

BC Liquor Distribution Branch

2019/20 – 2021/22 SERVICE PLAN

February 2019



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 2019/20 - 2021/22 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, 2019 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, the 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 dark ink, appearing to read 'R. Blain Lawson', with a long horizontal stroke extending to the right.

R. Blain Lawson
General Manager and Chief Executive Officer

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Strategic Direction and Alignment with Government Priorities

This is the fourth year since the BC Liquor Distribution Branch (LDB) implemented a new wholesale pricing model, which introduced a fundamental change in how the LDB does business with its stakeholders. While these changes were significant, over the years the liquor industry has adjusted and started to settle, and as we look to the future, the LDB is committed to continuing to work together and engaging with our stakeholders.

This year also marks the introduction of a new line of business to the LDB. With the legalization of non-medical cannabis in Canada, the LDB was appointed the province's wholesale distributor and is also responsible for opening government cannabis stores under the BC Cannabis Stores (BCCS) brand. On October 17, 2018, the day of legalization, the LDB opened the province's first non-medical cannabis store in Kamloops, implemented an online sales system and has started warehousing and distribution operations at its Richmond Distribution Centre as private operators begin to obtain retail licences. The addition of this new line of business is a significant change to the LDB's operations – one of the most significant to date – and as with any change, it will take some time to assess the full impact.

As 2019/20 approaches, the LDB is focused on delivering on our strategic priorities and revenue targets, established by the provincial government and as outlined in the LDB's 2019/20 Mandate Letter. The LDB's strategic direction over the next few years aligns with our refreshed corporate vision, mission and values, and these are also reflected in the goals and objectives we have set for our new Cannabis Operations line of business.

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"> • Maintaining a high level of retail and wholesale customer satisfaction (Objective 2.1) • Encouraging the responsible use of beverage alcohol and non-medical cannabis (Objective 5.1) • Minimizing the impact of operations on the environment (Objective 5.1)
A strong, sustainable economy	<ul style="list-style-type: none"> • Meeting financial objectives approved by Government (Objective 1.1) • Maintaining operating efficiencies in a climate of constant change (Objective 4.1)

Operating Environment

Economic Growth Statement

The Economic Forecast Council (EFC) expects B.C.'s real GDP to grow by 2.5 per cent in 2019 and 2.6 per cent in 2020. Meanwhile for Canada, the EFC projects national real GDP growth of 1.9 per cent in 2019 and 1.8 per cent in 2020. As such, B.C.'s economic growth is expected to outperform Canada's in the coming years. Risks to the economic outlook are weighted to the downside and include uncertainty regarding global trade policy, weakening global economic activity, as well as ongoing economic challenges in Asia and the euro zone. Additionally, there are risks related to

monetary policy tightening and the volatility associated with commodity prices and the exchange rate outlook.

Liquor Policy Modernization

Since 2015, BC's liquor industry has experienced several changes, such as the introduction of the wholesale pricing model. Over the next few years, both the liquor industry and the LDB will continue to respond and adjust to on-going efforts to modernize the liquor industry. It should be noted that there may be additional changes resulting from the recent Business Technical Advisory Panel Report and Recommendations – please refer to the “Business Technical Advisory Panel” section below.

Increasingly competitive marketplace

With the introduction of wholesale pricing in 2015, all liquor retailers, including BC Liquor Stores (BCLS), have been placed on an equal footing. This, in combination with the addition of new retailer types such as grocery stores, has resulted in the BCLS chain operating in a more competitive environment and the Retail Division is focused on remaining competitive as the marketplace continues to evolve. The full impact of liquor sales in grocery stores still remains to be seen and any changes to that sales channel as a result of on-going trade challenges will continue to be closely monitored, along with overall economic and industry trends.

Warehouse Relocation

The LDB began to transition operations from the Vancouver Distribution Centre to the new facility in Delta during the summer of 2018. The LDB has experienced some challenges with the transition – primarily as a result of resource constraints and process changes related to the new warehouse management system and new material handling equipment – but has adjusted its plans and adopted a phased rollout approach to mitigate negative impacts on customers. The LDB anticipates that the transition of all customers will be completed by mid 2019.

