



BUSINESS TECHNICAL ADVISORY PANEL

MARCH 15, 2018

BC LIQUOR IMPORT AGENT COMMUNITY

- Responsible for over 700 direct jobs
- An estimated 1 million + trade touches per year
 - Through daily interactions with private retailers, restaurant and hotel staff, BCLDB employees and grocery stores result
- Membership accounts for over \$900 million of Import product every year.
 - Over 40% of all alcohol products sold in BC
- Deeply connected with the BC producers (wineries, breweries, distilleries and producers of cider and mead) most agencies represent and market BC producers as part of their portfolios



BC LIQUOR IMPORT AGENT COMMUNITY

- Limit the BCLDDB wholesale carrying cost
 - Pay 3rd party warehouses to hold inventory
- We are marketers for imported products in all channels
 - Sales force for BCLDDB wholesale
- Agencies undertake the strategy and brand building aspect of the business - training and expert trade and consumer interactions that help to build and maintain the wine culture in BC.
- The only thread from supplier to customer. We provide access to the world of r Drinks.

DISCUSSION POINTS

- Distribution & Warehousing Challenges
- Pricing & Registration - Policy and Procedures
- Trade Practices

DISTRIBUTION CHALLENGES

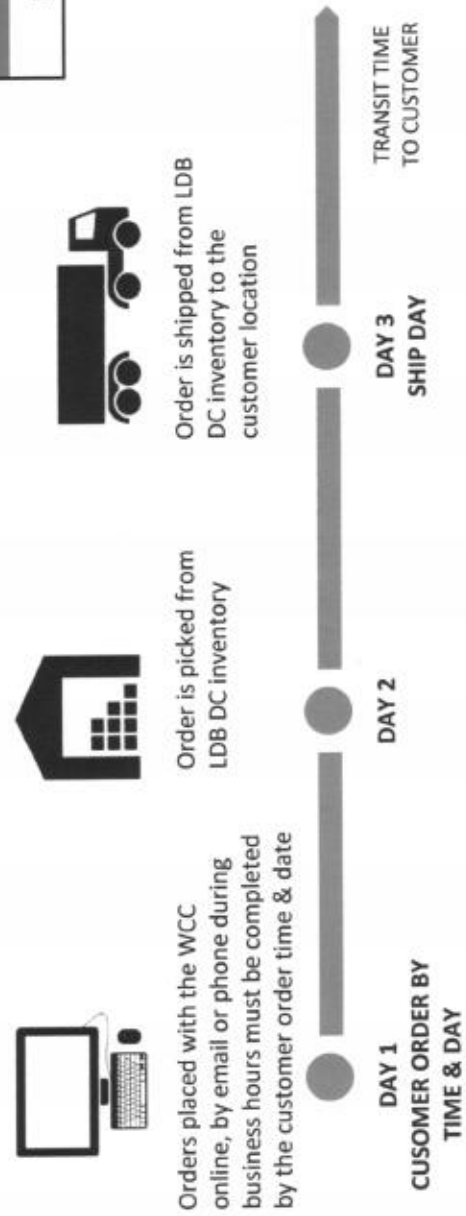
- Import agents are responsible for:
 - Paying all shipping costs, storage charges, insurance, warehousing, logistics charges, and any difference in currency exchange
- Import agents pay for the warehousing of landed product until it is purchased for resale by a Retailer or Hospitality account.
 - The import agents shelter the BCLDB Wholesale from warehouse costs and provide instant access to thousands of liquor products. The BCLDB Wholesale avoids long-term inventory holding costs.
- Duplication of service
 - Products received, ordered and picked at the agents' 3rd party warehouse are shipped to the BCLDB DC where they are received, ordered and picked again! This is costly, inefficient and environmentally wasteful.

