



Capital Project Plan
Liquor Distribution Branch Distribution Centre Project
February 16, 2017

1. Project Background

The Ministry of Small Business, Red Tape Reduction and Ministry Responsible for the Liquor Distribution Branch manages key lines of government services that support the increased growth of small business, a modern regulatory environment for citizens and businesses, and a balanced approach to protecting public health and safety, providing more convenience for consumers, and streamlining regulations for the liquor industry.

As a branch of government, the Liquor Distribution Branch (LDB) is responsible for meeting the wholesale beverage alcohol needs of all retailers in the province, regardless of size or location. The LDB is responsible for the importation, distribution, wholesaling and retailing of beverage alcohol in British Columbia and is the sole importer of liquor into the province. It provides a pivotal point in B.C.'s system of beverage alcohol warehousing and distribution, with over 16 million cases flowing through its distribution centres in 2015/16. The LDB directly serves almost 10,000 wholesale customers, the vast majority of which are private sector businesses, and fills more than 335,000 wholesale orders per year.

The LDB's net income in the 2015/16 fiscal year was \$1.03 billion on gross sales of \$3.16 billion. The Vancouver Distribution Centre is the LDB's primary warehousing and distribution centre. It has not been upgraded or expanded since the early 1970s, although case volume each year has grown dramatically. The Province, in conjunction with industry experts, has been exploring options for a new warehouse location in the Lower Mainland.

Following an open and transparent competitive process and thorough research, a new warehouse has been identified in Delta for the LDB's new Lower Mainland distribution centre.

The new distribution centre will allow the LDB to introduce modern warehouse management techniques, acquire updated material handling equipment and implement a new Warehouse Management System to increase operational efficiency, improve wholesale customer satisfaction and decrease operating costs while increasing product offerings, supporting small business and improving service levels.

**Ministry of Small Business and Red Tape Reduction and Responsible for
the Liquor Distribution Branch**



2. Project Objectives

The LDB Distribution Centre Project will leverage modern warehouse and racking designs, technology and automation to generate significant benefits. Specific project objectives include:

- Continue the uninterrupted flow of product to wholesale customers;
- Improve wholesale customer satisfaction;
- Maximize the LDB's net income contribution to the Province through improved operating efficiency; and,
- Support B.C. small businesses.

3. Project Scope and Status

The project scope includes leasing an existing 412,000 square foot warehouse, installing racking and conveyors, constructing support space for staff and implementing a new computerized warehouse management system.

Work completed to date and status are summarized below:

- Preparation of a Concept Plan;
- Completion of a Business Plan examining service options and procurement options and their respective implications on capital and operating costs;
- A project cost estimate using a financial advisor and quantity surveyor;
- Development of an order of magnitude operating cost projection;
- Development of a preliminary equipment list for all scope components;
- Analysis of project risks;
- Analysis of market considerations for the different models analysed;
- Recommendation of project procurement models;
- Proposed Project Implementation Schedule;
- Securing a 10-year lease; and,
- Approval from government to proceed with the LDB Distribution Centre Project.

4. Costs and Benefits

Project Costs

The estimated capital cost is \$57.135 million, not including lease costs.



Project Benefits

Project benefits include:

- The leased space will support the LDB inventory needs for the foreseeable future.
- Additional capacity can be achieved by further leveraging third party supply chain arrangements to manage increased volume growth beyond the design horizon or by adding automation or labour as the need develops;
- Significant productivity gains and labour savings are expected in the new warehouse;
- Capital cost avoidance as compared to an owned/build to suit model;
- Shorter implementation mean that operational and financial benefits are realized sooner;
- Relatively straightforward to implement and unlikely to result in the challenges typically associated with the implementation of complex warehousing and automation systems;
- A payback period of 1.9 years, well below the industry standard (< four years);
- Retains high level of operational flexibility (to adapt to changes in business model, including governance and lines of business);
- An increase in the storage capacity will allow the LDB to increase available products and support small businesses in making their products more accessible to retailers; and,
- The design leverages the latest technology and automation in the bottle pick area with an automated mezzanine and allows for the future implementation of e-Commerce.

5. Project Risks

The major risks associated with the project relate to implementing the warehouse improvements and new warehouse management system (WMS) as described below.

A key risk mitigation strategy is a strong cross ministry governance model with clear roles, responsibilities and decision-making authority. An Executive Project Board which includes the LDB's General Manager, Ministry Executive and members from the Ministry of Technology Innovation and Citizen's Services, Ministry of Finance and Partnerships BC has authority over the Project and provides executive direction and oversight. The Chief Project Officer reports to the Executive Project Board and works with the Ministry to ensure project deliverables are achieved. The LDB will develop and update a Project Risk Matrix to be reported out to the Executive Project Board by the Chief Project Officer with monthly CPO reports.



Scope and Functionality: If the WMS, racking and automated components do not have optimum design this may result in lower functionality, less efficient operations, and user dissatisfaction.

Measures to mitigate these risks include:

- Use of industrial engineers with international experience to prepare concept plans working with a Project Team that included SBRT, Partnerships BC, Ministry of Technology, Innovation and Citizens' Services and external consultants. This process will continue through the remaining design phases to ensure a highly functional floor plan that supports project objectives.

Schedule Risk: This risk arises from the possibility that the procurement or construction process takes longer than expected.

Measures to mitigate this risk include:

- The LDB has engaged professional project management;
- Partnerships BC has examined procurement options and has determined due to the relatively small size of this contract a relatively simple design-bid-build approach using an industry standard CCDC2 contract will minimize complexity; and,
- Drawing reviews will be conducted in advance of tendering.

Cost Risk: This risk arises from the possibility that overall project cost and construction costs exceed the budget.

Measures to mitigate this risk include:

- The preliminary budget is based on recommendations from a financial advisor and professional quantity surveyor and contains cost contingencies;
- Expected costs will be reaffirmed prior to release of the tender documents; and
- A traditional tender approach is expected to produce significant competition due to the size and lack of complexity.