Ontario – but it's a difficult battle for several reasons.

For starters, too many people believe that illegal alcohol is a victimless crime, a view fuelled by high taxation levels on domestic products – 83 per cent for spirits, 66 per cent for beer and 64 per cent for wine. With help from the media, we have clarified this misconception to some degree, but there is still a long way to go.

Secondly, while our investigators have made the law enforcement community more aware of the seriousness of the illegal alcohol problem in Ontario, resources are limited; provincial and municipal police forces cannot always give illegal alcohol the attention it deserves.

Thirdly, the penalties for smuggling and illegal manufacturing were traditionally so light that criminals could simply chalk them up to the cost of doing business. However, with amendments to the *Liquor Licence Act* proclaimed on November 17, 1994, penalties were stiffened considerably. The maximum fine for individuals quadrupled from $25,000 to $100,000; the maximum fine for corporations increased from $100,000 to $250,000. These tougher fines should act as a greater deterrent to smugglers and illegal manufacturers.

Fourthly, when the market for illegal cigarettes dried up, many smugglers switched to alcohol to replace lost profits.

A PRODUCTIVE YEAR

Despite these problems, fiscal 1995-96 was very productive for the five-man LCBO investigative unit. They laid a total of 303 charges under the *Liquor Licence Act,* and made 79 seizures worth a total of $10.5 million – almost matching the tally for the two previous years combined.

But as the investigators themselves point out, enforcement operations don't always fall neatly into reporting periods – investigations can last well over a year, from the first intelligence report to the arrest of suspects and seizure of goods. The trend to more complex, but ultimately more rewarding investigations is growing, as enforcement agencies focus on shutting down the larger illicit networks.

The Illegal Alcohol Task Force (IATF), founded by the LCBO in 1992 to marshall resources and focus attention on the illegal alcohol problem, has developed a more comprehensive and co-operative approach to finding and arresting criminals who trade in illegal alcohol.

This group, made up of enforcement officers from the RCMP, the OPP, the Ontario Ministry of Finance, Revenue Canada, Canada Customs, as well as the LCBO and Liquor Licence Board, meets regularly to share information and plan strategies. The LCBO also is a member of the Criminal Intelligence Services of Ontario (CISO), which helps our investigators stay on top of the latest developments in crime and crime fighting.

During the year, LCBO investigators were called upon to help train their colleagues in Canada Customs and the RCMP (Cornwall and Kingston detachments) in the identification of illegal spirits. Our investigators also took part in LCBO displays at trade and consumer shows in Toronto, Peterborough and Ottawa, to explain the health and social costs of illegal alcohol.

The Quality Assurance Laboratory did its part by analyzing samples of 1,163 seized products in the 1995 calendar year, to help determine their makeup and origin. (Projections for 1996 suggest this number will at least double.)

NO MORTAL BLOW

We would like to report that our many seizures and growing number of convictions, our collaborative efforts with law enforcement partners, and our public education efforts have dealt a mortal blow to the illegal trade. But despite some encouraging signs in domestic spirit sales, we're only seizing a fraction of the illicit alcohol that's peddled here; we're only apprehending a handful of the criminals involved.

That's why in February, 1996, our Chair invited then Consumer and Commercial Relations Minister Norman W. Sterling and Deputy Minister Stien K. Lal to visit LCBO Loss Prevention & Security and discuss additional ways the Government of Ontario could help fight the problem.

At Minister Sterling's request, the LCBO has since made a number of recommendations on ways to further combat smuggling and illegal wine manufacturing.

Whatever policies or legislation are eventually adopted, the LCBO will keep working with its police partners to stem the flow of smuggled liquor and illegally made wine. We believe our customers deserve nothing but the best products we can offer – all tested for safety – along with all the customer services that are now part of the LCBO shopping experience.

And we believe that Ontario deserves the revenue from liquor sales – not the organized gangs behind an $800 million black market. ●

DID YOU KNOW...
THE LCBO QUALITY ASSURANCE LABORATORY CONDUCTED 180,000 TESTS ON 9,200 DIFFERENT PRODUCTS LAST YEAR TO ENSURE THEY WERE SAFE. SAMPLES OF 1,163 SEIZED PRODUCTS WERE ANALYZED TO DETERMINE THEIR MAKEUP AND ORIGIN.

ARTHUR AU, RIGHT, MANAGER OF OUR MARKHAM MINI-STORE, SERVES CUSTOMERS MAY CHU AND ANSUN CHEN.

Changing with the times

YOU DON'T HAVE TO BE VERY OLD TO REMEMBER WHEN LCBO STORES WERE DREARY AND FEATURELESS, WITH HARDLY A BOTTLE IN SIGHT. INSTEAD, YOU MADE YOUR SELECTIONS FROM "PRICE BOARDS" WHERE CODE NUMBERS, BRAND NAMES, SIZES AND PRICES WERE LISTED.

You filled out a form with a dull, stubby pencil, paid a cashier, and waited for a clerk to hunt down the products of your choice.

There was little product information available and equally little customer service. You may have left feeling you had done something not quite respectable, thankful perhaps that the store was on a sidestreet somewhere. You may even have hidden your brown paper bag, not wanting to be seen in public with evidence of your "debauchery." Hardly a pleasant experience.

For its first 40 years, the LCBO was essentially a distribution operation. We bought the products from manufacturers at home and abroad. We put them into stores across the province. We allowed customers to give us their money. And that was about it.

THE TRANSFORMATION BEGINS

We've come a long way since then. Our first self-service stores appeared in 1969, and by the mid-80s most of the 600-plus stores in our network had made the change. However, displays were limited and there was still very little store ambience or product merchandising and information.

The next big wave of change began in 1987, when we committed ourselves to becoming a different sort of organization. This was partly because the new competitive environment *required* us to change and partly because we *wanted* to change.

Some people are surprised to hear us talk about competition. They wonder how a monopoly like the LCBO can have any competition. The truth is, we haven't been a monopoly for some time. In fact, we sell less than 40 per cent of the beverage alcohol bought by Ontarians. We compete with Brewers Retail Inc.; Ontario winery stores; on-site brewery and distillery stores; and other liquor jurisdictions, such as Quebec, Michigan and New York State. We also have fierce competition from the black market – you can read more about that on page 11.

We knew our future depended on our becoming a modern, customer-focused retailer while maintaining an equal focus on social responsibility. Our customers were becoming more knowledgeable and discriminating; if we wanted to keep pace with the growing competition, we would have to attract them to our stores and satisfy them once they got there.

This meant major changes in our retail practices. Because alcohol can be harmful when used irresponsibly, we couldn't use all the tools private-sector retailers use to increase sales. But there were many things we *could* do to make the LCBO shopping experience much more enjoyable, while encouraging responsible use of our products. So we set out to make ourselves the retailer of *choice* for beverage alcohol in Ontario.

TAKE A LOOK AT US NOW

Our first focus was on the physical appearance of our stores. We wanted to make them attractive, inviting places to shop, where customers could browse, look at product labels and information and make their own selections. We had already removed the counters that had separated customers and staff and made us seem aloof. But we wanted to go further. We wanted design consistency from store to store, like most quality retail chains, to give a clear and appealing corporate identity to our retail operations.

We came up with a new program called IMAGE, which initially targeted about 100 key stores for upgrades. Some were relocated, some totally renovated; all were designed with barrier-free access, similar layouts, shelving, signage, placement of products and other merchandising features that would make them attractive, pleasant and convenient.

We added refrigerated display cases, wine chillers, customer service desks to provide information, gift certificates, special occasion permits, as well as cheque-cashing and refund/exchange services. And we've introduced a variety of other innovations – many of them in response to customer requests. These were more than cosmetic; they've resulted in better service and greater convenience to our clientele, and more efficient operations.

OUR EFFORTS TO UPGRADE STORES AND MAKE THEM MORE ATTRACTIVE AND CONVENIENT HAVE NOT GONE UNNOTICED. SINCE 1990, WE'VE WON 13 AWARDS FOR STORE DESIGN, ALL IN COMPETITION WITH PRIVATE SECTOR RETAILERS. THIS YEAR ALONE, WE WON SIX AWARDS, INCLUDING A COVETED RETAIL COUNCIL OF CANADA STORE LAYOUT & DESIGN AWARD FOR OUR NEW MANULIFE CENTRE STORE.

Shoppers found the new store environments a refreshing change from the first generation of self-service stores – and light years away from counter stores. Furthermore, we soon found that IMAGE stores generated higher revenues after renovations. This meant an upgrade would quickly pay for itself and the store would then contribute more to our bottom line.

Over time, we selected more stores for IMAGE make-overs; now there are nearly 150. We also developed a Total Store package, a less extensive renovation plan for other stores. Now, almost all have the corporate "stamp" of clean, modern design, consistent displays, and easy-to-read signage.

A STORE FOR EVERY SITUATION

This updating didn't mean making all our stores exactly the same. We knew it was important for them to meet the needs of the communities and populations they serve – and these vary widely across the province.

We began developing different types of stores to meet differing needs. Along with our regular stores, these include:

- full-service stores, offering 2,500-3,000 products and all LCBO services. So far, we have four: on Queens Quay and in Crossroads Plaza in Toronto, and one each in downtown Kingston and Ottawa;
- mini-stores in high-traffic shopping areas, offering targeted selections of the most popular brands; there are now nine in total;
- 177 combination stores that sell a full variety and size range of domestic beer, as well as regular LCBO stock, in areas where there are no Brewers Retail stores;
- 86 agency stores, operated in partnership with established retailers in communities not large enough to support regular stores;

"... three LCBO stores in the Toronto area – Queens Quay, Crossroads and the new Manulife Centre store have educational programs... real seminars and courses offered by Vintages wine consultants who have grown apace in wine literacy, and more important, enthusiasm."

DAVID LAWRASON, WINE WRITER, *GLOBE AND MAIL*.

- four Vintages stores, six boutiques and 135 Vintages sections in regular LCBO stores, offering more than 1,500 fine wines, spirits and beers;
- seasonal stores in resort areas with large summer populations; and
- duty-free stores at international airports and land-based border points.

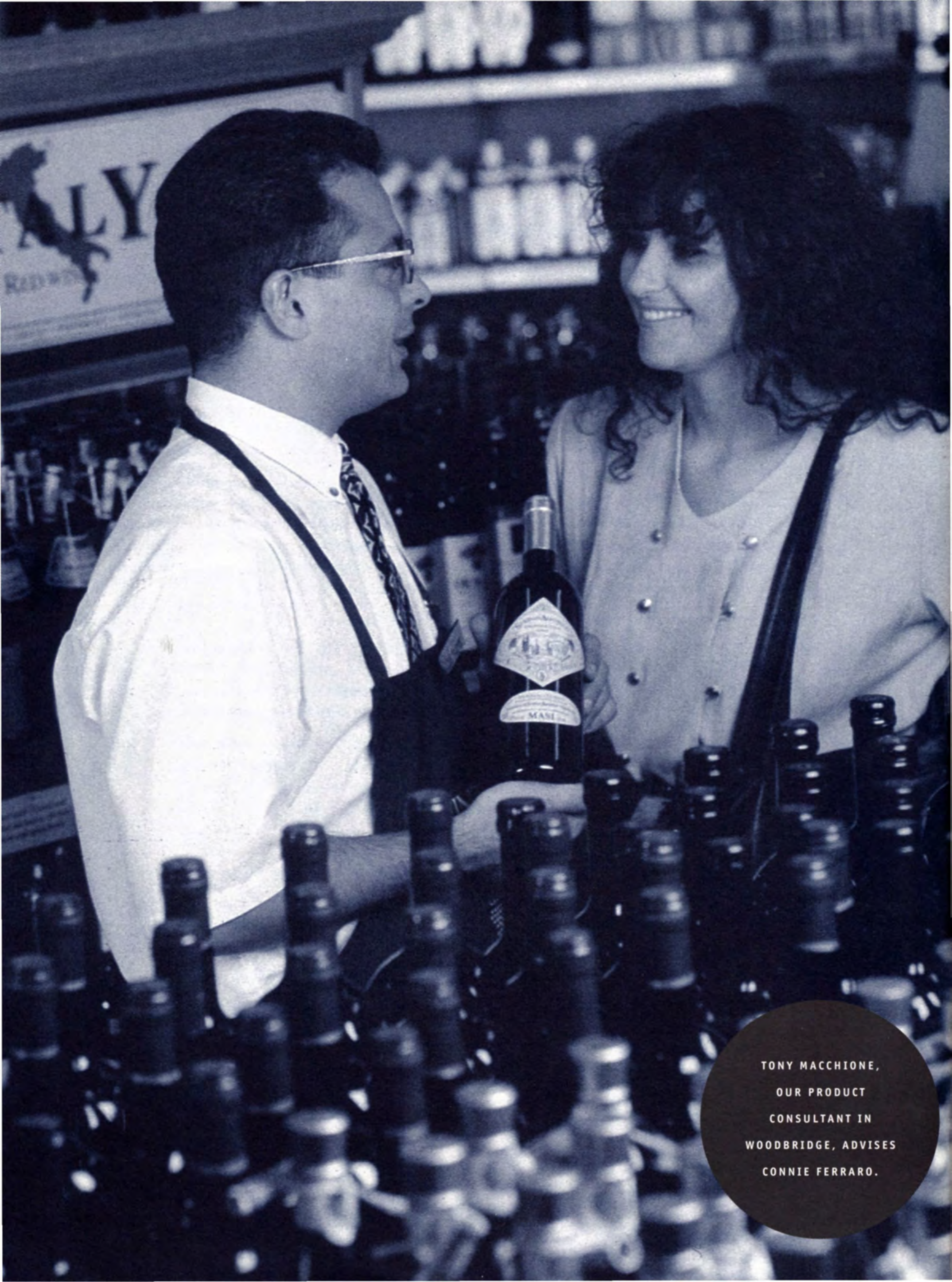
Our efforts to upgrade stores and make them more attractive and convenient have not gone unnoticed. Since 1990, we've won 13 awards for store design, all in competition with private sector retailers. This year alone, we won six awards, including a coveted Retail Council of Canada Store Layout & Design award for our new Manulife Centre store.

With so many different formats, there's no one typical LCBO store anymore. But all have important things in common: products targeted to local tastes and preferences; displays that are both eye-catching and educational; staff who are ready, willing and able to discuss product choices with customers and offer advice when needed; a range of convenient payment options, including credit cards and direct payment; and many more customer services to make your shopping experience convenient and enjoyable.

That's a far cry from the old days... which is just the way we like it.

DID YOU KNOW...

IN PARTNERSHIP WITH ESTABLISHED RETAILERS, WE OPERATE 86 AGENCY STORES IN COMMUNITIES WITH POPULATIONS TOO SMALL TO SUPPORT REGULAR LCBO STORES.



TONY MACCHIONE, OUR PRODUCT CONSULTANT IN WOODBRIDGE, ADVISES CONNIE FERRARO.