Legalization of Cannabis

Non-medical cannabis was legalized in Canada on October 17, 2018. At this time, the full impact of legalization on liquor sales is unknown. Further, with the LDB appointed as the sole non-medical cannabis wholesale distributor for the province, and the additional responsibility of opening up government cannabis stores throughout the province, there could be an impact on the LDB's liquor-related priorities in the near term.

In terms of meeting the product needs of both government and private non-medical cannabis retail stores, there have been several media reports over the past few months about supplier shortages across the country. These issues will likely continue into 2019, and will have an impact on the the LDB's cannabis line of business.

Business Technical Advisory Panel

In April 2018, Government received the Business Technical Advisory Panel Report and Recommendations related to liquor policy. This panel, chaired by Mark Hicken, the Ministry-appointed Liquor Policy Advisor, engaged with various liquor industry stakeholders. The report presented 24 recommendations aimed at improving efficiency and business relations between Government and B.C.'s liquor industry with respect to liquor regulation and policy. As outlined in the LDB's 2019/20 Mandate Letter, the LDB will be reviewing the panel's recommendations, some of which could impact aspects of the LDB's business.

Changes in the broader liquor landscape

In September 2018, negotiations of the North American Free Trade Agreement (NAFTA) resulted in the signing of a new Canada-United States-Mexico Agreement (CUSMA), which included an agreement in principle to expand wine sales on B.C. supermarket shelves to include import wine. The LDB is following this closely as it could have an impact on the retail operations of the LDB's business. The LDB is also following other related trade challenges, including Australia's World Trade Organization challenge of Canadian rules on selling wine that was launched in January 2018. These challenges are on-going and could impact some aspects of the LDB's business.

Performance Plan

Goal 1: Financial Performance

Objective 1.1: Meet Government's financial objectives

Key Strategies:

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

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a Net income (in \$ millions) ¹	1,119.6	1,101.1	1,120.2	1,155.4	1,195.1

¹ Data Source: BCLS sales data is collected from both computerized point-of-sale cash register systems and on-line sales 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 sales of beverage alcohol and non-medical cannabis 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 2018/19 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. They have also been updated to reflect the addition of non-medical cannabis as a new line of business. See "Key Forecast Assumptions, Risks and Sensitivities" on page 19 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

BCLS 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 Actuals	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.1a Retail customer satisfaction ¹	83%	n/a	84%	n/a	85%	n/a

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 consistently high bar for customer satisfaction ensures that the LDB maintains its customer-centric focus. To reflect the importance that BCLS places on customer satisfaction, they 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 this service training will continue to have a positive impact on customer satisfaction.

Liquor 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 Actuals	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.1b Wholesale customer satisfaction ¹	68%	n/a	n/a	75%	n/a	80%

¹ Data 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, the LDB's Wholesale customers (public and private retail stores, rural agency stores, bars and restaurants) are surveyed by a professional survey company to evaluate 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.

Note that the wholesale customer satisfaction survey was not done in 2018/19 as the LDB was in the midst of transitioning to its new Distribution Centre in Delta. The next survey will be conducted in 2019/20 and will provide a more accurate snapshot of wholesale customer satisfaction after the move has been completed.

Discussion:

As a result of the introduction of wholesale pricing in 2015/16, the LDB separated its Wholesale and Retail lines of business. While industry concerns exist about the relationship between the two divisions, industry understanding continues to improve through regular communication with stakeholders. The LDB Wholesale team works hard to build positive working relationships with its customers, and they remain committed to working to better understand customers' perspectives.

Since 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. The Wholesale Division continues to implement many process improvements and changes across multiple areas including customer service, vendor and item set up, in-stock management, order assembly, and delivery quality.

