

BC Liquor Distribution Branch

2017/18 – 2019/20 SERVICE PLAN

September 2017



For more information on the BC Liquor Distribution Branch contact:

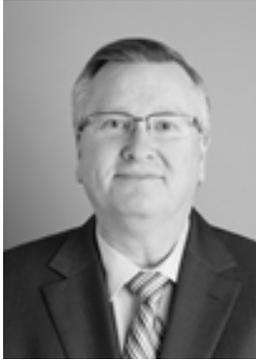
**2625 Rupert Street
Vancouver, BC V5M 3T5**

604-252-3000

communications@bcldb.com

Or visit our website at
www.bcldb.com

Board Chair Accountability Statement



The 2017/18 - 2019/20 BC Liquor Distribution Branch (LDB) Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of August 31, 2017, have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, LDB's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of LDB's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, appearing to be 'R. Blain Lawson', written in a cursive style.

R. Blain Lawson
General Manager and Chief Executive Officer

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Strategic Direction and Operating Environment

Strategic Direction

We have passed the two-year mark since the wholesale pricing model was introduced, which prompted a series of fundamental changes in the way the BC Liquor Distribution Branch (LDB) does business. The beverage alcohol industry, as a whole, is settling into the ‘new normal’, and we look forward to continuing to work together with our industry stakeholders in this new business environment. As we look to 2017/18 and beyond, the LDB is focused on delivering on our strategic priorities and revenue targets, established by the provincial government, and as outlined in our [2017/18 Mandate Letter](#).

The LDB’s Retail Division will continue to emphasize customer service in all 198 BC Liquor Stores (BCLS), with a particular focus on showcasing a wide variety of products that meet our customers’ needs while reinforcing responsible alcohol consumption through our corporate social responsibility campaigns. These campaigns will encourage the responsible use of beverage alcohol through promotional material and signage at BCLS on themes such as the prevention of drinking and driving, and underage drinking.

Securing a warehousing solution in order to meet growing demand was a high priority. The LDB worked with an executive project board, composed of senior executives from across government, on a warehousing solution for the Vancouver Distribution Centre. The lease for the current location will expire in 2019. In February 2017, the LDB entered into an agreement to lease a warehouse facility in Delta for a term of 10 years, with two, five year renewal options. Work is underway to prepare the new facility and we expect to move in spring 2018.

Across both the Retail and Wholesale divisions, modernizing our systems and processes remains a top priority for the organization. We are introducing new business tools to support demand planning, strategic pricing and service delivery. This includes extensive upgrades to our IT systems and business processes, such as the roll-out of our modern point-of-sale system to all 198 BCLS.

Throughout all of our activities, we will endeavour to instill confidence among our stakeholders, as we continue to deliver customer-centric service through both our Retail and Wholesale divisions, while continuing to work closely with B.C. liquor industry manufacturers and other partners.

Operating Environment

B.C.’s Economic Growth

The Economic Forecast Council (EFC) expects B.C.’s real GDP to grow by 3.0 per cent in 2017 and 2.3 per cent in 2018. For Canada, the EFC projects national real GDP to grow by 2.7 per cent in 2017 and 2.0 per cent in 2018. As such, B.C.’s economic growth is expected to outperform Canada in the coming years. Downside risks to B.C.’s economic outlook include uncertainty regarding U.S. fiscal and trade policy, the potential for a slowdown in domestic activity, as well as risks arising from the challenging economic environment in Asia and the euro zone. Additionally, there are risks related to monetary policy tightening and the uncertainties associated with commodity prices and the exchange rate outlook.

Liquor Policy Modernization

The liquor industry in B.C. has recently experienced significant change. The 2013 Liquor Policy Review included 73 recommendations for changes to B.C.'s liquor laws, regulations and policies. This resulted in foundational changes to the liquor industry and to the way the LDB does business, including the introduction of the wholesale pricing model and the separation of the LDB's Retail and Wholesale divisions. This has required extensive re-tooling of LDB's IT systems and business processes. In the years covered by this service plan, both the liquor industry and the LDB will continue to respond to and adjust for ongoing efforts to modernize the liquor industry.

Increasingly competitive marketplace

Following the introduction of the wholesale pricing model and the gradual increase in the number of grocery store liquor licences, the LDB's Retail division remains focused on being a competitive retailer. The full impact of liquor sales in grocery stores remain to be seen, as the market begins to adopt the new model, but will be closely monitored along with overall economic and industry trends.

Improving Wholesale customer service

After the separation of LDB's Retail and Wholesale operations, LDB Wholesale has focused on improving speed to market of new products and improving partnerships with industry, retailers and vendors to forecast demand more accurately.