Making the *(up)grade*

IN THE FIRST FOUR WEEKS AFTER THE LCBO'S RELOCATED WOODBRIDGE STORE OPENED IN DECEMBER, 1995, SALES WERE UP 62 PER CENT OVER THE SAME PERIOD THE YEAR BEFORE.

Manager Bob Bayliss wasn't surprised. "We're giving the customers what they want – what they feel they deserve," he said at the time.

What the customers wanted, according to LCBO market studies, was a larger, better located store that would provide improved selection and services to this community just north of Metro Toronto. And they got it. The new store is on Weston Road, a main traffic artery in the heart of Woodbridge's retail district, with 140 per cent more selling space than the store it replaced, 1,000 more brands, a beer cold room, more parking, more cash registers, extended hours, barrier-free access and greater overall visibility. In keeping with the LCBO's commitment to serving niche markets – in this case Woodbridge's large Italian community – the store stocks every Italian red wine, white wine, vermouth, grappa, brandy and cognac carried by the LCBO, and has an Italian-speaking product consultant on staff. Ten other staff members also speak Italian.

When some people saw the 62 per cent sales increase, they doubted the store could continue at that clip. And they were right.

By the end of the fiscal year, the figures had actually *improved:* up 72 per cent for the last quarter of 1995-96, compared to the same period in fiscal 1994-95. Sales rose even higher in the first quarter of 1996-97. And it's not as if this business was siphoned from other LCBO stores. Sales in the local trading area were up 23 per cent at the end of the fiscal year.

Experience has proved time and again that when the LCBO upgrades a store, its sales increase. This holds true whether the store is renovated, relocated, or has a beer cold room added.

At seven stores relocated or renovated in 1995-96, increases during the fiscal year ranged from three per cent to Woodbridge's 72 per cent. Other renovations of note during the fiscal year: Stittsville, near Ottawa, (sales up 24 per cent), Yonge Street in North York (up 21 per cent); LaSalle Boulevard in Sudbury (up 13 per cent); and Toronto's Manulife Centre (up 11 per cent at the end of the fiscal year, and up 30 per cent for the first quarter of 1996-97).

Each project was designed to improve customer service; increase revenue from greater margins, reduced expenses or both; maintain the LCBO's physical assets; and provide barrier-free access. These objectives have all been met.

IMPROVEMENT COSTS QUICKLY RECOUPED

Surveys conducted by the LCBO and outside agencies consistently show that customers like updated LCBO stores and the products and services they offer. This generally leads to sustained increases in sales, which means costs associated with renovations, upgrades and expansions are quickly recovered.

"Brandt has transformed... the old LCBO stores, making them upbeat and customer-friendly."

ARTICLE FROM THE NOVEMBER 1995 *FINANCIAL POST MAGAZINE*, NAMING LCBO CHAIR AND CEO ANDREW S. BRANDT ONE OF CANADA'S TOP 200 CEOs.

On average, IMAGE upgrade costs are recouped in under two years; beer cold room additions in under three; and many other major renovations in less than five years. The payback comes from increased sales – and from opportunities created for generating other types of revenue. For example, suppliers now pay for guaranteed end-aisle displays and other higher-profile space in our IMAGE stores.

The sales increases that follow a store upgrade are no temporary phenomenon; in most cases, they continue year after year. And once they've repaid their costs, renovated stores start bringing greater profits to the Government of Ontario, to help pay for important social and capital programs. That's a win for all of us as taxpayers, and for all our customers, since upgrades make the LCBO shopping experience more convenient and enjoyable.

NOT EVERYONE UNDERSTANDS WHY THE LCBO SPENDS MONEY ON CAPITAL IMPROVEMENTS. BUT LIKE OTHER MAJOR RETAILERS, WE HAVE TO SPEND MONEY TO MAKE MONEY. OUR STORES HAVE TO BE WELL DESIGNED, WELL MAINTAINED AND WELL LOCATED, MATCHED TO CUSTOMER REQUIREMENTS AND EXPECTATIONS.

You may wonder what customers do while their stores are closed for renovations, often for several weeks or months. That's something the LCBO thinks of too, and we do everything we can to minimize any inconvenience during renovations. In Etobicoke, for example, we served customers out of a 50-foot trailer store in the parking lot during five weeks of renovation. Since it re-opened in October, 1995, the store's sales have been up 10 per cent over the year before.

Fifteen cold rooms were installed in LCBO combo stores during fiscal 1995-96 (and two others added in renovated or relocated LCBO stores in Sudbury and Stittsville). These walk-in cold rooms bring several advantages to our stores. Most importantly, they give customers a "one-stop-shop" for chilled, ready-to-serve beer. This generates increased customer traffic, which boosts sales not only of beer, but of wine and spirits as well. On average, overall sales in the stores that installed cold rooms this fiscal year were up seven per cent. And because cases of beer are stacked on the floor, ready for pick-up by customers, we reduce handling costs and staff can spend more time serving customers.

BIG RETURNS FROM MINI-STORES

Not every capital project in 1995-96 was an upgrade of an existing store. We also opened three new mini-stores where no LCBO stores had existed before, and converted stores in Sarnia and Cobalt to mini-formats to match customer traffic patterns. Mini-stores are usually 1,500 to 2,000 square feet – less than half the size of a typical store – located on main streets or in busy malls; they carry 300 to 600 popular brands, compared to the 1,500-2,000 found in most IMAGE stores. Mini-stores may be small in size, but their sales performance has been nothing short of towering.

Consider the Beach. Research told us that people in Toronto's east-end Beach district wanted a store on the busy stretch of Queen Street that runs parallel to the Boardwalk along Lake Ontario. We found a small storefront, renovated it – and since opening in December, 1994, sales per square-foot have rivalled our best stores anywhere. The store has also won several design awards, and been recognized for its community service.

We expect our new mini-stores opened this fiscal year to perform equally well. One is located within a Bay store in downtown Toronto; one is in a well-travelled underground passageway just outside the Yonge-Bloor subway station; and one is in an Asian-theme mall in Markham, designed with the tastes and preferences of the Chinese-Canadian community in mind, and staffed by employees who are equally comfortable serving customers in English, Cantonese or Mandarin.

Like they say, good things come in small packages.

MANULIFE A HIT WITH CUSTOMERS – AND OTHER RETAILERS

No story on LCBO store upgrades in 1995-96 would be complete without discussing our new Manulife Centre store on Bloor Street in Toronto, which re-opened after renovations just in time for Christmas. Reconfigured for today's shoppers, male and female, it offers a wealth of information about beverage alcohol, food and ways to combine them. The store and its demonstration kitchen have been a hit with customers – in one recent survey, 92 per cent of people interviewed said they approved of the redesign. As noted previously, sales are up 11 per cent over last year, and growing; its Vintages section is up a resounding 250 per cent. Overall sales in the trading area are up 17 per cent over last year.

The store has also been recognized by the retail community, winning the Retail Council of Canada's 1996 *Excellence in Retailing* award for store design and layout, in the large store category – against competition from the private sector across Canada. Not only is the store expected to pay back its investment in a fairly short time frame – it's a fertile testing ground for retailing concepts that could eventually extend to other LCBO stores.

DID YOU KNOW...
THE LCBO WAS ONE OF THREE FINALISTS NOMINATED FOR THE PRESTIGIOUS RETAIL COUNCIL OF CANADA "INNOVATIVE RETAILER OF THE YEAR" AWARD IN 1996.

Total capital spending in fiscal 1995-96 was approximately $12 million – $9 million of that for renovations, relocations and other upgrades, such as new display units and signs. Another $3 million was spent on maintenance. We'll be spending $7 million on store-related capital improvements in fiscal 1996-97, including mini-store openings in Barrie and Toronto, and relocations/upgrades in Barrie, Mississauga (2), Kanata and Sudbury.

Not everyone understands why the LCBO spends money on capital improvements. But like other major retailers, we have to spend money to make money. Our stores have to be well designed, well maintained and well located, matched to customer requirements and expectations. They should reflect the quality of the products we sell. They should be barrier free, so that customers with disabilities can shop as easily as anyone else. They should have facilities for mechanized unloading, so that our staff can spend less time handling cases and more time serving customers.

In other words, our stores should be everything our customers want them to be, where they want them to be. They should also prove a sound investment, and store upgrades are doing just that. ●

OVER 300,000 CUSTOMER SURVEYS AND INTERVIEWS HAVE GUIDED OUR MODERNIZATION.

Learning from our *customers*

LIKE ALL PROGRESSIVE RETAILERS, THE LCBO WANTS TO SERVE ITS CUSTOMERS WELL; TO OFFER THEM THE PERFECT BLEND OF PRODUCTS AND SERVICES; TO HAVE THEM LEAVE OUR STORES FEELING GOOD ABOUT THEIR SHOPPING EXPERIENCE AND LOOKING FORWARD TO THEIR NEXT VISIT.

This wish list has driven the transformation of the LCBO from distribution-oriented bureaucracy to customer-focused retailer. Since 1987, our Marketing Research department has been providing management with the answers to their most pressing questions: What do today's LCBO customers want, and how can we better serve them?

To find out, Marketing Research has conducted more than 100,000 personal interviews with customers; another 280,000 have completed surveys in our stores.

These interviews and questionnaires have yielded a priceless lode of information that has helped us make the right management decisions – to work smarter and more efficiently, and improve the way we serve our customers.

TWO TYPES OF LCBO SHOPPERS

Our researchers have identified at least two primary types of LCBO shoppers, both of whom we work hard to satisfy. Some know exactly what they want to buy and want to get in and out quickly. But many others have told us they want entertainment and information as well as convenience. They want to browse, to learn, to sample, to discuss.

We've developed store layouts and merchandising strategies that suit both types of customers. Our wide aisles, bold signage and consistent product displays help those in a hurry find their product of choice; plenty of checkout counters and cashiers ensure they can pay for it just as quickly. For the browsers, we offer in-store tastings and tasting notes, recipes and other informative displays and literature, food-matching demonstrations and special events. These include our *Shop the World* theme promotions, which combine most of these elements, along with music and in-store contests, to create a fun, dynamic shopping experience.

Merchandising and store-design improvements aren't the only changes that have taken place at the LCBO over the last decade. Consider the changes in our employees. Not too long ago, our corporate culture dissuaded staff from recommending one product over another. Customers were pretty much on their own when it came to choosing products.

But customers told us they wanted more assistance and advice. And we responded, launching training programs like Product Knowledge, That's the Spirit! and Customer Service Excellence to improve staff knowledge of the products we sell and the skills needed to pass that knowledge on to customers. Has it worked? Our 1995 Customer Traffic Study shows that customers now give "staff friendliness" a mean score of 9.1 out of 10 – the highest-rated aspect of the LCBO shopping experience, along with "overall satisfaction with visit" *(see chart, left)*.

LCBO stores were rated out of 10 on the following criteria:

Staff friendliness	9.1
Staff knowledge	8.8
Overall store ambience	8.8
Ease of finding what you wanted	8.6
Product selection	8.5
Overall satisfaction with visit	9.1

Source:

LCBO 1995 Customer Traffic Study.

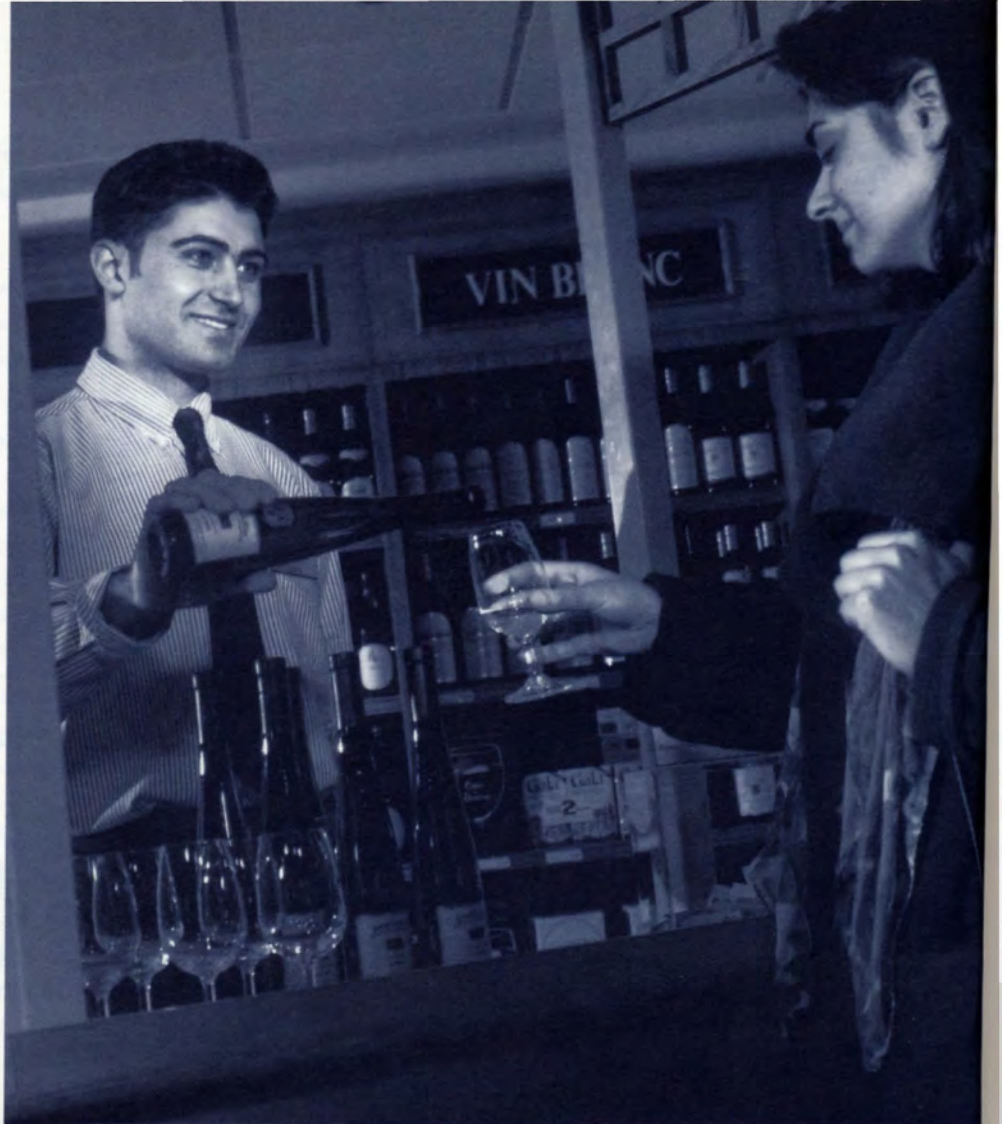
Sample size: 1,224

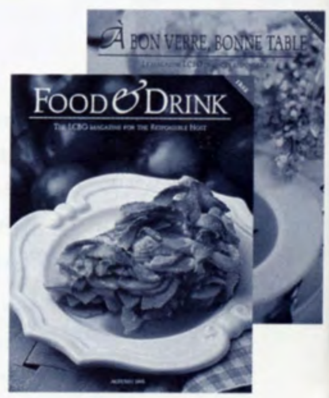
IDENTIFYING NICHE MARKETS

Marketing Research has helped the LCBO identify and better serve specific niche markets, by providing demographic information about our changing customer base. We've learned more about the Chinese-Canadian community, for example, the products they enjoy and the in-store services they appreciate and, with the input of our Ethnic Marketing Council, developed a unique mini-store in an Asian-theme mall in Markham. Research is now helping us to tailor our product mix and services to suit the tastes and preferences of Ontario's Caribbean community, as well as other cultural and ethnic groups. Our ability to understand – and meet – the expectations of our female shoppers has also been greatly enhanced by research and consultation with our Women's Marketing Council.

