

BC Liquor Distribution Branch

2018/19 – 2020/21 SERVICE PLAN

February 2018



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Accountability Statement



The 2018/19 - 2020/21 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 January 30, 2018 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.



R. Blain Lawson
General Manager and Chief Executive Officer

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Strategic Direction and Alignment with Government Priorities

It has been close to three years since the BC Liquor Distribution Branch (LDB) introduced the wholesale pricing model, resulting in foundational changes to the beverage alcohol industry and the way the LDB does business. As with any significant industry transformation, it has taken some time for industry to settle and, for some changes, we are still waiting to see what the full impact will be. We look forward to continuing to work together with our stakeholders as we all adjust to this new business environment.

As we head towards 2018/19, the LDB is committed to delivering on our strategic priorities and revenue targets, established by the provincial government and as outlined in our [2018/19 Mandate Letter](#). The LDB's strategic direction for the next few years builds upon what we've focused on in recent years – improving efficiency and service to our retail and wholesale customers by modernizing the way we do business. To support this, we recently refreshed our corporate vision, mission and values to reflect the changing liquor landscape and the role the LDB plays in it. Our renewed mission emphasizing service, relationships and results, and a clearer statement of our corporate vision and values will ensure that we continue to do business in ways that align with our overall corporate strategy.

The LDB's Retail Division will continue to focus on customer service in all 197 BC Liquor Stores (BCLS), making changes to ensure that British Columbians have the right product, on the right shelf, at the right time. We also recognize that British Columbians have an expectation that BCLS will operate in a socially responsible manner, and BCLS will continue to make this a priority by collaborating with stakeholders on in-store campaigns that highlight the importance of the responsible use of alcohol.

Executing a smooth and successful transition to the LDB's new distribution centre will continue to be a high priority for the LDB's Wholesale Division. The LDB is working with an executive project board, composed of senior executives from across government, on a warehousing solution for the Vancouver Distribution Centre. In February of 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. Construction and fitting out of the Delta warehouse is underway, and the intent is to be operational in early summer 2018.

Across the organization, both the LDB's Retail and Wholesale divisions will continue to focus on improving efficiency and customer service through modernizing our business systems and processes. The Retail division recently completed its roll-out of more advanced in-store technology, meaning that all 197 BCLS across the province now have new point-of-sale systems. The recent shift to centralized ordering will further benefit BCLS customers by ensuring that the Retail division has the tools needed to react more quickly to B.C.'s changing liquor market. In addition, the Wholesale division recently completed an upgrade of one of its core software systems, which streamlined business systems and processes, and provides new functionalities such as real-time inventory visibility at LDB and agent warehouses. This, in turn, will help better serve our wholesale customers.

In addition to the Retail and Wholesale priorities outlined above, the LDB has been appointed the non-medical cannabis wholesale distributor for the province, and we have been mandated to begin preparing our operations for the anticipated legalization of cannabis in July 2018.

The LDB is aligned with the Government’s key priorities:

Government Priorities	LDB Aligns with These Priorities By:
Delivering the services people count on	<ul style="list-style-type: none"> • Meeting financial objectives approved by Government (Objective 1.1) • Maintaining a high level of retail and wholesale customer satisfaction (Objective 2.1) • Encouraging the responsible use of beverage alcohol and minimizing the impact of operations on the environment (Objective 5.1)

Operating Environment

Economic Growth Statement

The Economic Forecast Council (EFC) expects B.C.’s real GDP to grow by 2.5 per cent in 2018 and 2.2 per cent in 2019. Meanwhile for Canada, the EFC projects national real GDP growth of 2.2 per cent in 2018 and 1.8 per cent in 2019. As such, B.C.’s economic growth is expected to outperform Canada’s in the coming years. Downside risks to B.C.’s economic outlook include US trade policy uncertainty and ongoing economic challenges in Asia and Europe.