Cannabis Division Strategies (Wholesale and Retail):

- Ensure safe and high-quality cannabis products and information are available to all customers.
- Develop our people with the knowledge and culture to deliver an exceptional, best-in-class customer experience.
- Provide customers with the broadest product assortment available in Canada.

Performance Measure	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.1c Retail customer satisfaction ¹	n/a	80%	82%	85%	87%
2.1d Wholesale customer satisfaction ²	n/a	80%	82%	85%	87%

¹ Data Source: The LDB plans to partner with professional survey companies to conduct annual retail customer service surveys.

² Data Source: The LDB plans to partner with professional survey companies to conduct annual wholesale customer service surveys.

Linking Performance Measures to Objectives:

2.1c Starting in 2018/19, BCCS plans to partner with a professional survey company to determine customer satisfaction. The results of these surveys will allow the BCCS chain to compare retail customer satisfaction over time, and determine if a high level of satisfaction is being maintained. In addition, the LDB's Customer Care Centre for cannabis answers online retail customer inquiries and they actively track customer complaints, issues and satisfaction.

2.1d Starting in 2018/19, the LDB plans to partner with a professional survey company to determine wholesale customer satisfaction. The results of these surveys will allow the Cannabis

division to compare wholesale customer satisfaction over time, and determine if a high level of satisfaction is being maintained. The LDB's Customer Care Centre for cannabis also answers inquiries from wholesale customers and as noted above, they actively track customer complaints, issues and satisfaction for each line of business, which are then reported to Executive Management.

Discussion:

The Cannabis Division currently includes both retail and wholesale lines of business, with both operating under one Executive Director. On the retail side, the first bricks-and-mortar cannabis store was opened in Kamloops on October 17, 2018 and an e-commerce website was launched that same day. Given that this is a new line of business, the Cannabis Retail Division is focused on establishing its BCCS brand and building relationships with its customers through exceptional customer service. Dedicated customer service resources, including the Customer Care Centre, have been set up and BCCS employees are receiving training on product knowledge and information so that they can provide expert service to all customers.

At the time of this report, the Cannabis Wholesale Division is currently serving four wholesale customers (the BCCS in Kamloops and three private retailers elsewhere in the province) and operations are expected to grow as more private retailers obtain licences and enter the market. Similar to the Retail Division, the Wholesale Division is focusing on establishing its business and providing a high level of customer service to wholesale customers. The division has created a dedicated Wholesale Customer Relationship Manager, and the Richmond Distribution Centre has leveraged technology to ensure that orders are fulfilled in full, within agreed service levels.

A forecast of 80 per cent customer satisfaction for 2018/19 reflects the fact that legalization of non-medical cannabis is very new and establishing the retail and wholesale lines of business may take some time. It also reflects external factors that may impact customer satisfaction – specifically, the issue of widespread supplier shortages across the country. As the market matures, more suppliers will enter the market and more retailers (including BCCS) will open retail locations. It is anticipated that this will contribute to increased satisfaction levels over the next few years.

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	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
3.1a Employee engagement ¹	69	n/a	71	n/a	71

¹ Data Source: Work Environment Survey (WES) conducted by BC Stats for the LDB. The WES is conducted every two years, in the fall.

Linking Performance Measures to Objectives:

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

Discussion:

Since 2015, the LDB has seen a significant amount of transition and a substantial number of widespread organizational changes. This is reflected in the WES results for 2017/18, which are lower than forecasted in last year's Service Plan. The LDB places high importance on employee engagement and achieving and maintaining a WES score of 71 over the next few years is a target to which the LDB remains committed in light of the organizational changes that have recently occurred and are still on-going. Maintaining a score of 71 through 2021/22 is a realistic goal that recognizes that employees will need time to adjust and it provides time for WES scores to stabilize. The next WES will be conducted in fall 2019.