For nearly a decade now, the LCBO has been taking the pulse of Ontarians, listening and learning from them, using this information to buy products and develop new programs and services to address their requirements and expectations. They've told us they wanted wine tastings, product information, credit card and direct payment options, longer hours of service, limited time offers and value-adds – and we've delivered.

We've come a long way at a relatively fast pace, but we're not resting on our laurels. We're working hard every day to be more competitive, to offer you the variety and value, the products and services, we *know* you want. ●





TODAY'S LCBO:
PROVIDING THE SERVICES
AND INFORMATION YOU'VE
TOLD US YOU WANT.

At your *service*

ATTRACTIVE STORES AND EXTENSIVE PRODUCT SELECTION ARE PART OF WHAT MAKES A GOOD RETAILER – BUT THERE'S MORE TO IT THAN THAT. YOU ALSO NEED THE SERVICES PEOPLE WANT.

For some time, LCBO customers had wanted the option of paying by credit card. In 1994, the Government of Ontario approved our request to offer this customer convenience, and in 1995-96, we completed the installation of stand-alone credit and direct payment technology in all stores. Customers can now pay however they choose: credit card, direct payment card, cheque or that old standby – cash. This fiscal year, we recorded 6.2 million credit card transactions and five million direct payment transactions. Next fiscal year, direct payment transactions will likely outnumber credit card transactions, based on trends observed in the last half of 1995-96.

Everyone likes a bargain, no matter what the product. And with Limited Time Offers (LTOs), they can find outstanding values in all our stores. LTOs provide temporary price decreases of up to 20 per cent on about 40 products every four-week sales period. In 1995-96, a total of 422 products were discounted. Some customers use LTOs to buy familiar brands at a lower price. Others take advantage of LTO discounts to try new or premium-priced products. Either way, they get more for their money.

Value-adds also offer customers more. Value-adds are bonus items that suppliers attach to a given product – a miniature sample of a premium product, for example, or an accessory, like a glass or corkscrew. Sometimes the packaging itself can be considered a value-add, especially if it's an attractive reusable container. More than 500 value-adds were featured in 1995-96.

People in some communities wanted longer hours of service at their LCBO store, and we've responded. Rather than closing at 6:00 p.m., as virtually all stores did not too long ago, many now stay open until 9:00, 10:00 or 11:00 p.m., to accommodate people who work different shifts, or can't shop earlier for other reasons. As long as municipalities support our plans, we'll do what we can to make the LCBO even more convenient and accessible.

Another example of this was our first-ever Sunday opening, on December 24, 1995. Because Christmas Eve fell on a Sunday, our stores would have been closed three days in a row had we not opened that day. That didn't seem fair to our customers, so with government support, we opened most stores from 11:00 a.m. to 6:00 p.m., and enjoyed brisk sales, netting about $5 million. With our extensive line of special holiday items, and gift-wrap service in many stores, we're now seen as a convenient source of great gift ideas at Christmas time – in fact, year round.

CATALOGUE SALES RISING

Vintages – the LCBO's premium products division – operates four stand-alone stores, six boutiques, and sections in 135 regular stores. Vintages continued its robust growth this year, increasing its sales by more than 27 per cent over last year.

Contributing to that increase was Vintages' popular *Classics Catalogue,* first introduced in 1994. The third and fourth editions, published this fiscal year, each listed around 550 special and rare products not carried in our stores – either because of limited shelf space or because they must be stored under climate-controlled conditions. These products are of great interest to connoisseurs and collectors who, in the past, would likely have sought them outside Ontario. The catalogue can be accessed in all LCBO stores, by phone or fax, or even on the Internet *(http://www.vintages.com)*. Customer response to each edition has been more enthusiastic than the last: since its inception, catalogue sales have totalled $13.5 million, about $7.5 million of that in the 1995-96 fiscal year.

We've also developed new ways to accommodate customers, agents and licensees wanting to import products we don't regularly stock: this year, for example, we expanded our Consignment Warehouse program for licensees and others who buy imported stock through wine agents; greatly increased stock limits in our warehouse for eight of the largest agents; and announced plans to offer agents their own locked space at the Toronto Warehouse, much of it with 24-hour access.

We have modernized our technologies and installed sophisticated systems that make it easier to track inventory, sales data and other retailing information. The more we know about our stock and what our customers are buying, the better we can respond to the marketplace. And with computer terminals in every store, it's now easier than ever to find a product and, if necessary, have it transferred quickly from one store to another.

SHOP THE WORLD

Our research told us that our customers – particularly women – wanted liquor stores with some of the same characteristics as other retail stores, such as changing displays, featured products, taped music and contests for free trips and other prizes. In response, in 1994, we launched a new integrated merchandising and marketing program that made all this a reality. *Shop the World* is a reminder that we offer products from more than 60 countries. But more importantly, it offers the dynamic shopping experience people want.

Shop the World theme promotions in 1995-96 centered on different types of products *(Taste the World of Beer, Shake it Up!)* or products of a particular country or region *(Olé, The Wines of Ontario)*. Sales of featured products during these promotions increased over the year previous as follows:

- *Shake it Up!*: up 16 per cent
- *Taste the World of Beer*: up 46 per cent
- *Olé*: up 63 per cent
- *The Wines of Ontario*: up 63 per cent.

Based on this success, we'll offer four more promotions in 1996-97, three of which have already proved successful in the past: *Help Save the Animals* (April), a reprise of the 1994-95 promotion that raised more than $50,000 for endangered species and their habitats; another *Taste the World of Beer* promotion (May), featuring a wide selection of domestic and international beers; *The Wines of Ontario* (October), which spotlights this province's award-winning wines and their makers; and a brand-new promotion, *French Accents* (September), featuring products from one of the world's great wine countries.

A THIRST FOR KNOWLEDGE

Market research also tells us that today's LCBO customer has a powerful thirst for knowledge about beverage alcohol. Many LCBO services revolve around satisfying it.

This year, we doubled the number of product consultants in our store system, bringing our total to more than 60. Product consultants are the acknowledged experts in our stores, the "ask-me-anything" people. They've taken all three levels of our product knowledge correspondence course, as well as demanding courses offered by external bodies like the Independent Wine Education Guild. Our consultants also share their wealth of knowledge with their colleagues, who in turn become more resourceful and confident.

> "I appreciate the quality of service, the pleasant atmosphere and the selection of product available at LCBO stores."
>
> SUGGESTION CARD FROM F. WATERS, MARKHAM

And they serve on panels that decide whether Ontario wines submitted for Vintners' Quality Alliance (VQA) designation merit that distinction; and on LCBO tasting panels, to determine whether potential new listings meet our high standards for taste, quality and value.

We offer more product tastings in our stores than ever before – about 7,200 in more than 140 stores in 1995-96 – many now led by specially trained LCBO staff. Tastings provide customers with the opportunity to sample new products – often with complementary foods. A number of improvements were made to the program this year: the fee for samples was standardized at 25 cents (all of which goes to charity). And the number of products a supplier can offer at a tasting was raised from one to two – three if they are low-alcohol.

How else do we keep our customers well informed?

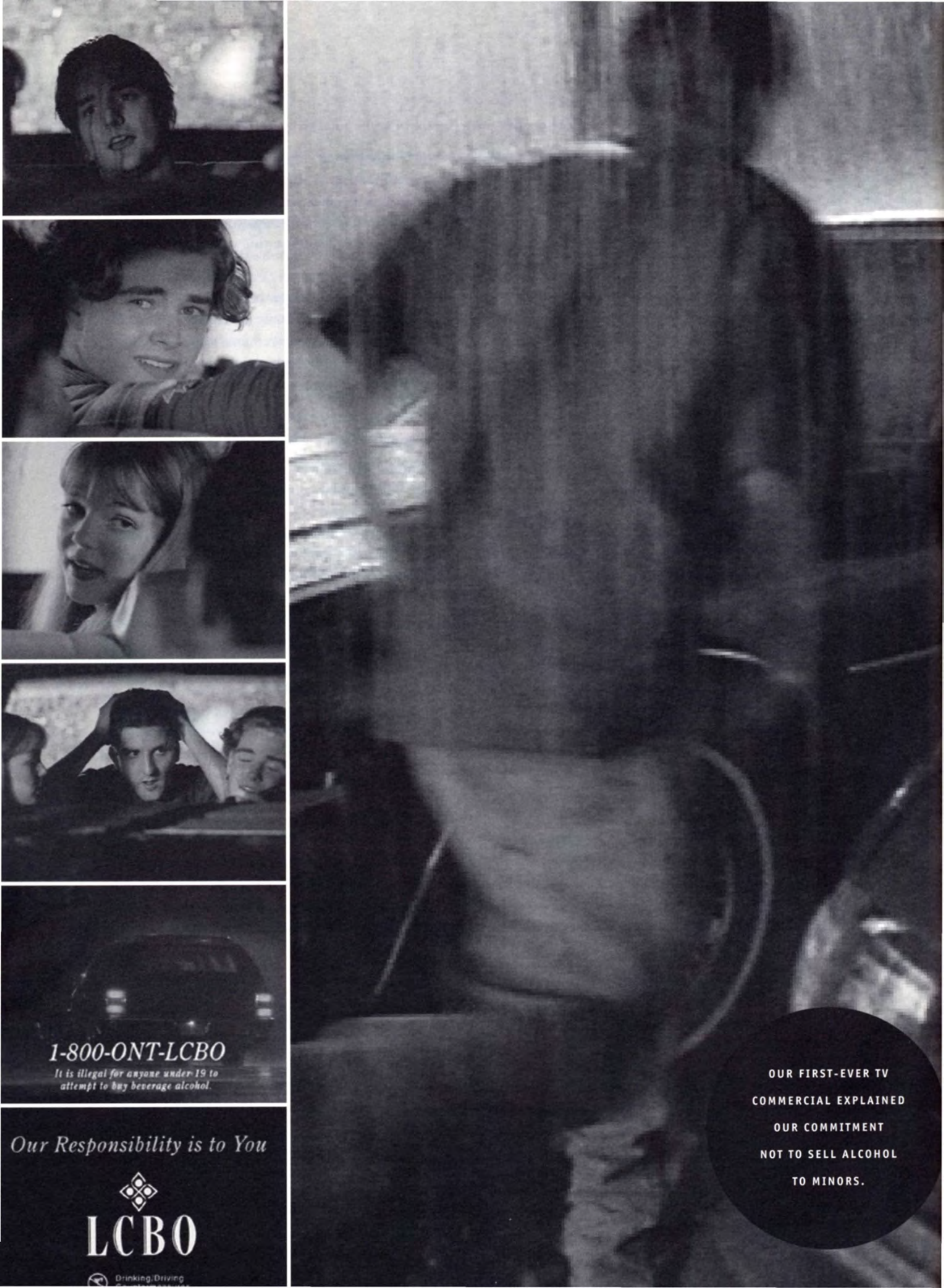
- The LCBO's toll-free Infoline is staffed by trained information officers who can provide answers on just about any product-related topic – in English or French. The popular service (1-800-ONT-LCBO; 416-365-5900 in Metro Toronto) averaged 10,000 calls a *month* this fiscal year.
- Our free quarterly magazine, *Food & Drink,* is available to customers at all our stores. (It is also available in French.) This richly illustrated publication contains recommended food matches for wines, beers and spirits, recipes and suggestions for entertaining, articles by well-known food and beverage writers and featured "great buys."
- We publish seasonal catalogues for gift giving, featuring specialty items from both our General List and our Vintages selections.
- Vintages' monthly release circulars – with a mailing list of 18,000 – feature 100-150 products each, complete with tasting notes, cellaring suggestions, menus, food matches and more.
- We established two sites on the Internet this year – a corporate home page and a Vintages page – which help keep customers informed about product information, prices, limited time offers, store locations, and much more. The corporate home page *(http://www.lcbo.com)* was rated one of the top five sites in Canada by *Ways* magazine, and has averaged 5,000 visits, or "hits", a week. Vintages' site *(http://www.vintages.com)* includes an on-line *Classics Catalogue,* information on upcoming releases, and a store directory.
- At trade and consumer shows, such as the Toronto Wine & Cheese Show, consumers can try new products and find out more about our programs and services.
- Our first-ever television commercial hit the airwaves in June of 1995, advising viewers of our commitment not to serve underage people. We also used newspaper ads to promote *Shop the World,* Christmas gift-giving and Vintages – explaining, for example, that many of the premium products we sell cost less than $15; and radio commercials let our American neighbours know that excellent selection, service and competitive prices await them north of the border.

The services we introduced or improved this fiscal year read like a checklist of customer preferences as identified by market research. They want to pay with credit cards and direct payment? Done. They want value adds and limited time offers? Done. More wine tastings, more product information, longer hours of service? Check, check, check.

And we're not finished yet.

For example, we hope the government will allow us to open on Sundays where it makes business sense, and communities agree.

Today's LCBO: convenient, accessible, knowledgeable, responsible... at your service. ●


1-800-ONT-LCBO
It is illegal for anyone under 19 to attempt to buy beverage alcohol.
Our Responsibility is to You
LCBO
Drinking/Driving
OUR FIRST-EVER TV COMMERCIAL EXPLAINED OUR COMMITMENT NOT TO SELL ALCOHOL TO MINORS.

Our responsibility is to you

IN JUNE OF 1995, MILLIONS OF PEOPLE ACROSS ONTARIO SAW SOMETHING THEY HAD NEVER SEEN BEFORE… AN LCBO TELEVISION COMMERCIAL.

The 30-second commercial dramatized a scene in which three teens on their way to a party one rainy night try to buy alcohol at an LCBO store. They've already been refused service at another LCBO store, viewers learn. And before the commercial ends, they will be turned away again. They finally give up and head off to their party without booze. A toll-free telephone number is then shown, and viewers are invited to call for more information about young people and alcohol, and other related topics.

The commercial was broadcast in both English and French in major markets across Ontario. It also aired in Italian, Portuguese and Chinese in Metro Toronto.