Liquor Policy Modernization

Over the last few years, the liquor industry in B.C. has experienced significant change as a result of the 2013 Liquor Policy Review. The Liquor Policy Review included 73 recommendations, resulting in changes to B.C.’s liquor laws, regulations and policies. This, in turn, led to changes in 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. The LDB continues to make changes to further separate these two lines of business, which requires extensive re-tooling of the LDB’s legacy 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 on-going efforts to modernize the liquor industry.

Increasingly competitive marketplace

With the introduction of wholesale pricing in 2015, all liquor retailers in the province, including BCLS, were placed on an equal footing and with this, new retailer types – such as grocery stores selling liquor – have entered the marketplace. With these changes, the LDB’s Retail division is operating in an increasingly competitive marketplace and the division remains focused on being a competitive retailer. The full impact of liquor sales in grocery stores remains to be seen, as the market begins to adopt the new model, but will be closely monitored along with overall economic and industry trends.

Warehouse Relocation

The move of the Vancouver Distribution Centre to the new facility in Delta in early summer 2018 will allow the LDB to introduce modern warehouse management techniques, acquire updated material handling equipment and implement a new warehouse management system. These changes, along with the increased size of the facility in Delta, will increase operational efficiency and improve wholesale customer satisfaction.

Anticipated Legalization of Cannabis

The full impact on liquor sales of the anticipated legalization of non-medical cannabis in July 2018 is unknown at this time, but will be closely monitored along with overall economic and industry trends. In addition, in December 2017 the LDB was appointed the non-medical cannabis wholesale distributor for the province and with this major project underway, there could be an impact on the LDB's liquor-related priorities in the near term.

Changes in the broader liquor landscape

The LDB is closely monitoring the outcome of the *R v Comeau* case, which was heard in the Supreme Court of Canada in December 2017 and could have implications for B.C.'s existing personal importation limits for liquor. We are also following the negotiations of the North American Free Trade Agreement (NAFTA) and associated trade challenges, including the recent World Trade Organization challenge launched by Australia in January 2018, as these could impact some aspects of the LDB's business.

Performance Plan

Goal 1: Financial Performance

Objective 1.1: Meet financial objectives approved by Government

Key Strategies:

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

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.1a Net income (in \$ millions) ¹	1,083.2	1,101.1	1,106.2	1,122.1	1,139.2

¹Data 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.

Linking Performance Measures to Objectives:

1.1a Net income is the LDB’s contribution to the provincial government from the total sales of beverage alcohol in the province. Using this as a performance measure is an accurate way of determining if the LDB has met the financial targets approved by Government.

Discussion:

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 observed in the LDB’s current operational environment and future projected industry outlook. See “Key Forecast Assumptions, Risks and Sensitivities” on page 15 for a list of the assumptions used in the LDB’s forecast.

Goal 2: Customer Experience

Objective 2.1: Maintain a high level of retail and wholesale customer satisfaction

Retail Division Strategies:

- Continue to renovate BCLS to enhance the customer experience by providing new service experiences, such as brighter, more welcoming store appearances and refrigeration.
- Continuously provide enhanced customer service through on-going 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	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.1a Retail customer satisfaction ¹	83%	n/a	84%	n/a	85%

¹ Data Source: The LDB contracts with professional survey companies to conduct the retail customer service surveys.

Linking Performance Measures to Objectives:

2.1a Every two years, BCLS retail customers are surveyed by a professional survey company to determine customer satisfaction. The results of these surveys allow the BCLS chain to compare retail customer satisfaction over time, and determine if a high level of satisfaction is being maintained.

Discussion:

Setting a consistent high bar for customer satisfaction ensures the LDB maintains its customer-centric focus. In line with this, BCLS recently rolled out a new service model in their stores called GREAT, which emphasizes the importance of customer-centric behaviours such as building rapport with customers and sharing relevant product knowledge to help customers find the product they are looking for. The LDB’s Retail division anticipates that, moving forward, the impact of this service

training will continue to increase overall customer satisfaction and this is reflected in the higher targets set for 2018/19 and 2020/21.