Goal 4: Business Effectiveness

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

BCLS 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	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
4.1a BCLS sales per square foot ¹	\$1,402	\$1,426	\$1,446	\$1,466	\$1,487

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:

As a result of several external factors, including a shorter and cooler summer and widespread supplier shortages, BCLS sales per square foot in 2017/18 were lower than forecasted in last year's Service Plan. However, it is anticipated that this number will steadily increase over the next few years, as a result of modernization efforts that began in 2015, including extended operating hours, introduction of refrigeration units and the implementation of the GREAT service model, mentioned earlier.

Liquor Wholesale Division Strategies:

- Successfully transition the LDB's distribution operations from the current Vancouver Distribution Centre to the new Delta Distribution Centre by mid 2019.
- Implement new warehouse management software (Tecsyst) 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.
- Build plans for improved productivity and start to reduce labour cost per case once successfully in the Delta Distribution Centre.

Performance Measure	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
4.1b Distribution Centre labour cost per case shipped ¹	\$1.99	\$2.40	\$2.10	\$1.90	\$1.75
4.1c Distribution Centre order fill rate ²	89%	82%	93%	95%	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, Delta 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, the LDB's Wholesale division has seen 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 a result of 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 new warehouse facility in Delta, the LDB will be better positioned to provide high quality and timely service to wholesale customers.

The forecasted labour cost per case for 2018/19 reflects the labour costs needed to operate both the new Delta Distribution Centre and the Vancouver Distribution Centre through the peak holiday period. The Delta Distribution Centre opening was delayed until after the critical holiday shipping season, and in order to minimize the impact on customers during this busy time, the LDB made the decision to run both warehouses to provide the necessary service for our customers. Once operations have been fully moved out of Vancouver and into Delta, we expect costs to stabilize and result in a decreased cost per case beginning in 2019/20. Future targets for 2019/20 and onward have been adjusted as it is anticipated that the delay in fully transitioning to Delta will continue to impact operations and cost per case.

Regarding the Distribution Centre 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. The 2018/19 forecast of 82 per cent is lower than the target set in the last Service Plan, due to a combination of unprecedented summertime demand, supplier shortages and logistical constraints at both the LDB and third party warehouses. To mitigate the impact on customers, the LDB took a number of steps, including hiring additional staff, adding warehouse shifts and adding more outbound delivery drivers, trucks and carriers. As these factors are thought to be specific to 2018/19, it is anticipated that business will return to normal, and to reflect this the 2019/20 and 2020/21 targets have remained the same. The future targets strike 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.

Cannabis Division Strategies (Wholesale and Retail):

- Optimize BCCS product assortment and merchandising (both in-store and digital).
- Ensure that wholesale supply planning initiatives source product to meet customer demand.
- Monitor in-class fulfillment at the Richmond Distribution Centre for continuous improvement.

Performance Measure	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
4.1d BCCS sales per square foot ¹	n/a	\$1,600	\$1,655	\$1,688	\$1,700
4.1e BCCS.com order fill rate ³	n/a	98%	98.5%	98.5%	99%
4.1f BCCS.com on-time shipping ⁴	n/a	98%	98.5%	98.5%	99%
4.1g Wholesale (B2B) order fill rate ⁵	n/a	95%	96%	97%	98%
4.1h Wholesale (B2B) on-time shipping ⁶	n/a	95%	96%	97%	98%

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

^{3,4,5,6} Data Source: Orders and shipments processed by the Richmond Distribution Centre are captured and stored by computer applications designed for this purpose.

Linking Performance Measures to Objectives:

- 4.1d This indicator is based on the annual dollar sales of all stores divided by the total of all stores' footage. This measures how well BCCS converts floor space and is linked to how efficiently the BCCS chain is operating.
- 4.1e This indicator is the percentage of each online order that is filled completely by the Richmond Distribution Centre 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.
- 4.1f This indicator is the percentage of online orders that are delivered within agreed service levels, as set by the Cannabis Division. Service levels are usually set out in terms of the number of days within which a shipment should be sent out (for example, between 5 and 7 days). This information is tracked in the warehouse management system and includes information from third party carriers (e.g. Canada Post).
- 4.1g This indicator is the same as 4.1f, but relates specifically to the fill rate for wholesale customer orders.
- 4.1h This indicator is the same as 4.1g, but relates specifically to on-time shipping of wholesale customer orders.