Response to the commercial was both strong and favourable. We sent out nearly 7,000 pamphlets and other materials to people who phoned our toll-free number. And a telephone poll of more than 400 Ontarians conducted after the commercial ran shows nearly 70 per cent approved of the LCBO spending money to produce it. That came as no surprise: focus-group testing before the commercial aired showed that underage drinking is the number one issue on people's minds when it comes to the responsible sale of beverage alcohol.

MORE PEOPLE CHALLENGED, MORE REFUSED

Since 1927, the people of Ontario have relied on the LCBO to ensure that liquor is sold responsibly. The television commercial – and newspaper ads that supported it – helped the public understand why our Retail employees must challenge potential customers and refuse to serve some of them.

The LCBO *Challenge & Refusal* report for the 1995-1996 fiscal year shows that 295,000 individuals were challenged, up from 230,000 the year before. Of those challenged, 60,000 were refused service for either failing to produce valid identification or for appearing intoxicated, 10,000 more than the 50,000 refused in 1994-1995.

Challenge & Refusal is in force year-round in our stores. Every summer we reinforce it with our *Bring Your Identification (BYID)* program. *BYID* is designed to call attention to the LCBO's mandate to sell its products only to responsible, of-age customers. Staff wear *BYID* badges to publicize their commitment to responsible service, and to encourage dialogue with customers on the subject.

LCBO employees are well qualified to make the right calls in *Challenge & Refusal* situations, since they receive clear guidelines, training, ongoing counselling from management, and regular reminders about the importance of responsible service and the legal liabilities of serving individuals who are underage or intoxicated.

DID YOU KNOW…

LCBO EMPLOYEES CHALLENGED 295,000 CUSTOMERS IN 1995-96, REFUSING SERVICE TO MORE THAN 60,000 PEOPLE WHO APPEARED INTOXICATED OR COULDN'T PRODUCE VALID ID.

"On behalf of the OSAID chapters across Ontario, I would like to thank you again for all your encouragement and support. OSAID could not do it without the help of the LCBO."

LETTER FROM MATT EVANS, EXECUTIVE DIRECTOR, ONTARIO STUDENTS AGAINST IMPAIRED DRIVING.

Every LCBO employee who serves the public, full-time or part-time, receives training under the SMAART (Strategies on Managing Age & Alcohol Related Troubles) program.

The program includes video re-enactments of challenge and refusal situations, and a workbook which each employee keeps as a reference guide. Store managers must ensure all their frontline employees successfully complete this training.

This training includes instruction on who is legally permitted to buy liquor, and how to avoid or deal with awkward or difficult situations involving the underaged, the intoxicated, or people attempting to purchase for either group. SMAART training also helps staff identify physical or mental illnesses whose symptoms may resemble impairment to the untrained eye.

PROMOTING RESPONSIBLE DRINKING

Our commitment to social responsibility goes beyond refusing to serve certain people – although that's certainly a key aspect. Social responsibility is an important factor in every decision we make, every strategy we plan as a corporate entity.

For example, as a matter of policy, the LCBO does not carry products on its General List that contain more than 40 per cent alcohol by volume, and we carry and promote low-alcohol beers, wines and spirits. We also have a system of "floor pricing" – minimum prices set for each class of product – since research shows that price affects levels of consumption.

Social responsibility also involves fostering a climate of sensible and enjoyable use of our products. We promote food matches for alcoholic beverages and tips for safe entertaining. Our shopping bags, print ads and other materials all encourage people to drink responsibly, and to not drink and drive. Our consumer publication, *Food & Drink*, also promotes responsible drinking and hosting.

LCBO: A SOUGHT-AFTER PARTNER

The LCBO has for some time partnered with other organizations to promote social responsibility. These include the Addiction Research Foundation (ARF), BACCHUS, Canadian Centre on Substance Abuse, Canadian Coast Guard, Canadian Power and Sail Squadrons, City of Toronto Board of Health, Drinking/Driving Countermeasures Office of the Ministry of the Attorney General, the Inter-ministerial Committee on Substance Abuse, Metropolitan Toronto Police Force, Ministry of Transportation, Mothers Against Drunk Driving (MADD), Ontario Community Council on Impaired Driving (OCCID), Ontario Students Against Impaired Driving (OSAID) and the Ontario Federation of Snowmobile Clubs. We also work with industry organizations such as the Association of Canadian Distillers, the Brewers of Ontario and the Canadian Wine Institute, and individual suppliers like Labatt and Seagram Canada.

There's a reason so many organizations work with the LCBO on educational initiatives. Our network of retail stores across Ontario, together with our media relations capabilities, make us a sought-after partner when organizations want to raise public awareness and funds. Working with other organizations enables the LCBO to serve as a cost-effective distribution channel for information produced by us, the ARF, MADD and other such organizations – an important consideration in times of restraint. For example, when people responding to our TV commercial this summer called our toll-free number for information, we were able to send them pamphlets and brochures we had obtained – largely free of charge – from several organizations named above.

During the busy holiday season in December, 1995, we worked with ARF and the Drinking/Driving Countermeasures Office to produce and promote *Having a Party?,* a pamphlet that offered tips on responsible hosting. This was supported by a public service announcement (PSA), news release and media launch.

We created three other PSAs promoting safe entertaining and responsible drinking, as part of a *Spirit of the Season* campaign on CITY-TV, the independent Toronto television station.

MADD's December Red Ribbon campaign is a cause we support with special vigour because it's so directly related to our social responsibility mandate. This year, we offered red ribbons for donations in every LCBO store – and wrapped our Toronto Queens Quay store in a 500-foot ribbon to attract media and public attention.

In the summer, we held another media launch at Queens Quay, this time in support of the Ontario Community Council on Impaired Driving's annual *Arrive Alive* campaign. We also supported that campaign by displaying posters and placing coinboxes in all our stores, and printed OCCID's *Arrive Alive* message on one *million* single-bottle bags.

Our stores also supported Operation Lookout – a program run by the Metropolitan Toronto Police and other forces – which encourages citizens to report suspected impaired drivers by cellular phone or other means.

THE LCBO REALLY IS A RETAILER WITH A DIFFERENCE. EVERY DAY WE STRIKE THE NECESSARY BALANCE BETWEEN OUR OBLIGATION TO SERVE OUR CUSTOMERS, GENERATE REVENUE FOR THE PROVINCE, AND PROTECT PUBLIC HEALTH AND SAFETY – JUST WHAT ONTARIANS EXPECT FROM US.

ENVIRONMENT A CONCERN

Our concern for the environment is another important facet of our commitment to society. We've been able to use our purchasing power to persuade suppliers to cut down on excess packaging and to provide reusable product containers. We collect tons of corrugated cardboard and other materials for recycling. We ensure that seized illegal alcohol is disposed of in ways that are environmentally sound. This fiscal year, we also collected on behalf of the government $26.8 million in environmental levies on non-refillable beverage alcohol containers.

All LCBO stores offer reusable cotton Enviro-bags and sturdy new shopping bags made from recycled plastics – both of which have proved hugely popular. We promote the three Rs – reduce, reuse and recycle – in all our operations and we encourage our customers to do the same.

Endangered species have also received important support from *Shop the World, Help Save the Animals,* a theme promotion so popular in 1995 we brought it back in 1996. In two years, this promotion has raised nearly $200,000 to help the World Wildlife Fund (Canada) and the Canadian Nature Federation protect endangered species and their habitats in this country and abroad.

PHOTO ID CARDS ON WAY

In the summer of 1996, the LCBO will start issuing tamper-proof photo ID cards, on a cost-recovery basis, to applicants who can prove they are 19 or older. The new BYID Photo ID card is being developed by the LCBO in response to public requests for a new form of proof of age for our stores since the Ontario Photo Card, formerly produced by the Liquor Licence Board of Ontario, was discontinued in April of this year.

So as you can see, the LCBO really is a retailer with a difference. Every day we strike the necessary balance between our obligation to serve our customers, generate revenue for the province, and protect public health and safety – just what Ontarians expect from us. ●

CAMP OOCHIGEAS – ONE OF MANY WORTHY CAUSES SUPPORTED BY LCBO EMPLOYEES.

A *community-centred* retailer

TWELVE YEARS AGO, LCBO STORE MANAGER BOB LILLEY WAS PLAYING GOLF WITH FRIENDS WHEN HE REALIZED HE COULD COMBINE HIS LOVE OF THE GAME WITH HIS COMMUNITY INTEREST.

Lilley, manager of our store in Waterford, southwest of Hamilton, launched his Waterford Golf Tournament the following year. Since then, the annual event, organized with the help of Port Dover store manager Jim Taylor, has raised well over $30,000 for charity, attracting golfers from both the LCBO and the beverage alcohol trade. This year alone, $5,800 was raised for Camp Trillium, a Waterford facility for kids with cancer, due to open in the spring of 1997.

Lilley is just one of hundreds of LCBO employees who help raise funds for worthwhile projects like Camp Trillium; like Camp Oochigeas, another facility for kids with cancer for which we raise more than $10,000 a year at our Queens Quay store in Toronto; and the Easter Seals Society, which gets more than $20,000 a year from our We Care golf and ski days.

An informal survey of LCBO staff showed that employees devote, on average, nearly 100 hours a year each to charitable work in their communities. Many organize or participate in events such as walk-a-thons, car washes, golf and softball tournaments and bake sales. This work has helped hospitals, research foundations, food banks, local sports clubs and childrens' groups, and many other good causes.

And that's just one way in which the LCBO helps the Ontario communities it serves.

"Thank you for the Liquor Control Board of Ontario's contribution to the 1995 United Way of Greater Toronto campaign.... On behalf of the one million people whose lives you have improved through United Way, please accept our deep appreciation."

LETTER FROM ANNE GOLDEN, PRESIDENT AND CEO, UNITED WAY OF GREATER TORONTO.

DOZENS OF ORGANIZATIONS SUPPORTED

Staff donations to the United Way now exceed $100,000 a year. The funds come from donations made by employees, as well as barbecues and other special events organized by staff, and often supported by suppliers.

With stores across the province, the LCBO is able to help dozens of charitable organizations, ranging from the Canadian Cancer Society to the Hospital for Sick Children, through its in-store coinbox program. Ten times a year, two different organizations are selected to participate in a month-long, network-wide program. The other two months of the year, stores are free to host local charities of their choice.

Depending on the month, an organization can raise as much as $30,000 or more. Funds raised in 1995-96 totalled $212,483 – and that was just from the 10 months of the year when province-wide campaigns were run.

"We collected $33,485 in December, 1995," says June Filler, VP, Fundraising Events, Hospital for Sick Children. The money will be used to fund research or patient-care programs. "Wherever it goes, rest assured, it's crucial," she says. "We really count on this aspect of our fundraising now; we'd be hard pressed to find that kind of money somewhere else."

One other source of fundraising is the LCBO's in-store tasting program. Suppliers charge 25 cents per sample to raise the profile of a particular product or introduce customers to a new product – often in combination with complementary appetizers. While precise figures for this recently revamped program are not available, it is known to have raised thousands of dollars this past year.

When you count up the money raised by individuals like Bob Lilley, through the coinbox program, in-store tastings, the United Way campaign and other events, the total is estimated at more than $1.5 million a year.

Compared to the $680 million the LCBO generated in profits for the Government of Ontario during the 1995-96 fiscal year – money that is also used, in part, to fund important social and health programs – it may not seem like much.

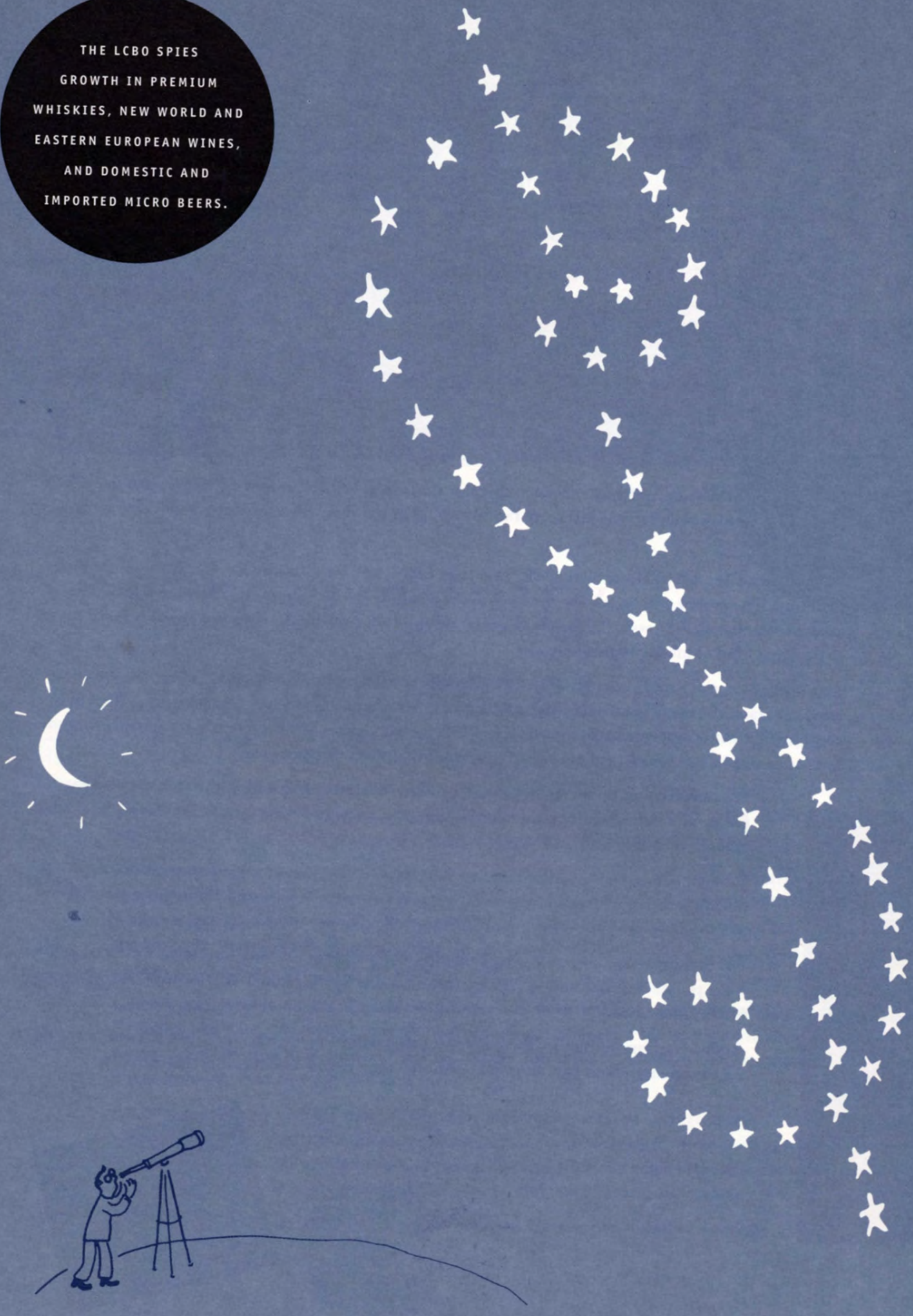
But to the people building Camp Trillium – the people at Toronto's Hospital for Sick Children – the people who depend on 1,250 agencies funded by the United Way across Ontario – it was important indeed.