For additional context, this performance measure has historically been based on customers who rated their experience as “good”, “very good” or “excellent”. However, starting in the 2016/17 fiscal year, the measure is now based only on customers who rate their experience as “very good” or “excellent”. This reporting change better reflects a customer’s satisfaction with their retail experience, enables the organization to focus on meaningful metrics with greater potential for improvement and is anticipated to positively 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	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.1b Wholesale customer satisfaction ¹	68%	n/a	n/a	80%	n/a

¹Data Source: The LDB contracts with professional survey companies to conduct the wholesale customer service surveys.

Linking Performance Measures to Objectives:

2.1b 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. The results of these surveys allow the Wholesale division to compare wholesale customer satisfaction over time, and determine if a high level of satisfaction is being maintained.

Discussion:

As a result of the introduction of wholesale pricing in 2015/16, the LDB began to separate its Wholesale and Retail lines of business. While there remains some confusion in the industry about the relationship between the two divisions, industry understanding has much improved and the LDB continues to work on this through regular communication with stakeholders. In an effort to ensure that this does not negatively impact the wholesale customer satisfaction scores, the LDB Wholesale team has worked hard to build positive working relationships with its customers and they remain committed to working 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 Vancouver 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 mentioned earlier, this includes the recent upgrade of one of

the LDB’s core software systems, which streamlined business systems and processes, and provides new functionalities such as real-time inventory visibility at LDB and agent warehouses.

As the LDB intends to move the Vancouver Distribution Centre to the warehouse facility in Delta in early summer 2018, the next wholesale customer satisfaction survey will be conducted in 2019/20. Looking forward, the LDB’s Wholesale division expects to be at an improved service level in 2019/20, which is reflected in the increase in target to 80 per cent. In addition, the questions used in the wholesale customer service survey will be reviewed over the next few months, to ensure that they provide an accurate and fulsome reflection of the customer experience.

Goal 3: Workplace Quality and Employee Excellence

Objective 3.1: Create a work environment that encourages greater employee engagement

Key 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	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
3.1a Employee engagement ¹	n/a	71	n/a	71	n/a

¹ Data Source: Workplace Environment Survey conducted by BC Stats for the LDB.

Linking Performance Measures to Objectives:

3.1a The LDB measures employee engagement every two years by asking employees about their work environment through the Workplace Environment Survey (WES). The results of this survey provide a useful snapshot of employee engagement across the LDB and are directly related to the objective.

Discussion:

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 on-going organizational changes to come, will be a challenging target to which the LDB remains committed. The most recent WES was conducted in fall 2017 and the results will be included in the next Annual Service Plan Report.

Goal 4: Business Effectiveness

Objective 4.1: Maintain operating efficiencies in a climate of constant change

Retail Division Strategies:

- Continue to 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	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
4.1a BCLS sales per square foot ¹	\$1,380	\$1,406	\$1,409	\$1,430	\$1,471

¹ Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases.

Linking Performance Measures to Objectives:

4.1a This indicator is based on the annual dollar sales of all stores divided by the total of all stores' square footage. This measures how well BCLS converts floor space and is linked to how efficiently the BCLS chain is operating.

Discussion:

The 2017/18 and future targets have been revised upwards since the LDB's 2016/17 – 2018/19 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 number of stores implemented this fiscal year. These changes, as well as the implementation of the GREAT service model mentioned earlier, are reflected in the steady upward increase expected in sales per square foot over the next few years.

Wholesale Division Strategies:

- Successfully transition the LDB's distribution operations from the current Vancouver Distribution Centre to the new Delta Distribution Centre in early summer 2018.
- Implement new warehouse management software at the new Delta Distribution Centre to improve our wholesale customers' experience.
- Continue to modernize the Wholesale division's systems and processes, including the use of current and cost-effective technology, to improve service and relationships with customers, suppliers and employees.
- 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.
- Build plans for improved productivity and start to reduce labour cost per case once successfully in the Delta Distribution Centre.