Discussion:

It is anticipated that the non-medical cannabis market will evolve rapidly over the coming years as more private retailers are on-boarded, supply levels stabilize and new products are developed. The Cannabis Division has chosen the performance measures above to ensure that it is operating as efficiently as possible in this new marketplace, across both retail and wholesale channels.

The targets for BCCS.com order fill rate and wholesale order fill rate have been set at a high level to ensure that we consistently aim for and provide best-in-class fulfillment. Compared to online retail orders, wholesale orders will be much larger and include a greater variety of products and, in line with this, the targeted fill rate for wholesale orders has been set at a lower rate. As more retailers open locations and operations at the Richmond Distribution Centre increase, the Cannabis Division is committed to proactively seeking out areas where efficiencies can be realized and service can be improved. As a result, it is expected that over the years covered by this service plan, the Richmond Distribution Centre will become more efficient at filling customer orders and, to reflect this, future targets show a steady increase.

Similar to order fill rate, the targets for on-time shipping have been set at a high level to reflect the value that the Cannabis Division places on this measure. The on-time shipping percentage for wholesale orders has been set at a slightly lower rate than that for online retail orders, as it is more difficult logistically to ensure that larger wholesale orders are shipped out on time. Similar to the order fill rate, on-time shipping is expected to improve in future years as warehouse operations

increase, adjust and improve. It should be noted that the rotating labour strikes by Canada Post workers likely had an impact on 2018/19 on-time shipping percentages, but as this is likely to be limited to that specific year, it is expected that, moving forward, on-time shipping will improve.

Goal 5: Corporate Social Responsibility

Objective 5.1: Encourage the responsible use of beverage alcohol and non-medical cannabis and minimize the impact of operations on the environment

BCLS 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 Actuals	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
5.1a Store compliance with ID-checking requirements ¹	96%	100%	84%	100%	100%	100%
5.1b Customer awareness of LDB Corporate Social Responsibility Programs ²	89%	n/a	90%	n/a	90%	n/a

¹ Data Source: The Liquor and Cannabis Regulation Branch (LCRB) 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 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 to ensure that alcohol is not being sold to minors – 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 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. 2018/19 store compliance is forecast to be approximately 84 per cent, based on current to-date compliance data from LCRB.

With respect to the LDB's corporate social responsibility programs, the LDB promotes awareness of the risks associated with alcohol misuse through in-store campaigns, promotional posters and in collaboration with stakeholders and community partners. 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 target of 90 per cent in 2020/21 represents the high value that the LDB places on this goal.

Liquor 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	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
5.1c Waste diversion rate at Head Office and Vancouver Distribution Centre ¹	79%	81%	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:

In 2018/19, the LDB continued to track waste diversion at Head Office and the Vancouver Distribution Center. After 2018/19, this performance measure will be expanded significantly to include diversion rates for BCLS (where possible), the Kamloops Distribution Centre, the new Delta Distribution Centre, and the new Richmond Distribution Centre. The LDB will also continue to track waste diversion from the new Head Office located in Burnaby.

In 2018/19, waste diversion rates were determined by using ongoing weight measurements taken over the entire fiscal year. Materials diverted from landfill and tracked in 2018/19 included mixed containers, paper, food scraps, electronics, styrofoam, wood, metal, cardboard, and soft plastics.

The target for 2018/2019 is 85% and it is anticipated that an 81% diversion rate will be achieved. This is due, in part, to the expectation that the Delta Distribution Center would be fully operational for the majority of this fiscal year. The LDB is working on a number of improvements to the warehouse recycling program at Delta Distribution Center and expects that these improvements will result in increased waste diversion. As the performance measure will be expanded in 2019/20 to include BCLS

and all Distribution Centres, it is expected that the LDB will be able to achieve an 85% diversion rate going forward through improvements to our recycling programs and increased employee engagement efforts.