And to the hundreds of LCBO employees who helped make it happen, it was a symbol of their commitment to their communities – the ones they live in, and the ones they serve.

DID YOU KNOW...

THE LCBO RAISES MORE THAN $1.5 MILLION A YEAR FOR WORTHY CAUSES THROUGH ITS COINBOX PROGRAM, IN-STORE TASTINGS, EMPLOYEE CONTRIBUTIONS TO THE UNITED WAY CAMPAIGN AND OTHER CHARITY EVENTS.

THE LCBO SPIES GROWTH IN PREMIUM WHISKIES, NEW WORLD AND EASTERN EUROPEAN WINES, AND DOMESTIC AND IMPORTED MICRO BEERS.



Beyond the Numbers: A Financial Overview

IN 1995-96, LCBO SALES INCREASED BY 5.5 PER CENT OVER THE YEAR BEFORE, BRINGING OUR TOTAL RETAIL BUSINESS TO $1.9 BILLION. THIS PERFORMANCE SURPASSED ALL OTHER CANADIAN LIQUOR JURISDICTIONS, AND WAS THE KEY TO OUR RECORD-BREAKING TRANSFER PAYMENT OF $680 MILLION TO THE GOVERNMENT OF ONTARIO.

Another $183 million was remitted to the government as Provincial Sales Tax. Our total payment of $863 million represents the largest single non-tax revenue contribution to the Ontario government. At the same time, we decreased our operating expenses to 16.9 per cent of sales in 1996, down from 17.3 per cent in 1995 and 18.9 per cent in 1994. Net income as a percentage of sales decreased from 35.2 per cent in 1995 to 34.9 per cent in 1996, due largely to a shift in consumer buying towards lower-margin products such as beer.

Imported spirits, domestic and imported wines, and all beer categories rose in sales value in 1995-96. More importantly, the LCBO increased its sales volume for the second straight year, as the number of total litres sold grew by 6.9 per cent.

The increase in both volume and value sales in all major product categories can be attributed to three main factors: marketing and merchandising initiatives frequently tied to innovative product launches, led by our *Shop the World* program; well-trained, knowledgeable staff dedicated to superior customer service; and ongoing enforcement efforts against smuggled liquor and illegally manufactured wine.

THE BEVERAGE ALCOHOL MARKET

In 1996, the entire beverage alcohol industry in Ontario was estimated to be $5.6 billion, up 3.5 per cent from 1995. The LCBO's share of the market went from 38.9 per cent in 1995 to 39.6 per cent in 1996. Brewers Retail also increased its market share, from 36.1 per cent in 1995 to 36.8 per cent in 1996; winery retail stores climbed from 1.8 per cent in 1995 to two per cent in 1996. Other legal channels lost market share over the course of the year, declining from 8.7 per cent in 1995 to 7.7 per cent in 1996. This decline appears to be at the expense of cross-border shopping, brew pubs and U-brews, whose accumulated share dropped from 6.2 per cent in 1995 to five per cent in 1996. Homemade beer and wine held a 2.3 per cent share of the market in 1996, up slightly from 2.1 per cent in 1995, while de-alcoholized beer held 0.4 per cent of the market in 1996, the same as in 1995. The illegal market continued to capture a significant portion of the marketplace in 1996 – an estimated 13.8 per cent, down from 14.5 per cent in 1995, but still costing the LCBO nearly $800 million a year in lost sales.

LCBO CUSTOMERS

Consumer sales through LCBO retail stores accounted for 82.5 per cent of the LCBO's total gross sales in 1996, down slightly from 82.8 per cent in 1995. Other LCBO customers include:

- *licensees,* who accounted for 13.4 per cent of sales in 1996, down slightly from 13.7 per cent in 1995;
- *Brewers Retail,* whose purchases of imported beer amounted to 1.8 per cent of sales in 1996, up from 1.4 per cent in 1995;
- *agency stores,* which accounted for 0.9 per cent of sales in 1996, up marginally from 0.8 per cent in 1995;
- *duty-free stores* operated by the LCBO at Pearson International airport (Duty-free/LCBO), which accounted for 0.5 per cent of LCBO sales in both 1996 and 1995;
- *duty-free sales* to land border point stores and other privately operated duty-free operations across the province (Duty-free/Warehouse) which accounted for 0.7 per cent of LCBO sales in 1996, up slightly from 0.6 per cent in 1995; and
- *"other sales"* which include embassy sales, border levies and a miscellaneous sales category which accounted for 0.2 per cent of LCBO gross sales in both 1995 and 1996.

MOVEMENT WITHIN CATEGORIES

SPIRITS

The LCBO's increased sales in volume and value were particularly welcome in the higher-margin spirits category. It grew in volume by 3.3 per cent, led by imported spirits, with a 23.1 per cent increase in volume sales and 12.3 per cent increase in value. This represents the first volume increase in the spirits group in seven years – most likely due to an exciting array of popular new products from suppliers, like flavoured vodkas; our *Shop the World* promotion, *Shake it Up!;* staff training programs like *That's the Spirit!;* and successful anti-smuggling enforcement efforts.

Other spirits (including gin, bourbon, Irish whiskey, non-French brandies and rum) increased their share of volume sales within the imported spirits category. Imported spirit coolers increased their share from 8.4 per cent in 1995 to 11.1 per cent in 1996, while the "other spirits" share jumped from 15 per cent to 17.8 per cent. This reflects the growth in interest in new categories like pre-mixed cocktails.

WINE

Wine showed a volume increase of 4.2 per cent, with domestic wine rising by 8.4 per cent and imported wine by 2.8 per cent. This is the second consecutive year of increased sales, reversing the pattern of the previous six years of volume declines. Domestic wine value increased by 11 per cent while imported wine value increased by 6.2 per cent.

The success of both imported and domestic wine was due in large part to increased interest in red wine, following several media reports and academic studies on its possible health benefits. Red wine sales increased by 14 per cent in volume, and 16.8 per cent in value, between 1995 and 1996. Rosé wine sales increased by 15.2 per cent in volume and 14.3 per cent in value. Although white wine volume sales declined by 1.3 per cent between 1995 and 1996, value sales increased by 1.7 per cent.

"My compliments to you and the Board on your high calibre, service minded employees, especially Rob Hodgson, Store Manager in Cambridge. The LCBO has a committed workforce and the Board is a very progressive, efficient, service-oriented liquor distribution organization that contributes significantly to the Ontario Government's bottom line."

LETTER FROM MARYANNE HILL, MANAGER, EVENT SERVICES, CANADIAN GAS ASSOCIATION.

Vintners' Quality Alliance (VQA) wines from Ontario and B.C. also showed strong gains, up 38.3 per cent in volume and 22.1 per cent in value, with net sales totalling $20 million in 1996, as compared to $16.4 million in 1995 and $8.2 million as recently as 1992. Contributing factors to this increase in 1995-96 include the LCBO's *Shop the World* promotion, *The Wines of Ontario,* and its late-summer promotion of VQA wines. Many Ontario consumers have also begun "trading up" to better quality wines of late, and many Ontario wines are now seen in that light.

Icewine, the dessert wine for which Ontario is becoming world famous, also enjoyed strong growth in 1996. With more sizes and price points than ever to choose from, sales of 1995 icewines between their November release and the end of the fiscal year (March 31, 1996) were 50 per cent higher than the 1994 vintage over the same timeframe.

DID YOU KNOW...

SALES OF ONTARIO WINES BEARING THE VINTNERS QUALITY ALLIANCE (VQA) LABEL INCREASED BY 38 PER CENT IN FISCAL 1995-96.

BEER

LCBO beer sales continue to grow significantly both in value and volume. Sales overall increased in value by 14.3 per cent, with all categories experiencing double digit growth: domestic beer by 11 per cent; domestic beer coolers by 26.1 per cent; imported beer by 19 per cent.

Volume beer sales also continued double digit growth, increasing 11.5 per cent overall in 1995-96. Domestic beer volume sales increased by 8.6 per cent, domestic beer coolers by 22.7 per cent and imported beer by 15.7 per cent.

Beer sales increased at both the wholesale and retail levels. LCBO sales to Brewers Retail outlets increased by 27.3 per cent in volume and 35.2 per cent in value. LCBO beer sales to consumers increased by 8.6 per cent in volume and 10.8 per cent in value. The LCBO's *Taste the World of Beer* promotions introduced many customers to its wide selection of imported and domestic beers.

Brewers Retail stores have experienced the largest growth of any LCBO customer since it began selling imported beer through its retail outlets. In 1993 BRI accounted for only 0.04 per cent of LCBO sales; by 1994 it accounted for 0.4 per cent of LCBO sales and by 1995 1.4 per cent. In 1996, sales to Brewers Retail accounted for 1.8 per cent of LCBO gross sales.

SHOPPING THE WORLD... LITERALLY

The largest beverage alcohol purchaser in the world, the LCBO listed 4,952 products in 1995-96 (excluding Consignment Warehouse and Private Stock listings), up 8.6 per cent for 1995 and 22.3 per cent from 1992. We sold products from 62 different countries, five more than in 1995.

A look at sales by country of origin reveals that domestic beer volume sales increased by 8.3 per cent in 1996, but their share of regular beer volume sales has declined from 63.4 per cent in 1995 to 61.6 per cent in 1996. This reflects the increased popularity of imported beers, led by products from the Netherlands, which increased their share from 4.3 per cent in 1995 to 5.2 per cent in 1996; Mexico, from 3.1 per cent in 1995 to 4.1 per cent in 1996; Great Britain, from 1.5 per cent in 1995 to 1.8 per cent in 1996; and Ireland, from 1.1 per cent in 1995 to 1.3 per cent in 1996.

WINES FROM NEW WORLD COUNTRIES, ESPECIALLY CHILE, AUSTRALIA AND NEW ZEALAND, HAVE BEEN CHIPPING AWAY AT THE MARKET SHARE LONG HELD BY EUROPEAN WINES. THIS TREND IS EXPECTED TO CONTINUE THROUGH 1996-97.

Both domestic and imported wines have experienced growth in volume sales. Wines from Canada accounted for 33.2 per cent of all LCBO regular wine sales in 1996, up from 32.3 per cent in 1995. Although many products from a number of countries experienced increases in volume sales, increases in actual market share by products from countries other than Canada were led by the United States, up from 7.4 per cent in 1995 to 7.9 per cent in 1996; Italy, from 13.9 per cent in 1995 to 14.7 per cent in 1996; Chile, from 2.8 per cent in 1995 to 3.4 per cent in 1996; Portugal, from 1.7 per cent in 1995 to 1.8 per cent in 1996; and Spain, from 1.8 per cent in 1995 to 1.9 per cent in 1996.

The increased volume of regular spirit sales was led by products from the United States with a six per cent market share in 1996, up from 1.7 per cent volume sales in 1995. Products from Ireland, France, the Russian Federation, South Africa and Mexico all increased their share of volume spirit sales by 0.1 per cent in 1996. Canadian products dropped to 70.5 per cent of regular spirit volume sales in 1996, from 75.2 per cent in 1995.

WHAT'S AHEAD

SPIRITS

The LCBO will offer more products tailored to the tastes of our ethnic communities, including Canadians of Chinese and West Indian descent... pre-mixed cocktails – very well received in 1996 – are expected to grow yet again, as are 200mL miniatures... more food-and-drink recipes will be sourced from suppliers... premium whiskies from Scotland, Canada, the U.S. and Ireland will be highlighted, as will gin, now enjoying a worldwide resurgence in popularity.

WINE

Wines from New World countries, especially Chile, Australia and New Zealand, have been chipping away at the market share long held by European wines. This trend is expected to continue through 1996-97. Eastern Europe, however, is showing strong growth: countries like Bulgaria, Romania, Croatia and Hungary are offering good quality wines – especially reds – at very competitive prices. More of these will be bought for customers of Eastern European origin – or anyone looking for good value.

"On behalf of the wine industry, I would like to express our appreciation to the LCBO staff who devoted their time and energy to help us ensure that the VQA promotion could succeed beyond our expectations in the short time available."

LETTER FROM LINDA FRANKLIN, EXECUTIVE DIRECTOR, WINE COUNCIL OF ONTARIO.

BEER

We'll continue to capitalize on the growing interest in beers from Canadian microbreweries and from other countries. Ontario beer drinkers are more adventurous than they used to be. Like many wine drinkers, they want to try products from around the world... and they want more information on the beers they buy and the foods they complement best. And like wine enthusiasts, they know they can find their brew of choice at the LCBO, whether it's domestic or imported, from light summer lagers to dark winter stouts. ●

Public Sector Disclosure Act

On January 29, 1996, the Ontario Legislature passed the *Public Sector Disclosure Act*. The Act, designed to make the public sector more open and accountable to taxpayers, required Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees paid $100,000 or more a year.

Some of the other provincial organizations included under this Act were Ontario Hydro, the Workers' Compensation Board, universities, colleges, hospitals, school boards, municipalities and government ministries. In keeping with the requirements of the Act, the LCBO submits the following information.

NAME	POSITION	SALARY PAID	TAXABLE BENEFITS
Brandt, A.	Chair & CEO	$102,102.40	$542.16
Gee, L.	Executive Vice President	$152,302.42	$809.04
Browning, J.A.	VP, Finance & Administration	$112,004.27	$1,087.92
Kane, M.	VP, Human Resources	$108,862.45	$567.36
Kelly, H.	VP, Information Technology	$105,583.16	$544.66
Martin, J.	VP, Distribution	$106,809.44	$567.36
Sherwood, G.	VP, Retail	$119,773.30	$624.24
Wilcox, D.	VP, Merchandising	$119,773.30	$624.24

DID YOU KNOW... IF YOU WANT SOMETHING WE DON'T CARRY - FROM ANYWHERE IN THE WORLD - YOU CAN ORDER CASE LOTS THROUGH OUR PRIVATE ORDERING SERVICE.

Key Operational and Financial Statistics

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

OPERATIONS

	1992	1993	1994	1995	1996
Number of LCBO Stores	618	611	600	597	596
Number of Permanent Employees	3,233	3,100	2,743	2,824	2,803
Number of Regular Products Listed	2,390	2,302	2,336	2,389	2,377

The critical financial variables of net sales, total operating expenses and net income are given in the following table.