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
4.1b Distribution Centre labour cost per case shipped ¹	\$1.86	\$2.05	\$2.10	\$1.90	\$1.75
4.1c Distribution Centre order fill rate ²	91%	90%	90%	93%	95%

^{1,2} Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose

Linking Performance Measures to Objectives:

- 4.1b This performance measure is calculated by dividing Distribution Centre labour expenses by total case shipments and therefore serves as a useful measure of operating efficiency.
- 4.1c This performance measure is 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. A higher order fill rate leads to increased efficiencies for our customers by reducing the amount of work spent filling orders, managing inventory and reducing the amount of time spent submitting orders.

Discussion:

Since April 2015, there has been a 30 per cent increase in new customers with much smaller and more labour intensive orders, impacting the Distribution Centre labour cost per case shipped. 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.

The targets for labour cost per case have increased from the 2017/18 – 2019/20 Service Plan as a result of incurring higher than planned overtime to fulfill the increase in orders. In 2018/19 in particular, we expect a high cost per case due to a transition period which will see the division running both the Vancouver and Delta Distribution Centres while simultaneously moving operations to Delta. We expect this to stabilize and result in a decreased cost per case beginning in 2019/20.

Regarding the Distribution Centre’s order fill rate, we have 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 target of between 90 and 95 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. We expect the move to the new, larger warehouse with increased inventory storage space will significantly increase the number of in-stock products, which is anticipated to have a positive impact on future order fill rates.

Goal 5: Corporate Social Responsibility

Objective 5.1: 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	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
5.1a Store compliance with ID-checking requirements ¹	96%	95%	100%	100%	100%
5.1b Customer awareness of LDB Corporate Social Responsibility Programs ²	89%	n/a	90%	n/a	90%

¹ Data Source: The Liquor Control and Licensing Branch (LCLB) administers an ID compliance checking program and provides the results of BCLS compliance to the LDB.

² Data Source: The LDB contracts with professional survey companies to conduct the retail customer surveys.

Linking Performance Measures to Objectives:

- 5.1a Encouraging the responsible use of beverage alcohol is done, in part, by BCLS compliance with ID-checking requirements – therefore, BCLS compliance with ID-checking requirements is an appropriate performance measure.
- 5.1b Every two years, BCLS retail customers are surveyed by a professional survey company to gauge customer recall of promotional posters and other in-store materials related to the LDB's corporate social responsibility programs. The results of this survey provide a useful indicator of how well the LDB is achieving its objective of encouraging the responsible use of beverage alcohol.

Discussion:

BCLS continue to ensure the enforcement of the ID-checking program to prevent sales to minors and intoxicated persons, through on-going employee training and awareness. A continuous target of 100 per cent has been set to reflect the critical importance to the LDB of preventing sales to minors. 2017/18 store compliance is forecast to be approximately 95 per cent, based on current to-date compliance data from LCLB.

With respect to the LDB's corporate social responsibility programs, 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:

- 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	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
5.1c Waste diversion rate at Head Office and Vancouver Distribution Centre ¹	80%	80%	85%	85%	85%

¹Data 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.

Linking Performance Measures to Objectives:

5.1c 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. As a result, it is an appropriate measure to use when considering the LDB’s objective of minimizing the impact of operations on the environment.

Discussion:

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

In 2016/17, this performance measure was determined by using on-going 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 only been used for 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, 2019/20 and 2020/21. With the opening of the new Delta Distribution Centre in early summer 2018, the LDB is working on a number of improvements to the warehouse recycling program. However, the LDB will maintain its target of 85 per cent since any improvements made in the warehouse may be off-set by the expansion of this measure to include BCLS and the Kamloops and Delta Distribution Centres in fiscal 2018/19.