Carbon Neutrality

Since 2010, the LDB has been measuring its greenhouse gas (GHG) emissions and purchasing B.C.-based carbon offsets in order to become carbon neutral on an annual basis. Efforts made to reduce emissions and annual emissions profile can be viewed in the LDB's [Carbon Neutral Action Reports](#).

Cannabis Division Strategies (Wholesale and Retail):

- Prevent sales to minors in BCCS through staff education and enforcement of ID-checking requirements.
- Encourage the responsible use of non-medical cannabis through the display of social responsibility material and signage at BCCS.

Performance Measure	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
5.1d Store compliance with ID-checking requirements ¹	n/a	100%	100%	100%	100%
5.1e Customer awareness of LDB Corporate Social Responsibility Programs ²	n/a	90%	92%	95%	95%

¹ Data Source: It is assumed that similar to liquor, LCRB will be administering an ID compliance checking program in cannabis stores and will provide the results of BCCS compliance to the LDB.

² Data Source: The LDB plans to partner with professional survey companies to conduct retail customer service surveys.

Linking Performance Measures to Objectives:

5.1d Encouraging the responsible use of non-medical cannabis is done, in part, through BCCS compliance with ID-checking requirements – therefore, BCCS compliance with ID-checking requirements is an appropriate performance measure.

5.1e BCCS plans to partner with 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 will provide a useful indicator of how well the LDB is achieving its objective of encouraging the responsible use of non-medical cannabis.

Discussion:

BCCS is committed to ensuring that the ID-checking program is enforced to prevent sales to minors through on-going employee training and awareness. This is aligned with both the federal and provincial governments, who have both made social responsibility one of the key priorities of legalization. To reflect the importance of store compliance with ID-checking requirements, a continuous target of 100% has been set, and since the opening of the first BCCS store on October 17, store compliance is forecast to be 100 per cent.

With respect to in-store corporate social responsibility materials and signage, the LDB encourages the responsible use of non-medical cannabis through promotional posters and other materials in stores.

BCCS plans to partner with a professional survey company to measure customer recall of these materials, to ensure that in-store campaigns and messaging are impactful and relevant. The high targets of between 90 and 95 per cent reflect the critical importance that the LDB places on this goal.

Financial Plan

Summary Financial Outlook

(\$m)	Fiscal 2018/19 Forecast	Fiscal 2019/20 Budget	Fiscal 2020/21 Budget	Fiscal 2021/22 Budget
Sales	3,581.1	4,028.1	4,444.7	4,881.4
Cost of sales	2,073.2	2,451.3	2,802.8	3,168.9
Gross Margin	1,507.9	1,576.8	1,641.9	1,712.5
Operating Expenses - Employment	228.0	245.7	250.0	260.6
Operating Expenses - Rent	59.6	64.0	68.9	74.5
Operating Expenses - Administration	131.0	165.1	181.5	198.5
Total Expenses	418.6	474.8	500.4	533.6
Other income	11.8	18.2	13.9	16.2
Net income	1,101.1	1,120.2	1,155.4	1,195.1
Capital	76.2	68.6	52.7	57.5
Debt	0	0	0	0
Retained Earnings	0	0	0	0

Key Forecast Assumptions, Risks and Sensitivities

The LDB closely monitors the changing liquor landscape and evolving cannabis industry and assesses the impacts to its financial and business operations.

The LDB's forecast has included the following assumptions:

- Fiscal 2018/19 overall sales growth will be 2.4 per cent over the previous fiscal year, driven by volume growth, retail margins, inflation and increased cannabis retail locations;
- Liquor sales growth for future years will move in line with historical trends and will be an average of 2.0 per cent due to a combination of inflation, volume growth and a slowing economy;
- Liquor industry market share and product mix remains relatively stable for all future years;
- The impact of grocery stores is not included since the number of stores that are selling liquor products remains relatively small;
- As cannabis sales increase, there is no significant impact on liquor sales;

- Cannabis sales will increase as more public and private retailers enter the marketplace, allowing for improved access to the product;
- Supply of cannabis products will increase as existing licensed producers optimize their production facilities and more licensed producers enter the market; and
- LDB will be increasing the number of cannabis retail locations as appropriate locations are identified.