DISTRIBUTION CHALLENGES

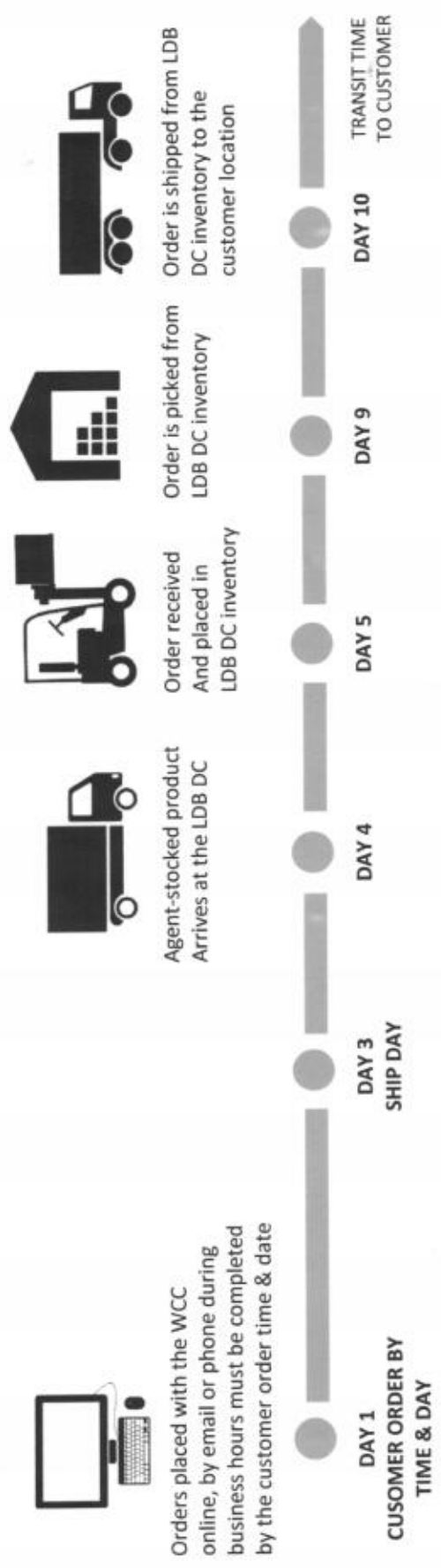
- Not all products are Equal
 - BC Liquor Stores receive listed product in a timely manner (3 days) while many Private Retailers and Hospitality customers orders take three times as long. Non Stocked Wholesale averages 4 weeks for delivery. Creating an unfair advantage
 - This creates higher costs for the public
 - This also reduces the selection available to the public in retail and wine lists
- Non Stocked Wholesale orders are often cancelled for no apparent reason.
 - Creating stock outs in Private Retailer and Hospitality
- No Transparency of Orders
 - Agents are unable to track or see where orders are
 - Many agents spend valuable time trying to find out "Where the order has stalled or been dropped"
 - No Back Order system in place

LDB DISTRIBUTION CENTERS

LDB-STOCKED WHOLESALE PRODUCTS
ORDER TIMELINE
BASED ON **ONE** DELIVERY PER WEEK



AGENT-STOCKED WHOLESALE PRODUCTS
ORDER TIMELINE
BASED ON **ONE** DELIVERY PER WEEK



In order to receive Agent-Stocked (in BC) products on day 3, the order must be placed 4 business days prior to the customer order by time & date

DISTRIBUTION CHALLENGES

RECOMMENDATIONS

BCLDB Wholesale (Current Model)

- BCLDB wholesale deliveries to ALL Licensees equal to that of their own stores.
- Create a transparent delivery schedule and system so agents can see the progress of transactions.
- Create a BCLDB wholesale representative at all BC Liquor Stores where Licensee orders are placed
- If the BCLDB Wholesale cannot facilitate deliveries to Licensees in this time frame then another solution must be found.

DISTRIBUTION CHALLENGES

RECOMMENDATIONS

Bonded Warehouse Delivery of Non GLS Product

- Allow the bonded 3rd party warehouses to deliver direct to all Licensees. Equal to that of domestic producers.
- Agents would receive the discount that is provided to the domestic commercial producers when they self deliver products
- A fair choice of 3rd party warehouse delivery direct to Licensees or the current system for direct delivery through the BCLDB Wholesale and BC Liquor Stores.
- Results of this would be:
 - reduced costs making BC more affordable to everyone
 - No duplication of services – product is warehoused only once
 - higher level of service – transparency of orders for Hospitality customers and for Agents
 - Agents have greater control over their products

PRICING & REGISTRATION PROCEDURES

- Import agents Responsibilities:
 - Product registration
 - Ensuring conformity with Canadian labelling standards
 - Purchase - product from the supplier/manufacturer from as near as BC's Okanagan Valley, or from as far away as Stellenbosch, South Africa
 - Facilitate the customs clearance of the product to a bonded warehouse
- The 'cost of goods' plus shipping, plus landing costs, plus storage, plus the importer's margin (typically 15-20%), plus BCLDB Wholesale Mark-Up generate a BC Wholesale Price
- Agents have no control over the Retail/Hospitality price. As of April 1, 2015 this was +18% and now it is +23% or more with the agents maintaining the same BC Wholesale Price

PRICING & REGISTRATION PROCEDURES

- The product registration process is tedious and inefficient, requiring agents to complete the data entry multiple times,
 - Layers of duplication by multiple BCLDB wholesale staff. This is time consuming, costly and creates registration delays.
 - Registration turnaround KPI by BCLDB Wholesale is 1 week. Agents have been asked to submit GLS tenders up to 4 weeks before deadlines.
- Pricing procedures holds up the release of new products, sometimes up to 4 weeks!
 - While the agent is incurring warehousing costs and is carrying the inventory responsibility. This procedure is done in 24hrs in other jurisdictions.