Warehouse Relocation

The move of the Vancouver Distribution Centre to the new facility in Delta will allow the LDB to improve warehouse management processes, and acquire material handling equipment and a new computerized warehouse management system. The larger facility will also allow the LDB to provide higher-level customer service to its wholesale customers, and improve productivity and order fill rate.

Performance Plan

Goals, Objectives, Strategies and Performance Measures

The LDB is facing increasingly dynamic times. When looking at both the Retail and Wholesale divisions, our overall mission remains constant: to be a customer-centric, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge, and corporate social responsibility.

To remain successful, the LDB focuses on five goals: financial performance, workplace quality and employee excellence, customer experience, business effectiveness, and corporate social responsibility. These goals are supported by specific strategies and performance measures. To ensure that the LDB meets its performance targets during a time of fundamental change for the industry, the LDB remains committed to working with its stakeholders and employees to ensure consistently high levels of service and operational efficiency.

The goals, strategies and performance measures contained in this plan are in alignment with the Province's commitments to contain costs, maintain and improve levels of service for citizens and

build a strong economy. The LDB will engage in ongoing dialogue with, and reporting to, the Ministry of Attorney General to re-examine goals, performance measures, and strategies.

Goal 1: Financial Performance

Meet financial objectives approved by Government.

Strategies

- Grow sales and effectively manage operating expenses in order to sustain net returns to the Province.

Performance Measure 1: Net Income

Performance Measure	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget
Net income (in \$millions)	1,083.2	1,094.7	1,111.3	1,127.6

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually. LDB expense data is captured, stored, and reported by the LDB's financial system.

Discussion

Net income is the LDB's contribution to the provincial government from the total sales of beverage alcohol in the Province and is audited by the Office of the Auditor General of British Columbia. LDB's net income is a significant contributor to provincial government revenues. The LDB regularly reviews market conditions, sales trends and any policy changes, and incorporates these into future forecasts. The 2017/18 and future year targets have been updated to reflect the latest sales trends, product mix, and inflation. The forecast also incorporates current mark-up policies (e.g. the reduction in beer mark-up implemented in July 2016).

Goal 2: Workplace Quality and Employee Excellence

Create a work environment that encourages greater employee engagement.

Strategies

- Enhance staff skills and engagement through leadership development, employee training and increased communication.
- Implement Strategic Leadership Development for the organization.
- Provide a safe, healthy and harassment-free workplace.

Performance Measure 2: Employee Engagement

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Employee engagement	n/a	71	n/a	71

Data Source: Workplace Environment Survey conducted by BC Stats for the LDB.

Discussion

The LDB measures employee engagement every two years through the Workplace Environment Survey (WES). Given the overwhelming widespread organizational changes that have occurred in the past three years, the LDB believes that achieving a two point increase to 71 in 2015/16 was a significant increase. Maintaining the WES score of 71, in light of the ongoing organizational changes to come, will be a challenging target to which the LDB remains committed. The next WES will be conducted in fall 2017.

Goal 3: Customer Experience

Maintain a high level of retail and wholesale customer satisfaction.

Retail Division Strategies

- Continue to renovate BCLS to enhance customer experience with a new service experience, such as brighter, welcoming store appearance and refrigeration.
- Continuously provide enhanced customer service through ongoing employee training and support of a customer-centric culture across the retail store network.
- Identify innovative ways to showcase products that are of interest to B.C. consumers.

Performance Measure 3.1: Retail Customer Satisfaction

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Retail customer satisfaction	83%	n/a	80%	n/a

Data Source: The LDB contracts with professional survey companies to conduct the retail customer service surveys.

Discussion

Every two years, BCLS retail customers are surveyed by a professional survey company to determine customer satisfaction. Setting a consistent high bar for customer satisfaction ensures the LDB maintains its customer-centric focus.

Historically, the Retail Customer Satisfaction performance measure has been based on customers who rated their experience as “good”, “very good” or “excellent”. However, starting 2016/17 fiscal year, the measure is now based only on customers who rate their experience as “very good” or “excellent”.

This reporting change will better reflect customer satisfaction of their retail experience and enable the organization to focus on meaningful metrics with greater potential for improvement, but it is also anticipated to impact reported levels of customer satisfaction from 2016/17 onward.

Wholesale Division Strategies

- Continuously provide enhanced customer service through efficient order processing and fulfillment.
- Continue to provide enhanced customer service through employee training and support a customer-centric culture within the Warehouse team.

Performance Measure 3.2: Wholesale Customer Satisfaction

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Wholesale customer satisfaction	68%	n/a	n/a	80%

Data Source: The LDB contracts with professional survey companies to conduct the wholesale customer service surveys.