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

Capital in fiscal 2018/19 and 2019/20 includes funds to complete the transition of the LDB's distribution operations to the new Delta facility, as well as to upgrade systems in the Kamloops Distribution Centre.

As Government provides further direction around the activities and priorities outlined in the LDB's mandate letter, potential impacts to liquor sales will be assessed.

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, demographics, 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 affect liquor consumption, and the proposed USMCA, which will replace NAFTA, may impact where wine can be sold.

Government policies and decisions can also have a significant impact on LDB revenue. For example, provincial government policies regarding hours of operation for establishments selling or serving liquor products can result in changes to LDB revenue. For cannabis, municipal government regulations around the operation of retail stores will be a determining factor in the location and number of retail stores and when they are open for business.

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

- Changes in the marketplace – it is still unknown how the introduction and expansion of grocery stores as retailers of beverage alcohol will impact the current retail environment; in addition, the market share between public/private cannabis retail stores will impact LDB net income;
- 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 wholesale LDB revenue, assuming a constant volume;
- Ability of cannabis producers to supply products in the short-term – this can impact the LDB's ability to sell to retail and wholesale customers; 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.

Cultural shifts and demographics also influence purchasing patterns. With the legalization of cannabis and an improved quality of supply, cannabis consumption will become more socially acceptable. This will impact demand for future cannabis products and may result in decreased demand for beverage alcohol. Current trends in liquor already reflect shifting preferences as people shift towards refreshment beverages and away from beer and wine. The LDB has different margins on products and shifts in product mix impact net income.

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 stores.

Cost of Goods Sold

Each percentage change in the cost of products in the wine, spirits, refreshment beverage and cannabis categories has a direct effect on net income of approximately \$11.4 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 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. For example, the growing popularity of craft beer is a result of consumer preferences shifting away from commercial beer and other beverage alcohol products, and this could impact cost of goods as a percentage of sales.

Management's Perspective on the Financial Outlook

The 2013 Liquor Policy Review resulted in several fundamental changes that significantly transformed the liquor industry. For LDB, this resulted in the following:

- A levelling of the playing field for all retailers in B.C., including BCLS. As a result, the BCLS chain needs to continuously monitor business operations in order to remain competitive in the marketplace;
- The creation of separate Liquor Retail and Liquor Wholesale divisions, with each division making 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.

As noted earlier under “Operating Environment”, in April 2018, the Business Technical Advisory Panel presented Government with a report containing 24 recommendations focused on improving efficiency and business relations between government and the liquor industry. Government is in the process of reviewing these recommendations and this may result in further changes to the liquor marketplace.

As the legal cannabis industry matures, LDB will focus on developing efficient distribution operations to support both wholesale and retail customers. In addition, the LDB will work with licensed producers to provide a variety of safe and high-quality products. On the retail side, the LDB will continue to identify and open retail locations to service the needs of the community.

The LDB’s corporate management will continue to monitor wholesale margins for liquor and cannabis to ensure Government’s revenue targets are protected. The move to the larger liquor 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, 2018 (\$ millions)	Estimated Cost to Complete (\$ millions)	Approved Anticipated Total Capital Cost of Project (\$ millions)
Warehouse Relocation	2018/19	43	12	55
<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 Delta facility became operational in fall 2018 and began fulfilling orders for a limited number of customers. It is anticipated that the transition of all customers will be completed by mid 2019.</p> <p>The capital cost is funding for material handling equipment, racking and conveyors, as well as a new computerized warehouse management system.</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>				

Appendix A: Hyperlinks to Additional Information

Corporate Governance and Organizational Overview

The LDB's corporate governance structure and organizational overview can be found [here](#), including links to the LDB's [Mission, Vision & Values](#) and the LDB's [Core Business Areas](#).