FINANCIALS *(values in $000s)*

	1992	1993	1994	1995	1996
Net Sales and Other Income	1,833,386	1,786,479	1,764,731	1,808,518	1,909,804
% change/ previous year	-5.34%	-2.56%	-1.22%	2.48%	5.60%
Operating Expenses	332,439	332,953	333,716	313,029	323,819
As a % of net sales	18.13%	18.64%	18.91%	17.31%	16.96%
Net Income	652,458	612,466	598,909	637,299	666,717
As a % of net sales	35.59%	34.28%	33.94%	35.24%	34.91%

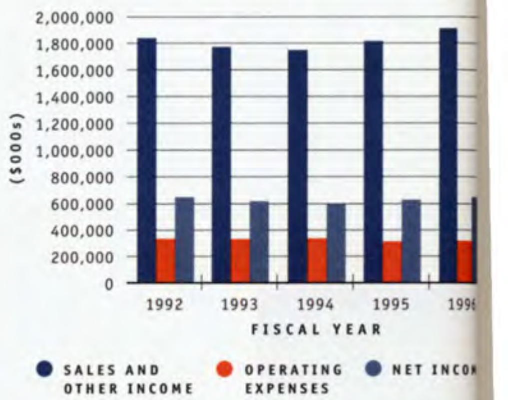
Note:
The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Sales and Other Income line listed in this table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the Sales Channel Summary table on page 44.

BREAKDOWN OF OPERATING EXPENSES *(values in $000s)*

	1992	1993	1994	1995	1996
Salaries and Benefits	222,886	225,153	209,900	200,344	204,629
Depreciation	22,704	22,832	21,070	18,613	20,962
Other Expenses	86,849	84,968	102,746	94,072	98,228
Total Operating Expenses	**332,439**	**332,953**	**333,716**	**313,029**	**323,819**

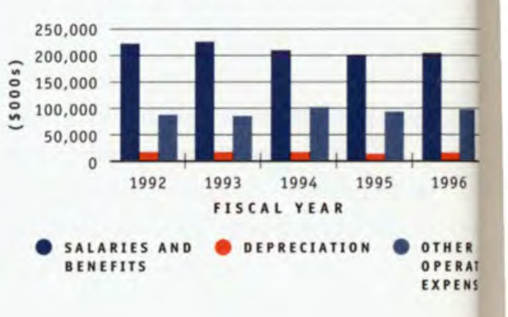
KEY INDICATORS: 1992-1996

FINANCIAL INDICATORS: 1992-19



Prior to the 1993-94 fiscal year, the LCBO had written 100 per cent of capital expenditures in the year in whi those monies were spent. The LCBO now follows new pr cial government auditing guidelines by depreciating its capital spending. Net income figures have been restate to reflect this change in accounting procedures. The 19 and 1995 Operating Expense figures include accrued te nation payments totaling $9.55 million and $9.31 milli respectively. Operating Expense figures have been resta to include freight-out expense.

OPERATING EXPENSES: 1992-1996



Revenue Payments

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial, and municipal governments.
(values in $000s)

TREASURER OF ONTARIO

	1992	1993	1994	1995	1996
Remitted by the Liquor Control Board:					
On account of profits	675,000	615,000	585,000	630,000	680,000
Remitted by the Liquor Control Board:					
Ontario retail sales tax on sales through liquor stores	182,298	178,797	173,497	174,189	182,762
Remitted by the Liquor Licence Board:					
On account of licence fees and permits	483,356	511,307	521,784	532,116	529,690
Remitted by others:					
Ontario retail sales tax on sales through Brewers Retail stores and Ontario Winery Retail Stores	154,181	148,742	149,894	154,157	157,046
Ontario retail sales tax on sales through agency stores	1,811	1,809	1,786	1,927	2,301
Total	**1,496,646**	**1,455,655**	**1,431,961**	**1,492,389**	**1,551,799**

RECEIVER GENERAL FOR CANADA

	1992	1993	1994	1995	1996
Remitted by the Liquor Control Board:					
Excise taxes and Customs duties	257,408	237,316	225,518	227,803	235,022
Goods and Services Tax	58,538	61,215	59,137	60,939	60,344
Federal Sales Tax	91	0	0	0	0
Remitted by others:					
Excise taxes, GST and other duties/taxes	315,768	260,555	276,477	319,839	327,660
Good and Services Tax remitted on sales through agency stores	1,057	1,055	1,042	1,124	1,343
Total	**632,862**	**560,141**	**562,174**	**609,705**	**624,369**

ONTARIO MUNICIPALITIES

	1992	1993	1994	1995	1996
Remitted by the Liquor Control Board:					
Grants in lieu of realty and business taxes	5,224	6,262	6,218	6,084	6,188
Total Revenue Payments	**2,134,732**	**2,022,058**	**2,000,353**	**2,108,178**	**2,182,356**

Note:
These amounts do not include corporation, realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees on sales of beverage alcohol is excluded from these figures. The 1995 figures have been restated due to a change in the information received from brewers. The 1996 figures are considered slightly understated due to four brewers not reporting financial information in time for production of this publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

Sales Volume

LCBO SALES

(values in 000s litres)

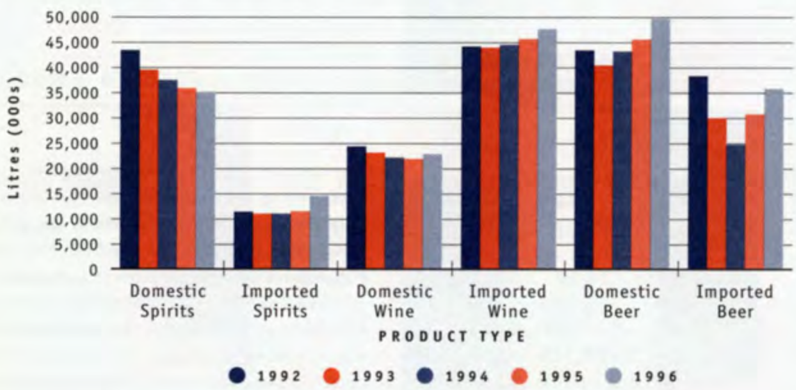
Product Type	1992	1993	1994	1995	1996
Domestic Spirits	36,713	33,688	31,924	30,836	30,585
Domestic Spirit Coolers	6,943	5,436	5,656	5,628	4,669
Imported Spirits	11,733	11,441	11,375	12,087	14,877
Total Spirits	**55,389**	**50,565**	**48,955**	**48,551**	**50,131**
Domestic Wine	22,370	22,023	20,969	20,483	22,208
Domestic Wine Coolers	2,341	1,629	1,255	1,042	903
Imported Wine	44,017	43,966	44,951	46,375	47,671
Total Wine	**68,728**	**67,618**	**67,175**	**67,900**	**70,782**
Domestic Beer	43,145	41,697	43,006	45,654	49,584
Domestic Beer Coolers	31	43	36	22	27
Imported Beer	38,400	30,224	24,966	31,012	35,873
Total Beer	**81,576**	**71,964**	**68,008**	**76,688**	**85,484**
Total Domestic	**111,543**	**104,516**	**102,846**	**103,665**	**107,976**
Total Imported	**94,150**	**85,631**	**81,292**	**89,474**	**98,421**
TOTAL	**205,693**	**190,147**	**184,138**	**193,139**	**206,397**

(values in 000s litres)

Product Type	1992	1993	1994	1995	1996
Sales by Ontario Winery Stores	9,480	9,799	9,999	11,960	13,164
Sales by Brewers Retail & On-site Stores	710,118	670,018	665,277	670,494	670,539

Note:
LCBO beer sales figures include LCBO sales to Brewers Retail Inc.
The 1996 figures for sales by Brewers Retail and brewery on-site stores are considered slightly understated due to four brewers not reporting financial information in time for production of this publication.

LCBO SALES VOLUME BY PRODUCT TYPE: 1992-1996



Sales Value

LCBO SALES

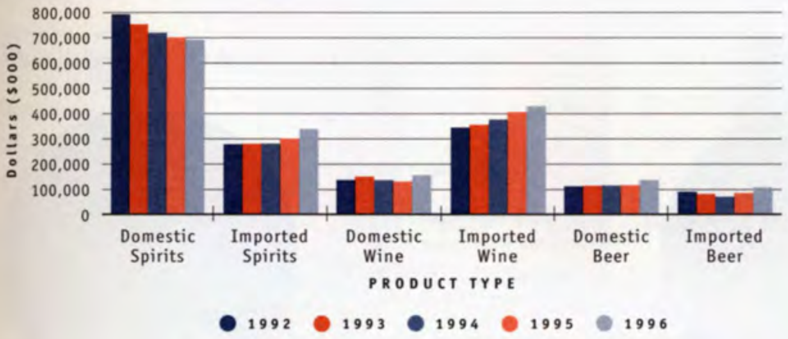
(values in $000s)

Product Type	1992	1993	1994	1995	1996
Domestic Spirits	763,875	730,965	698,695	678,101	671,080
Domestic Spirit Coolers	29,313	25,073	26,709	26,725	22,148
Imported Spirits	283,148	286,124	285,478	303,441	340,638
Total Spirits	**1,076,336**	**1,042,162**	**1,010,882**	**1,008,267**	**1,033,866**
Domestic Wine	136,619	145,536	143,270	143,105	158,888
Domestic Wine Coolers	8,260	6,056	4,663	3,739	3,347
Imported Wine	372,925	379,358	390,427	410,573	435,845
Total Wine	**517,804**	**530,950**	**538,360**	**557,417**	**598,080**
Domestic Beer	119,221	119,856	123,599	131,348	145,816
Domestic Beer Coolers	98	135	116	69	87
Imported Beer	96,959	86,893	73,641	90,143	107,275
Total Beer	**216,278**	**206,884**	**197,356**	**221,560**	**253,178**
Total Domestic	**1,057,386**	**1,027,621**	**997,052**	**983,087**	**1,001,366**
Total Imported	**753,032**	**752,375**	**749,546**	**804,157**	**883,758**
Total Non-Liquor	**659**	**2,497**	**2,553**	**2,201**	**2,059**
TOTAL	**1,811,077**	**1,782,493**	**1,749,151**	**1,789,445**	**1,887,183**

(values in $000s)

Product Type	1992	1993	1994	1995	1996
Sales by Ontario Winery Stores	55,814	63,107	68,317	83,369	95,227
Sales by Brewers Retail	1,785,851	1,779,453	1,754,761	1,792,638	1,809,030

LCBO SALES VALUE BY PRODUCT TYPE: 1992-1996

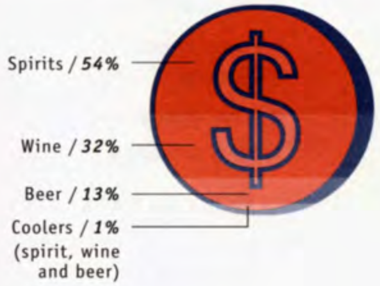


Share of Sales

(by category)

SHARE OF VOLUME SALES

SHARE OF DOLLAR SALES



Note:
Sales values listed above, left, for the LCBO and Ontario Winery Stores consist of net sales. Sales values for Brewers Retail consist of net sales plus GST.

Product Listings

	1992	1993	1994	1995	1996
DOMESTIC					
Spirits	475	469	450	379	352
Wine	514	439	431	457	455
Beer	215	252	289	311	316
IMPORTED					
Spirits	292	267	279	276	292
Wine	833	804	806	874	873
Beer	61	71	81	92	89
Total Regular Listings	**2,390**	**2,302**	**2,336**	**2,389**	**2,377**
Vintages Wines, Spirits and Beers	**1,506**	**1,287**	**1,223**	**1,987**	**2,368**
Duty-Free Listings	**154**	**175**	**170**	**182**	**207**
Consignment Warehouse and Private Stock*	**3,290**	**3,244**	**3,106**	**3,515**	**4,249**
Total Product Listings	**7,340**	**7,008**	**6,835**	**8,073**	**9,201**

* Estimates based on invoices produced by Specialty Services.

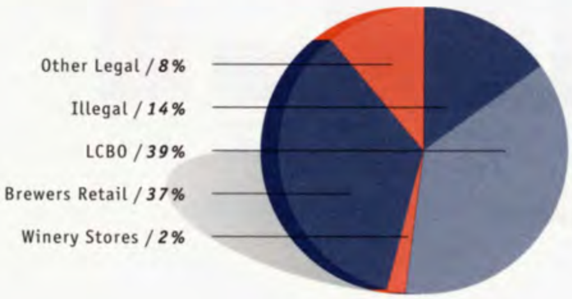
Sales Channel Summary

(value in $000s)

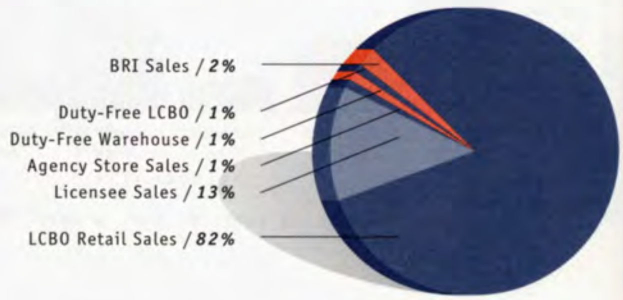
	1992	1993	1994	1995	1996
LCBO Total Sales	2,132,949	2,096,176	2,054,991	2,101,952	2,215,523
Brewers Retail Total Sales	1,946,646	1,937,255	1,910,584	1,951,825	2,060,219
Winery Stores Total Retail Sales	66,419	75,097	81,297	99,233	113,320
OTHER CHANNELS:					
Legal	393,431	411,122	352,746	334,139	280,559
Homemade	107,049	113,568	111,983	113,930	127,829
De-alcoholized Beer	9,965	14,216	15,069	19,600	22,540
Illegal	726,750	753,879	795,097	785,076	774,574
Grand Total	**5,383,209**	**5,401,313**	**5,321,767**	**5,405,755**	**5,594,564**

Note:
All figures shown are gross sales.
The numbers included in the Other Chann
category are estimates.
Estimates for illegal sales in the precedi
years have been restated.
Brewers Retail and Winery Store data were provided by the Brewers of Ontario and individual winery retail stores.