Discussion

Every two years, LDB’s Wholesale customers (public and private retail stores, rural agency stores, bars and restaurants) are surveyed by a professional survey company to determine customer satisfaction. Setting a consistent high bar for customer satisfaction ensures the LDB maintains its customer-centric focus.

2015/16 marked a profound time of change for the B.C. liquor landscape. A new wholesale pricing model was implemented, which gave an equal price for all retailers, replacing the previous tiered discount system. LDB Wholesale has been separated from LDB Retail, but there remains some confusion in the industry about the relationship between the two divisions, compared to pre-April 1, 2015. To prevent this confusion from adversely impacting the wholesale customer satisfaction scores, the LDB Wholesale team is committed to improving and building relationships with its customers and work to better understand customers’ perspectives and needs under the new pricing model.

With the separation of Retail from Wholesale, the direct shipping customer accounts serviced by Wholesale, outbound case picks, bottle picks and deliveries have all increased by up to 40 per cent. These increases have occurred while the existing Distribution Centre remains constrained to no more than 10 days of inventory. The Wholesale Division continues to implement many process improvements and changes across customer service, vendor and item set up, in-stock improvements, order assembly, and delivery quality.

As the LDB intends to move the Vancouver Distribution Centre to the warehouse facility in Delta in spring 2018, the next wholesale customer satisfaction survey will be conducted in 2019/20.

Goal 4: Business Effectiveness

Maintain operating efficiencies in a climate of constant change.

Retail Division Strategies

- Improve assortment and demand planning tools by implementing technology to provide the right product in the right location for consumers.
- Continue utilizing training programs to better equip store employees with product knowledge, in order to provide quality service to customers.
- Continue with long-term efforts to update BCLS retail systems to reflect the new liquor industry, improve efficiency and provide a customer-centric retail experience.

Performance Measure 4.1: BC Liquor Store Sales per Square Foot

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
BC Liquor Store sales per square foot	\$1,380	\$1,389	\$1,409	\$1,430

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases.

Discussion

This indicator is based on the annual dollar sales of all stores divided by total of all stores square footage. This measures how well BCLS convert floor space into sales. The 2017/18 and future targets have been revised upwards since the LDB's previous service plan as a result of modernization efforts, which have included changes to operating hours at BCLS (i.e. extended operating hours and Sunday openings), marketing initiatives and the introduction of refrigeration units at a limited number of stores implemented this fiscal year.

Wholesale Division Strategies

- Continue to modernize the Wholesale Division's systems and processes, including the use of current and cost-effective technology, such as forecasting and demand planning.
- Minimize the impact of rising labour cost per case while supporting additional smaller customers and orders, and additional bottle picks in an environment of limited space causing Distribution Centre congestion and slower anticipated order assembly.
- With the assistance of an executive project board, complete an approved business plan and begin the critical work on executing a successful transition to a new warehouse solution, in accordance with government direction, to allow the LDB to meet growing demand for its services.

Performance Measure 4.2: Distribution Centre Labour Cost per Case Shipped

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Distribution Centre labour cost per case shipped	\$1.86	\$1.90	\$1.80	\$1.77

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion

This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments. Since April 2015, there has been a 30 per cent increase in new customers to Wholesale with much smaller and more labour intensive orders. This is due to the split between the LDB Retail and Wholesale divisions and the fact that all private liquor stores, rural agency stores and many hospitality customers must now order directly from the warehouse. With the lease of the warehouse facility in Delta, the LDB will be better positioned to provide high-quality and timely service to wholesale customers.

Performance Measure 4.3: Distribution Centre Order Fill Rate

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Distribution Centre order fill rate	91%	93%	93%	93%

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion

This is a measure of the percentage of each order filled completely by the LDB Distribution Centres (Vancouver and Kamloops) and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered.

The LDB Wholesale team has been partnering with retailers and vendors to improve forecasting and planning, and to solve inventory and space shortages to ensure product can be supplied to meet the needs of customers. Setting a consistent target of 93 per cent in the future strikes the right balance between the effective management of inventory and the minimization of product stock-outs, and reflects anticipated additional warehouse space to hold and distribute product.

Goal 5: Corporate Social Responsibility

Encourage the responsible use of beverage alcohol and minimize the impact of operations on the environment.

Retail Division Strategies

- Prevent sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Encourage the responsible use of beverage alcohol through the display of promotional material and signage at BCLS.
- Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders and partners.

Performance Measure 5.1: Store Compliance with ID-Checking Requirements

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Store compliance with ID-checking requirements	96%	100%	100%	100%

Data Source: LCLB administers an ID compliance checking program and provides the results of BCLS compliance to the LDB.