Financial Plan

Summary Financial Outlook

(\$m)	Fiscal 2017/18 Forecast	Fiscal 2018/19 Budget	Fiscal 2019/20 Budget	Fiscal 2020/21 Budget
Sales	3,478.8	3,589.8	3,688.9	3,772.1
Cost of sales	2,012.9	2,094.4	2,166.3	2,227.9
Gross Margin	1,465.9	1,495.4	1,522.6	1,544.2
Operating Expenses - Employment	208.0	210.8	213.8	214.1
Operating Expenses - Rent	53.1	55.4	58.1	61.0
Operating Expenses - Administration	112.8	132.0	137.6	138.9
Total Expenses	373.9	398.2	409.5	414.0
Other income	9.1	9.0	9.0	9.0
Net income	1,101.1	1,106.2	1,122.1	1,139.2
Capital	55.9	60.3	27.1	26.6
Debt	0	0	0	0
Retained Earnings	0	0	0	0

Key Forecast Assumptions, Risks and Sensitivities

With the many significant changes that have impacted the liquor landscape in the province in recent years, 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 remains relatively stable for all future years;
- Fiscal 2017/18 overall sales growth will be 4.4 per cent, driven by volume growth, retail margins and inflation;
- Overall sales growth for future years will move in line with historical trends and will be an average of 2.7 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; and

- While it is anticipated that the legalization of cannabis will occur in July 2018, no assumptions regarding cannabis have been included in future budgets as the impact to the market place is unknown at this time.

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

Capital in fiscal 2017/18 and 2018/19 includes funds to move the LDB's distribution operations to the new Delta facility in early summer 2018. In addition, as government provides further direction and clarity around the activities and priorities for the anticipated legalization of non-medical cannabis, the related financial structure, reporting processes and any possible impact to liquor sales will be determined.

Sensitivity Analysis

Beverage alcohol is a highly regulated product and its consumption can be influenced by many factors including regulatory changes, government policy, economic shifts, changes in climate and statutory holidays.

Changes in the regulatory framework or trade agreements can impact consumer purchasing patterns or impact how liquor is sold in the province. For example, legalization of cannabis may increase or decrease liquor consumption, and the NAFTA renegotiations may impact where wine can be sold.

Government decisions such as hours of operation for establishments that sell or serve liquor products and drinking and driving laws, to name just two, can also 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 that 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, 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 \$10.5 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 signaled the beginning of a series of fundamental changes that significantly transformed the liquor industry – and that is expected to continue over the coming years.

The implementation of a number of Liquor Policy Review recommendations has resulted in a levelling of the playing field for all retailers in B.C., including BCLS. As a result, BCLS need to continuously monitor business operations in order to remain competitive in the marketplace. In addition, as the number of grocery stores selling alcohol increases, only then will we start to see the full impact of this change in the market and on the industry as a whole.

As the LDB continues to separate its Retail and Wholesale divisions, each division will continue to make changes to adjust to the new business environment. With this separation, there is different operational oversight for each division within a common corporate management structure. Both the Retail and Wholesale divisions will continue to monitor performance, anticipate the direction of the market through the use of predictive analytics, and make changes in order to meet consumer demand.

The anticipated legalization of cannabis will also have an impact on the LDB as we begin preparing operations as the appointed non-medical cannabis wholesale distributor. The impact of this change and the future retail model for cannabis are unknown at this time, and will likely take some time to become clear.

The LDB's corporate management will continue to 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 Dec 31, 2017 (\$ millions)	Estimated Cost to Complete (\$ millions)	Approved Anticipated Total Capital Cost of Project (\$ millions)
Warehouse Relocation	2018/19	8	49	57
<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 early summer 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> <p>The Major Capital Project Plan that was filed in accordance with section 14 of the <i>Budget Transparency and Accountability Act</i> can be found here: https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/initiatives-plans-strategies/vancouver-distribution-centre-project/ldb_distribution_centre_project_capital_project_plan.pdf</p>				

Significant IT Projects

Anticipated Legalization of Cannabis

As the LDB prepares operations for the anticipated legalization of cannabis in July 2018, there will be some significant IT projects taking place over the years covered by this Service Plan. However, specific projects and their estimated total capital costs are unknown at this time.

Appendix A: Hyperlinks to Additional Information

Corporate Governance and Organizational Overview

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