VALUE BY SALES CHANNEL

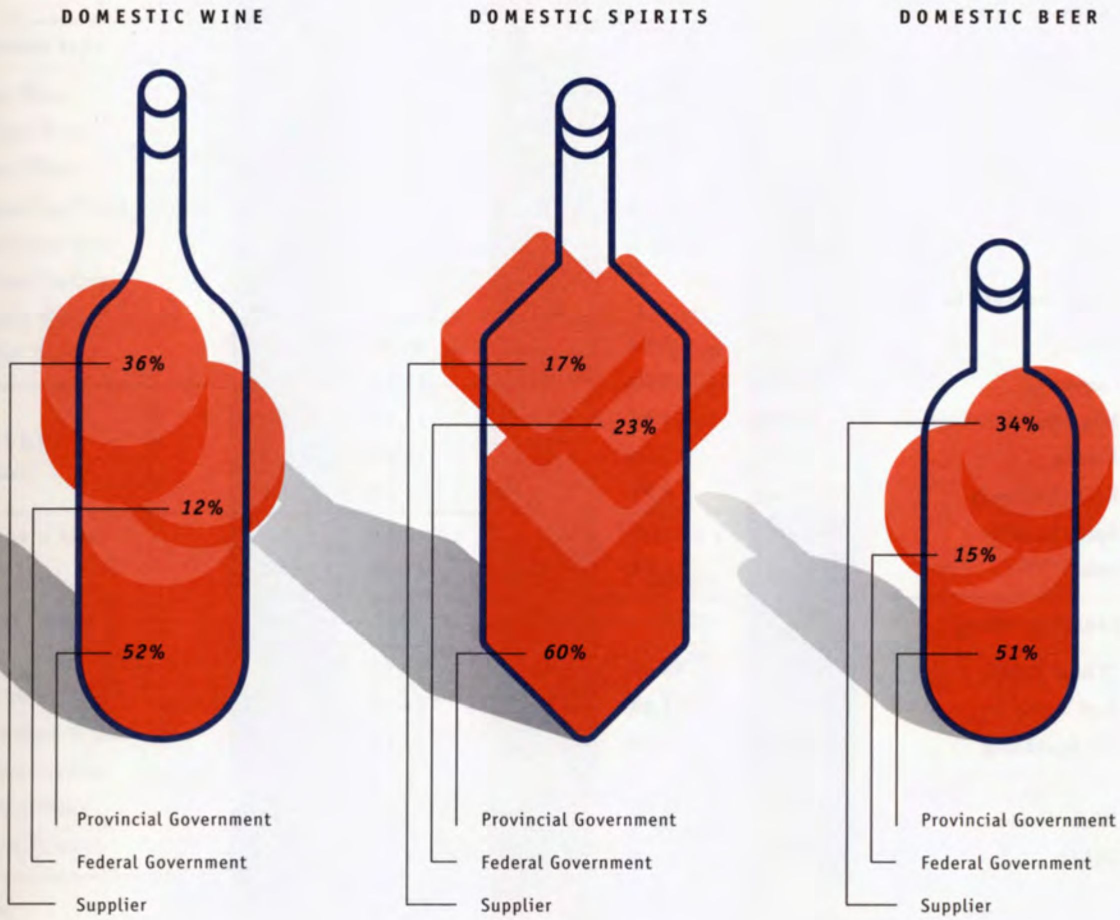


LCBO VALUE BY SALES CHANNEL



Retail Price Breakdowns (1996)

REVENUE DISTRIBUTION



Average LCBO Retail Prices

Product Type	1992	1993	1994	1995	1996
Spirits	$19.43	$20.61	$20.65	$20.77	$20.62
Wine	$7.53	$7.85	$8.01	$8.21	$8.45
Beer	$2.65	$2.87	$2.90	$2.89	$2.96
Average Transaction Value Per Customer	n.a.	$21.86	$22.00	$22.43	$23.33

AVERAGE RETAIL PRICES PER LITRE: 1992-1996

Note:
Average prices are exclusive of Ontario Retail Sales Tax and the Goods and Services Tax.

LCBO Sales Volume by Category

CATEGORY	PRODUCT CATEGORY SHARE 1992	1993	1994	1995	1996
Canadian Spirits					
Canadian Whisky	40.3%	41.1%	40.0%	41.3%	40.7%
Canadian Rum	17.2%	18.1%	18.0%	18.7%	18.7%
Canadian Vodka	14.3%	14.8%	15.1%	15.9%	16.6%
Spirit Coolers	15.9%	13.9%	15.1%	13.1%	13.3%
Canadian Dry Gin	4.1%	4.0%	3.9%	3.9%	3.6%
Other	8.1%	8.2%	7.8%	7.1%	7.2%
Imported Spirits					
Scotch	30.6%	30.5%	29.9%	26.1%	23.3%
Liqueur	17.1%	17.5%	17.1%	17.3%	16.6%
Miscellaneous Liquors	14.0%	14.4%	14.6%	13.5%	12.7%
Vodka	11.4%	11.1%	11.3%	11.0%	10.4%
French Brandy	9.6%	9.7%	9.8%	8.6%	8.0%
Spirit Coolers	n.a.	n.a.	n.a.	8.4%	11.1%
Other	17.2%	16.7%	17.2%	15.0%	17.8%
Canadian Wines					
White Table	57.1%	58.8%	59.6%	58.5%	56.1%
Red Table	9.5%	11.4%	12.6%	14.6%	17.0%
7% Sparkling	7.6%	7.3%	7.1%	7.1%	6.8%
Sherry	7.3%	7.2%	7.0%	6.7%	5.8%
Wine Coolers	9.5%	6.9%	5.7%	4.8%	3.9%
Other	9.0%	8.3%	8.1%	8.3%	10.4%
Imported Wines					
White Table	61.6%	58.5%	56.2%	53.7%	50.4%
Red Table	26.1%	29.0%	31.4%	34.0%	36.6%
Champagne	4.3%	4.1%	3.8%	3.8%	3.7%
Sherry	2.1%	2.2%	2.2%	2.0%	2.2%
Other	5.7%	6.1%	6.4%	6.6%	7.1%
Canadian Beer					
Ontario Beer	100.0%	97.4%	96.4%	95.4%	95.8%
Other Canadian Beer	0.0%	2.6%	3.6%	4.6%	4.2%
Imported Beer					
U.S. Beer	78.6%	63.9%	48.6%	48.6%	45.9%
Other Imported Beer	21.1%	35.6%	50.9%	50.9%	53.7%
Saké	0.4%	0.5%	0.5%	0.5%	0.4%

Detailed Sales of Wine by Volume and Value

LCBO sales only.

VOLUME

(000s litres)

Product Type	1992	1993	1994	1995	1996
Red Wine	13,494	15,089	16,474	18,345	20,911
White Wine	40,318	38,843	37,750	36,793	36,313
Rosé Wine	591	596	599	605	697
Sparkling Wine	4,735	4,361	4,028	3,959	3,989
Fortified Wine	4,163	4,105	3,892	3,810	3,764
Wine Coolers	2,341	1,629	1,255	1,042	903
Other Wine	1,587	1,627	1,831	1,987	2,894
VQA Wines*	904	1,285	1,485	1,200	1,660

VALUE

($000s)

Product Type	1992	1993	1994	1995	1996
Red Wine	112,219	127,971	142,342	163,030	190,371
White Wine	287,506	285,286	280,849	280,061	284,955
Rosé Wine	4,729	4,655	4,788	4,886	5,583
Sparkling Wine	46,411	44,016	41,855	41,840	42,161
Fortified Wine	32,201	33,506	32,627	32,648	33,388
Wine Coolers	8,260	6,043	4,655	3,740	3,342
Other Wine	13,627	13,297	14,897	15,000	21,453
VQA Wines*	8,234	12,885	15,339	16,446	20,075

Note:

*VQA wine figures are included twice in the above tables; once in the breakdown of wine sales by wine type and then as a separate, consolidated figure on the bottom line. Figures do not include Private Stock sales.

LCBO Sales by Country of Origin - Volume and Value

SPIRITS

Country	Litres	Net Value
Canada	35,229,514	686,765,465
Great Britain	4,429,489	115,439,188
United States	2,992,363	35,540,191
France	1,634,583	51,090,341
Ireland	1,203,962	29,465,369
Italy	983,419	21,931,937
Sweden	823,544	18,283,069
Mexico	808,470	20,158,170
Finland	390,950	8,406,454
Barbados	201,141	4,389,118
Russian Federation	188,485	4,105,268
Germany	166,024	4,047,551
Jamaica	147,336	3,311,432
Poland	140,775	2,975,904
Greece	136,292	2,940,015
Netherlands	86,647	1,646,424
South Africa	79,583	1,763,111
Spain	61,370	1,277,827
Switzerland	57,335	1,911,632
Puerto Rico	33,163	788,941
Hungary	23,196	445,596
Portugal	22,791	577,273
Guyana	22,670	548,206
Trinidad	22,131	482,218
Bermuda	22,093	715,081
Lebanon	15,238	355,634
Denmark	14,933	351,125
Bahamas	13,433	250,605
Croatia	11,061	259,715
India	9,722	175,998
Grenada	5,766	163,048
Belgium	5,085	168,444
Austria	4,300	146,955
Israel	2,862	63,202
People's Republic of China	2,568	95,118
Macedonia	2,053	40,538
Japan	1,694	36,048
Syrian Arab Republic	1,477	42,959
Estonia	1,418	31,903
Cuba	1,319	35,290
Cyprus	982	23,028
Chile	678	16,130
Philippines	620	13,544
Czech Republic	533	13,117
Peru	323	8,617
Ukraine	194	4,307
Norway	176	4,892
Bulgaria	116	2,420
Martinique	6	1,210
Total	**50,003,883**	**1,021,309,628**

BEER

Country	Litres	Net Value
Canada	48,744,787	142,917,251
United States	13,917,964	34,779,587
Netherlands	4,082,836	15,700,279
Mexico	3,274,660	12,123,176
Germany	2,949,614	9,760,330
Great Britain	1,456,752	5,479,992
Ireland	1,002,801	3,840,031
Czech Republic	728,531	2,219,498
Poland	557,503	1,834,658
Japan	540,352	2,574,262
Denmark	508,414	1,626,256
People's Republic of China	246,121	826,633
France	242,111	923,629
Italy	193,570	612,184
Trinidad	180,410	676,508
Jamaica	136,118	470,781
New Zealand	88,617	282,970
Belgium	60,935	496,778
Portugal	47,447	162,779
Kenya	40,316	134,491
Greece	20,892	77,164
Cyprus	20,691	96,437
Austria	16,511	53,913
Australia	10,463	32,638
Slovakia	9,035	29,502
North Korea	7,518	24,391
Switzerland	1,560	15,766
Ukraine	1	3
Total	**79,086,530**	**237,771,887**

WINE

Country	Litres	Net Value
Canada	23,064,473	159,013,303
France	18,014,652	164,011,791
Italy	10,191,899	84,037,659
United States	5,494,518	51,343,453
Chile	2,376,845	20,269,761
Australia	2,225,193	23,282,988
Germany	2,192,821	19,652,027
Spain	1,287,373	13,816,276
Portugal	1,262,866	12,001,953
Greece	822,946	5,449,137
Hungary	796,748	5,494,168
South Africa	754,980	7,325,492
Bulgaria	230,258	1,609,457
Croatia	112,189	846,440
Argentina	102,959	959,944
New Zealand	99,575	1,274,532
Israel	96,751	801,223
Romania	65,966	427,943
Slovenia	56,354	395,416
Austria	41,872	424,313
Denmark	26,144	278,673
Czech Republic	25,127	182,366
Macedonia	21,559	134,333
Mexico	21,267	186,949
Great Britain	18,895	202,707
Japan	9,468	84,557
Cyprus	9,401	72,309
Uruguay	8,980	87,574
Morocco	8,887	71,126
Slovakia	8,501	61,205
Brazil	6,132	49,848
Turkey	4,312	34,726
People's Republic of China	4,251	37,582
Bolivia	2,086	23,400
Switzerland	2,082	36,943
Belgium	674	11,036
Russian Federation	271	7,822
Ukraine	18	1,770
Bosnia-Herzegovina	3	15
Total	**69,469,296**	**574,002,217**

Note:
Net value represents net sales, excluding Private Stock sales.
In fiscal 1995-96, the LCBO sold products from 62 different countries, five more than in fiscal 1994-95.

Balance Sheet

As at March 31, 1996

ASSETS	**1996** *($000s)*	**1995** *($000s)*
Current		
Cash and short-term investments	25,991	34,925
Accounts receivable, trade and others	7,140	4,184
Inventories	202,567	187,599
Prepaid expenses	3,818	2,833
	239,516	**229,541**
Long-term		
Fixed assets (Note 2)	134,780	129,470
	374,296	**359,011**
LIABILITIES AND RETAINED INCOME		
Liabilities		
Accounts payable and accrued liabilities	160,727	132,159
Retained income (Note 6)	213,569	226,852
	374,296	**359,011**
Contingent liabilities (Note 7)		

See accompanying notes to financial statements.

APPROVED:

Chair and
Chief Executive Officer

Vice President
Finance and Administration

Statement of Income and Retained Income

Year Ended March 31, 1996

	1996 ($000s)	1995 ($000s)
Sales and other income	1,909,804	1,808,518
Costs and Expenses		
Cost of sales	919,268	858,190
Retail stores and marketing	233,917	226,381
Warehousing and distribution	38,198	37,386
Administration	30,742	30,649
Depreciation	20,962	18,613
	1,243,087	**1,171,219**
Net income for the year	666,717	637,299
Retained income, beginning of year, as previously reported	236,164	228,865
Adjustment for termination payments (Note 6)	(9,312)	(9,312)
Retained income, beginning of year, as restated	**226,852**	**219,553**
	893,569	856,852
Deduct payments to the Treasurer of Ontario	680,000	630,000
Retained income, end of year	**213,569**	**226,852**

See accompanying notes to financial statements.

Statement of Changes in Financial Position

Year Ended March 31, 1996

	1996 ($000s)	1995 ($000s)
Cash provided from Operations		
Net income	666,717	637,299
Depreciation	20,962	18,613
Gain on sale of fixed assets	(16)	(714)
	687,663	**655,198**
Change in working capital	9,659	14,785
Adjustment for termination payments (Note 6)	0	(9,312)
	697,322	**660,671**
Cash used for investment activities		
Purchase of fixed assets	(27,080)	(27,609)
Proceeds from sale of fixed assets	824	714
	(26,256)	(26,895)
Cash used for provincial transfers		
Social Contract	(7,712)	(7,712)
Profit	(672,288)	(622,288)
	(680,000)	**(630,000)**
(Decrease) Increase in cash during the year	(8,934)	3,776
Cash and short-term investments, beginning of year	34,925	31,149
Cash and short-term investments, end of year	**25,991**	**34,925**

See accompanying notes to financial statements.

Notes to Financial Statements

March 31, 1996

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the most recent cost.

c) Fixed Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are depreciated on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

2. FIXED ASSETS

	1996			1995
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	14,033	–	14,033	13,908
Buildings	226,554	138,124	88,430	87,588
Furniture and Fixtures	35,500	30,401	5,099	5,188
Leasehold Improvements	56,000	42,391	13,609	12,990
Computer Equipment	45,051	31,442	13,609	9,796
	377,138	**242,358**	**134,780**	**129,470**

3. INSURANCE

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

4. LEASE COMMITMENTS

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

	($000's)
1997	20,400
1998	16,624
1999	12,721
2000	9,861
2001	7,482
Thereafter	14,033
	81,121

5. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Ontario Public Service Employees' Union Pension Act, 1994 provides for a reduction of the employer's contributions to the PSPF and the OPSEU Pension Fund for each of the three fiscal years ending 1995-1997. For the current year, the impact of these reductions on the Board's pension expense was a reduction of $11.8 million.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was $2.1 million (1995 - $1.3 million) and is included in Costs and Expenses in the Statement of Income and Retained Income.