Discussion

BCLS continue to ensure the enforcement of the ID-checking program to prevent sales to minors and intoxicated persons, through ongoing employee training and awareness. Compliance is measured through a program administered by the Liquor Control and Licensing Branch (LCLB). The continuous target of 100 per cent reflects the critical importance to the LDB of preventing sales to minors.

Performance Measure 5.2: Customer Awareness of LDB Corporate Social Responsibility Programs

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Customer awareness of LDB corporate social responsibility programs	89%	n/a	90%	n/a

Data Source: The LDB contracts with professional survey companies to conduct the retail customer surveys.

Discussion

The LDB encourages the responsible use of beverage alcohol through partnerships, promotional posters and other materials in stores. Every two years, the LDB conducts a customer survey to measure customer recall of these materials to ensure the LDB develops impactful and relevant messaging. Setting a high target of 90 per cent for customer awareness of social responsibility programs represents the high value that the LDB places on this goal.

Wholesale Division Strategies (including Head Office)

- Reduce the impact of operations on the environment by decreasing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.
- Continue promoting waste diversion and recycling programs at Head Office and Vancouver Distribution Centre through employee training and awareness campaigns.

Performance Measure 5.3: Waste Diversion Rate at Head Office and Vancouver Distribution Centre

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Waste diversion rate at Head Office and Vancouver Distribution Centre	80%	80%	85%	85%

Data Source: Waste diversion rates represent the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Rates will be determined based on measured weights reported by a contracted waste and recycling service provider.

Discussion

In 2013/14, the LDB developed this performance measure to initially track performance at Head Office and the Vancouver Distribution Centre. After 2018/19, the performance measure will be expanded to include diversion rates for BCLS, the Kamloops Distribution Centre, and the new Delta Distribution Centre.

In 2016/17, the performance measure was determined by using ongoing weight measurements taken over the entire fiscal year and was expanded to include other materials relative to previous years. This is an improvement to the prior reporting years which relied on a 24-hour sample to estimate annual totals. Due to the fact that the new sample model has been used for only one year, the LDB maintained its target of 80 per cent for 2017/18 with a slight increase to 85 per cent in 2018/19 and 2019/20.

Financial Plan

Summary Financial Outlook

(\$m)	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget
Sales	3,331.5	3,496.6	3,596.3	3,698.7
Less: Cost of Sales	1,921.5	2,037.7	2,105.1	2,178.2
Gross Margin	1,410.0	1,458.9	1,491.2	1,520.5
Operating Expenses - Employment	194.9	203.7	207.1	213.2
Operating Expenses - Rent	46.5	53.0	55.4	58.1
Operating Expenses - Administration	97.1	116.6	126.4	130.6
Total Operating Expenses	338.5	373.3	388.9	401.9
Other Income	11.7	9.1	9.0	9.0
Net Income	1,083.2	1,094.7	1,111.3	1,127.6
Debt	0	0	0	0
Retained Earnings	0	0	0	0
Capital Expenditures	26.7	82.8	29.2	27.1

Key Forecast Assumptions, Risks and Sensitivities

With the many significant changes that have impacted the liquor landscape in the province - including the implementation of the new wholesale pricing model, the separation of Retail and Wholesale divisions by which BCLS became a customer of LDB Wholesale, expanded operating hours and the introduction of refrigerated products at BCLS and grocery stores to the liquor marketplace - the LDB continues to closely review and monitor the impacts of these changes on the LDB's financial and business operations.

The LDB's forecast has included the following assumptions:

- Market share and product mix remain relatively stable for all future years.
- Fiscal 2017/18 overall sales growth will be five per cent, driven by volume growth, retail margins and inflation.
- Overall sales growth for future years will move in line with historical averages and will be 2.8 per cent due to a combination of inflation and volume growth.

- While grocery stores are now permitted to sell alcohol directly from their shelves or under a store-within-a-store model, the impact of grocery stores is not yet included since the number of stores that are selling liquor products remains relatively small.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects, and ongoing equipment replacements.

In August 2014, the property where the LDB's current Vancouver warehouse is located (on East Broadway) was sold. The LDB is leasing the current facility until the warehouse in Delta is ready for operation.

Sensitivity Analysis

Beverage alcohol is a highly regulated product and its consumption can be influenced by Government decisions, such as hours of operation for establishments that sell or serve liquor products and drinking and driving laws, to name just two. These types of policy decisions can have a significant impact on LDB revenue.

The LDB's financial performance is also affected by economic conditions:

- Changes in the marketplace – it is still unknown how the introduction of grocery stores as retailers of beverage alcohol will impact the current retail environment;
- Price competition among suppliers of wine, spirits and refreshment beverages – as the mark-up on these products is percentage-based, a reduction in the supplier price will result in less LDB revenue, assuming a constant volume; and,
- Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions. Consumer confidence dictates the level of entertainment dollars spent on beverage alcohol. Product mix may also be impacted as it is dependent on consumer purchasing patterns.

Weather patterns and the timing of statutory holidays are other factors that influence LDB revenue. A hot, dry summer and long weekends result in increased sales, particularly in the refreshment beverage and packaged beer categories. Conversely, adverse weather conditions have a negative impact on liquor sales. The day of the week statutory holidays fall on also has an impact on sales – when they fall on Mondays or Fridays, sales are much stronger than when they fall on Tuesdays or Wednesdays.

The LDB monitors all of these factors, using the best information available to ensure sound decisions are made on product mix and supply, and staffing for BCLS.

Cost of Goods Sold

Each percentage change in the cost of products in the wine, spirits and refreshment beverage categories has a direct effect on net income of approximately \$14.4 million, due to the percentage-based mark-up on these products.

Beer has a per litre mark-up and, therefore, cost of sales as a percentage of sales would increase should the beer producers increase their supplier prices. B.C. wines have lower gross margins due to the mark-up policy on direct delivery VQA wines and wines produced from 100 per cent B.C. grapes. As these two categories grow, cost of goods as a percentage of sales will continue to increase.

Management's Perspective on the Financial Outlook

The 2013 [Liquor Policy Review](#) recommendations led to a significant transformation in the marketplace, and that is expected to continue.

Many liquor policy changes have been centred around increasing fairness and competition among retailers. For example, industry called for a single wholesale price to increase transparency and eliminate pricing inconsistencies, and this has resulted in a more equal footing for all retailers. More grocers will eventually meet the regulatory requirements for selling alcohol - another change that will increase competition and have a profound impact on the industry as a whole.

The LDB will continue to adapt its operations to meet the changing demands of the increasingly competitive business environment. With the clear separation of the LDB's Retail and Wholesale divisions, there is different operational oversight for each division within a common corporate management structure. In order to meet the challenges of the evolving beverage alcohol landscape, both Retail and Wholesale will continue to monitor performance, anticipate the direction of the market through the use of predictive analytics, and make changes in order to capitalize on the demands of consumers.

At the retail level, all BCLS are now subject to the one kilometre rule, which restricts location proximity from other full-service liquor retail outlets. However, they also now have the option to offer services that align with private retailers. Changes in customer consumption, product mix, gross margin by product categories, and the entry of grocery stores, will be closely monitored and adjustments made where appropriate to meet corporate targets.

The LDB's corporate management will monitor wholesale margins to ensure Government's revenue targets are protected. The move to the larger warehouse facility in Delta will drive greater efficiencies in product delivery and will better meet future demand of the marketplace.

Major Capital Projects

Major Capital Projects (over \$50 million)	Targeted Completion Date (Year)	Project Cost to June 30, 2017 (\$ millions)	Estimated Cost to Complete (\$ millions)	Approved Anticipated Total Capital Cost of Project (\$ millions)
<p>Warehouse Relocation</p> <p>The LDB has entered into a long-term lease for a warehouse facility in Delta. This will position the LDB to provide high-quality and timely service to wholesale customers and to all British Columbians with as little disruption as possible – resulting in both operational and financial benefits sooner. The intent is to be operational in the Delta facility in spring 2018.</p> <p>The capital cost outlined is funding for material handling equipment, racking and conveyors, as well as a new computerized warehouse management system for the new Delta warehouse.</p>	2018/19	1	56	57

Significant IT Projects

Wholesale and Retail Pricing, Store Point-of-Sale Upgrade and Centralized Store Replenishment System Projects

BCLS became a customer of the LDB’s Wholesale division in April 2015. They are now subject to the same wholesale pricing as other liquor retailers. As part of the projects that separated wholesale and retail pricing, the LDB is upgrading the point-of-sale (POS) technology and implementing a centralized product replenishment system to support the modernization of BCLS and to improve customer service. To ensure the new systems roll out would go as smoothly as possible and with minimal impact on customers, suppliers and employees, the LDB piloted a few stores with the new technology and is now implementing the solutions across all the stores. The LDB expects that all stores will have the new technology by fall 2017. The total capital cost for these projects is estimated to be \$24 million over the past three years.

Appendix A: Hyperlinks to Additional Information

Corporate Governance and Organizational Overview

The LDB's corporate governance structure and organizational overview can be found [here](#).