(continued opposite)

Notes to Financial Statements

(continuation)

6. ADJUSTMENT TO PRIOR YEAR - TERMINATION PAYMENTS

The Board is required to make termination payments to eligible employees when they retire or resign. At March 31, 1996 the accrued termination payments totaled $9.55 million (1995 - $9.31 million).

These statements include an adjustment to the prior year for the termination payments accrual which has been determined to be a liability of the Board. The effect has been to decrease the opening retained earnings of 1996 and 1995 from $236.2 million to $226.9 million and from $228.9 million to $219.6 million respectively. In addition, liabilities for 1995 increased from $122.8 million to $132.2 million. The 1995 comparative balance of administration expense in the statement of income and retained income has not been adjusted due to insufficient data to apportion the adjustment between the fiscal 1995 year and prior years.

7. CONTINGENT LIABILITIES

Major airlines have taken legal action against the Board contesting the Board's right to collect markup on any liquor which is imported into Ontario by the airlines. A lower court judgment ruled against the Board but this judgment was overturned by an Ontario Appeal Court decision which rejected the airlines' claim. However, the airlines have been granted leave to appeal to the Supreme Court of Canada and a successful appeal against the Board could result in a possible loss of $22.8 million (1995 - $22.8 million) plus interest of $16.7 million (1995 - $14.2 million) at March 31, 1996. Any judgment against the Board will be accounted for as a prior period adjustment in the year the claim is resolved.

An association of privately-owned duty-free stores to which the Board sells liquor have commenced legal proceedings against the Board contesting the Board's right to collect markups on liquor. An unfavourable judgement for the Board could result in a possible loss of $26.4 million (1995 - $21.4 million). This case is presently on hold pending the outcome of the airlines' cases. Any judgment against the Board will be accounted for as a prior period adjustment in the year the claim is resolved.

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, 1996 and the statements of income and retained income and changes in financial position 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, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 13, 1996

Erik Peters, FCA
Provincial Auditor

"Our \$680 million transfer to the Ontario Treasury in fiscal 1995-96 is the largest in our 69-year history. The 1996-97 target is \$685 million – and we're well on our way to another record-breaking year."

Andrew S. Brandt,

Chair and CEO, July 1996.

LCBO

Statistical Insert for LCBO Annual Report,

Fiscal 1995-1996

Product Listings

DOMESTIC	1992	1993	1994	1995	1996
Canadian Whisky	136	126	125	103	99
Canadian Blended Rums	92	90	90	69	64
Canadian Dry Gin	33	30	26	16	14
Canadian Vodka	59	57	52	50	47
Canadian Brandy	4	4	4	4	4
Canadian Blended Brandy	12	12	12	12	14
Canadian Spirit Coolers	19	21	21	31	25
Fruit Spirits	6	6	4	3	3
Miscellaneous Liquors	15	13	11	7	6
Canadian Liqueurs	81	92	87	66	57
Ontario Wines	478	409	400	420	421
Ontario Wine Coolers	19	15	15	14	11
Other Canadian Wines	11	11	10	16	14
Canadian Cider	6	4	6	7	9
Canadian Beer (includes Beer Coolers)	215	252	289	311	316
Alcohol	6	6	6	6	6
Miniatures	9	9	9	9	10
Bitters	3	3	3	3	3

IMPORTED	1992	1993	1994	1995	1996
Scotch Whisky	75	66	68	63	58
Irish Whiskey	3	3	3	4	4
American Whiskey	6	5	5	5	5
Gin	12	12	15	16	16
Rum	13	12	13	10	9
Vodka	20	20	20	19	22
Tequila	7	7	6	9	8
Brandy	55	55	55	31	43
Fruit Spirits	1	2	2	10	2
Miscellaneous Liquors	30	2	13	7	4
Liqueurs	49	60	59	73	77
Wines	833	804	806	874	873
Beer and Saké	61	71	81	92	89
Miniatures	11	11	11	12	19
Coolers	0	0	3	6	19
Bitters	10	12	6	11	6
Total Regular Listings	**2,390**	**2,302**	**2,336**	**2,389**	**2,377**
Vintages Wines, Spirits and Beers	**1,506**	**1,287**	**1,223**	**1,987**	**2,368**
Duty-Free Listings	**154**	**175**	**170**	**182**	**207**
Consignment Warehouse and Private Stock*	**3,290**	**3,244**	**3,106**	**3,515**	**4,249**
Total Product Listing	**7,340**	**7,008**	**6,835**	**8,073**	**9,201**

* Estimates based on invoices produced by Specialty Services.

Sales Channel Summary

(values in $000s)

	1992	1993	1994	1995	1996
Retail Sales	1,817,531	1,785,539	1,731,071	1,740,387	1,827,840
Licensee Sales	277,981	271,684	276,306	288,956	297,233
Agency Store Sales	15,685	15,863	15,824	17,005	20,329
Duty-Free/Warehouse	10,234	10,409	12,137	12,640	15,108
Duty-Free/LCBO	8,536	9,120	8,979	9,869	11,425
BRI Sales	0	851	7,866	29,729	40,150
Other Sales	2,982	2,710	2,808	3,366	3,438
Total	**2,132,949**	**2,096,176**	**2,054,991**	**2,101,952**	**2,215,523**
BREWERS RETAIL					
Retail and Licensee Sales	1,946,646	1,937,255	1,910,584	1,951,825	2,060,219
WINERY STORES					
Retail Sales	66,419	75,097	81,297	99,233	113,320
OTHER CHANNELS					
Legal:					
Cross-Border Exempt	250,250	235,210	171,703	147,538	148,305
Cross-Border Declared	6,000	3,064	2,346	1,599	2,333
Brew Pubs	1,719	1,951	2,570	2,976	2,496
Wine Pubs	128	276	422	489	448
U-Brew-Beer	135,334	137,859	141,305	142,413	110,771
U-Brew-Wine	n/a	32,762	34,400	39,124	16,206
Total	**393,431**	**411,122**	**352,746**	**334,139**	**280,559**
Homemade:					
Wine	92,250	99,782	101,279	99,991	112,855
Beer	14,799	13,786	10,704	13,939	14,974
Total	**107,049**	**113,568**	**111,983**	**113,930**	**127,829**
De-alcoholized Beer	9,965	14,216	15,069	19,600	22,540
Illegal:					
Smuggling	450,000	454,311	549,132	534,132	490,372
Wine Manufacturing	276,750	299,568	245,965	250,944	284,202
Total	**726,750**	**753,879**	**795,097**	**785,076**	**774,574**
GRAND TOTAL	**5,383,209**	**5,401,313**	**5,321,767**	**5,405,755**	**5,594,564**

Note:

All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates.

Estimates for illegal sales in 1994 and 1995 have been restated to reflect the increased success of enforcement measures. Brewers Retail and Winery Store data were provided by the Brewers of Ontario and individual winery retail stores.

Retail Price Breakdowns

SPIRITS

(Examples as at March 31, 1996, for 750 mL bottle in Canadian dollars)

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	$3.0400	$3.3600	$3.3800
Federal Excise Tax	$3.3198	$3.3198	$3.3198
Federal Import Duty	$0.0000	$0.0217	$0.0000
Freight	$0.2775	$0.1640	$0.0466
Total Landed Cost	**$6.6373**	**$6.8655**	**$6.7464**
LCBO Markup	$9.6307	$9.9550	$9.3100
LCBO Bottle Levy	$0.2175	$0.2175	$0.2175
LCBO Environment Fee	$0.0893	$0.0893	$0.0893
LCBO Rounding Revenue	$0.0252	$0.0127	$0.0168
Basic Price	**$16.60**	**$17.14**	**$16.38**
Goods and Services Tax	$1.16	$1.20	$1.15
Provincial Retail Sales Tax	$1.99	$2.06	$1.97
Consumer Price	**$19.75**	**$20.40**	**$19.50**
Revenue Distribution			
Supplier (including freight)	$3.32	$3.52	$3.43
Government of Canada	$4.48	$4.54	$4.47
Government of Ontario	$11.95	$12.34	$11.60

WINES

(Examples as at March 31, 1996, for 750 mL bottle in Canadian dollars)

	Imported U.S.	Imported Non-U.S.	Domestic 100% Ontario
Payment to Supplier	$2.2800	$2.2800	$2.2800
Federal Excise Tax	$0.3842	$0.3842	$0.3842
Federal Import Duty	$0.0060	$0.0314	$0.0000
Freight	$0.1669	$0.2038	$0.0000
Total Landed Cost	**$2.8371**	**$2.8994**	**$2.6642**
LCBO Markup	$1.7136	$1.8962	$1.2682
LCBO Wine Levy	$1.1250	$1.1250	$1.1250
LCBO Bottle Levy	$0.2175	$0.2175	$0.2175
LCBO Environment Fee	$0.0893	$0.0893	$0.0893
LCBO Rounding Revenue	$0.0275	$0.0326	$0.0100
Basic Price	**$6.01**	**$6.26**	**$5.37**
Goods and Services Tax	$0.42	$0.44	$0.38
Provincial Retail Sales Tax	$0.72	$0.75	$0.65
Consumer Price	**$7.15**	**$7.45**	**$6.40**
Revenue Distribution			
Supplier (including freight)	$2.45	$2.48	$2.28
Government of Canada	$0.81	$0.86	$0.76
Government of Ontario	$3.89	$4.11	$3.36

BEER

(Examples as at March 31, 1995, for case of 24x341 mL bottles in Canadian dollars)

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	$6.9800	$7.0800	$8.2878
Federal Excise Tax	$2.2903	$2.2903	$2.2903
Federal Import Duty	$0.0000	$0.2046	$0.0000
Freight	$0.5000	$1.2000	$0.4000
Total Landed Cost	**$9.7703**	**$10.7749**	**$10.9781**
LCBO In-store COS	$4.9595	$4.9595	$4.9595
LCBO Out-of-store COS	$1.3422	$1.3422	$0.0000
LCBO Markup	$4.0920	$4.0920	$4.0920
LCBO Bottle Levy	$1.4404	$1.4404	$1.4404
LCBO Environment Fee	$0.0000	$0.0000	$0.0000
LCBO Rounding Revenue	$0.0356	$0.0050	$0.0000
Basic Price	**$21.64**	**$22.61**	**$21.47**
Goods and Services Tax	$1.51	$1.58	$1.50
Provincial Retail Sales Tax	$2.60	$2.71	$2.58
Container Deposit	$2.40	$2.40	$2.40
Consumer Price	**$28.15**	**$29.30**	**$27.95**
Revenue Distribution			
Supplier (including freight)	$7.48	$8.28	$8.69
Government of Canada	$3.80	$4.07	$3.79
Government of Ontario	$14.47	$14.55	$13.07
Container Deposit	$2.40	$2.40	$2.40

Note:
COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

Eleven Year Financial Performance Review

(values in $000s)

	1996	1995	1994	1993
STATEMENT OF EARNINGS				
Sales and Other Income	$1,909,804	$1,808,518	$1,764,731	$1,786,479
Cost of Sales	$919,268	$858,190	$832,106	$841,060
Gross Profit	$990,536	$950,328	$932,625	$945,419
-Per Cent	51.87%	52.55%	52.85%	52.92%
Operating Expenses	$323,819	$313,029	$333,716	$332,953
Net Income	$666,717	$637,299	$598,909	$612,466
STATEMENT OF CASH FLOW				
Cash Flow from Operation	$687,663	$655,198	$619,979	$635,298
Change in Working Capital	$9,659	$5,473	-$15,824	-$8,694
Cash Used for Investing Activities	-$26,256	-$26,895	-$14,753	-$21,075
Cash Used for Provincial Transfers	-$680,000	-$630,000	-$585,000	-$615,000
Decrease/Increase in Cash During the Year	-$8,934	$3,776	$4,402	-$9,471
FINANCIAL POSITION				
Current Assets	$239,516	$229,541	$201,204	$192,955
Current Liabilities	$160,727	$132,159	$92,813	$104,789
Working Capital	$78,789	$97,382	$108,391	$88,166
Fixed Assets	$134,780	$129,470	$120,474	$126,790
Total Assets	$374,296	$359,011	$321,678	$319,745
FINANCIAL RATIOS				
Profit Margin	35.33%	35.61%	34.24%	34.36%
Return on Shareholders' Equity	302.76%	285.53%	269.89%	281.94%
Current Ratio	1.49	1.74	2.17	1.84
STATISTICS				
Inventory Turnover	4.71	4.88	5.12	5.16
Number of Permanent Employees	2,803	2,824	2,743	3,100
Sales per Employee	673,273	633,656	637,678	574,998
Number of Stores	596	597	600	611
Number of Regular Products Listed	2,377	2,389	2,336	2,302

1992	1991	1990	1989	1988	1987	1986
$1,833,386	$1,936,710	$2,006,975	$1,930,319	$1,867,684	$1,775,296	$1,653,622
$851,539	$967,221	$1,012,938	$994,294	$968,472	$904,122	$832,773
$981,847	$969,489	$994,037	$936,025	$899,212	$871,174	$820,849
53.55%	50.06%	49.53%	48.49%	48.15%	49.07%	49.64%
$332,439	$326,682	$311,707	$275,580	$258,185	$233,980	$208,276
$652,458	$652,669	$692,083	$664,124	$640,827	$639,587	$611,645
$675,162	$672,558	$707,223	$675,892	$650,995	$648,766	$620,253
$6,162	$48,775	-$29,481	$29,933	-$23,430	-$29,020	$14,247
-$25,754	-$29,751	-$23,784	-$15,447	-$9,968	-$11,572	-$7,680
-$675,000	-$650,000	-$640,000	-$645,000	-$635,000	-$645,000	-$638,000
-$19,430	$41,582	$13,958	$45,378	-$17,403	-$36,826	-$11,180
$207,155	$231,212	$219,752	$179,400	$192,904	$195,215	$172,349
$118,212	$116,677	$98,024	$101,111	$130,060	$138,398	$107,726
$88,943	$114,535	$121,728	$78,289	$62,844	$56,817	$64,623
$130,564	$131,161	$122,322	$118,008	n.a.	n.a.	n.a.
$337,719	$362,373	$342,074	$297,408	n.a.	n.a.	n.a.
36.04%	33.96%	34.70%	34.54%	34.45%	36.19%	37.14%
280.50%	266.53%	314.34%	n.a.	n.a.	n.a.	n.a.
1.75	1.98	2.24	1.77	1.48	1.41	1.60
5.28	5.41	5.40	5.57	5.19	5.16	4.83
3,233	3,305	3,484	3,396	3,460	3,348	3,308
560,185	581,445	572,401	566,113	537,610	527,880	497,828
618	621	623	626	623	617	610
2,390	2,570	2,825	2,974	2,814	2,988	2,800

LCBO