PRICING & REGISTRATION PROCEDURES

- Import agents in BC employ sales representatives to actively promote their products to be purchased and re-sold at BC Liquor Stores, Private Retail Stores (“LRS and Agency”), Restaurants, Bars and Private Clubs (“Hospitality”). The agent community is essentially the outside sales force for the BCLDB Wholesale.
- Many agents work with the producer on marketing plans to help build their brands, often this involves an investment into BC by the producer. The inability to control pricing to the customer can erode strategies employed by these agents/producers and essentially undermine these funded initiatives.

PRICING & REGISTRATION PROCEDURES

RECOMMENDATIONS

- Create a fixed trade price - WHSL (wholesale price or WHSL +) for all licensees.
- One type of license one wholesale price.

This will allow stability on pricing and not undermine the strategic positioning of Producers and Agents.

**BC Wholesale to set WHSL price.

**BC Liquor Stores control the pricing on their shelves and not that of products that compete with their selections. Stability will help Agents create better marketing and promotion programs.

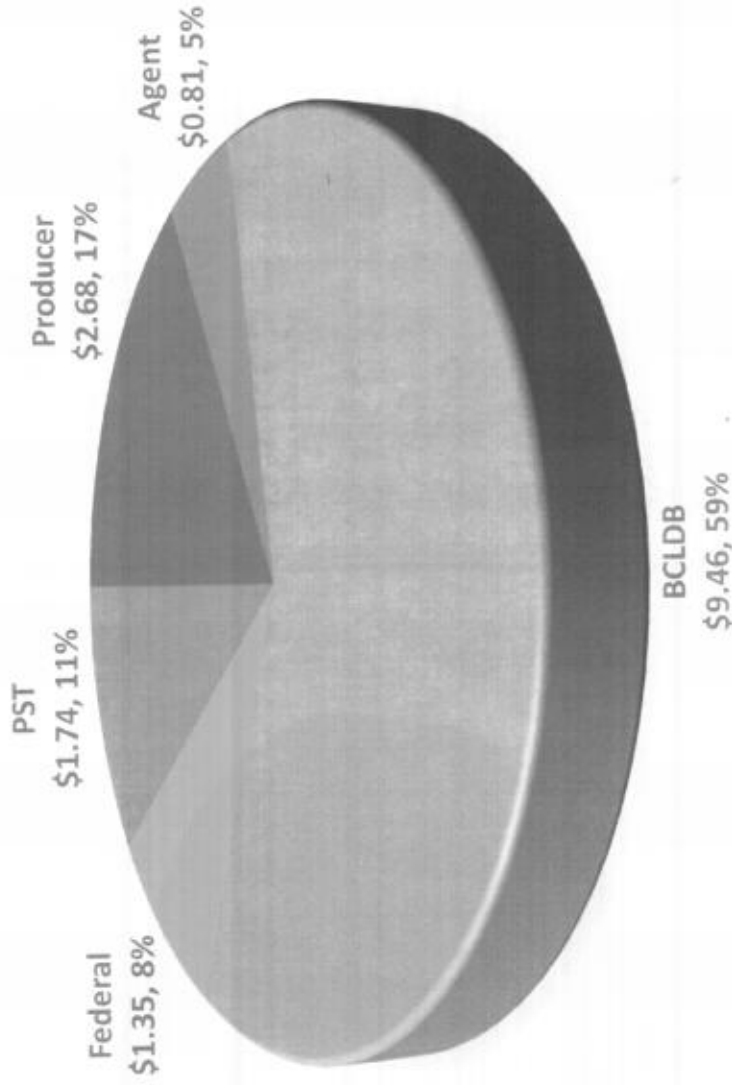
PRICING & REGISTRATION PROCEDURES

RECOMMENDATIONS

- Create online product registration & pricing.
 - Reflect what other jurisdictions are doing – 24 hr. pricing and registration confirmation
 - Reduce number of approvals need to register and price a product.
- Agents input on competitive set price and bridge buying.
 - Agents need to have control of number of cases available on LTO pricing
 - Many products are priced to be competitive within their sector. Work with BC Liquor Stores to reflect this.

A \$20 BOTTLE OF WINE GENERATES...

\$15.11
WHOLESALE
\$17.39
RETAIL/HOSPITALITY



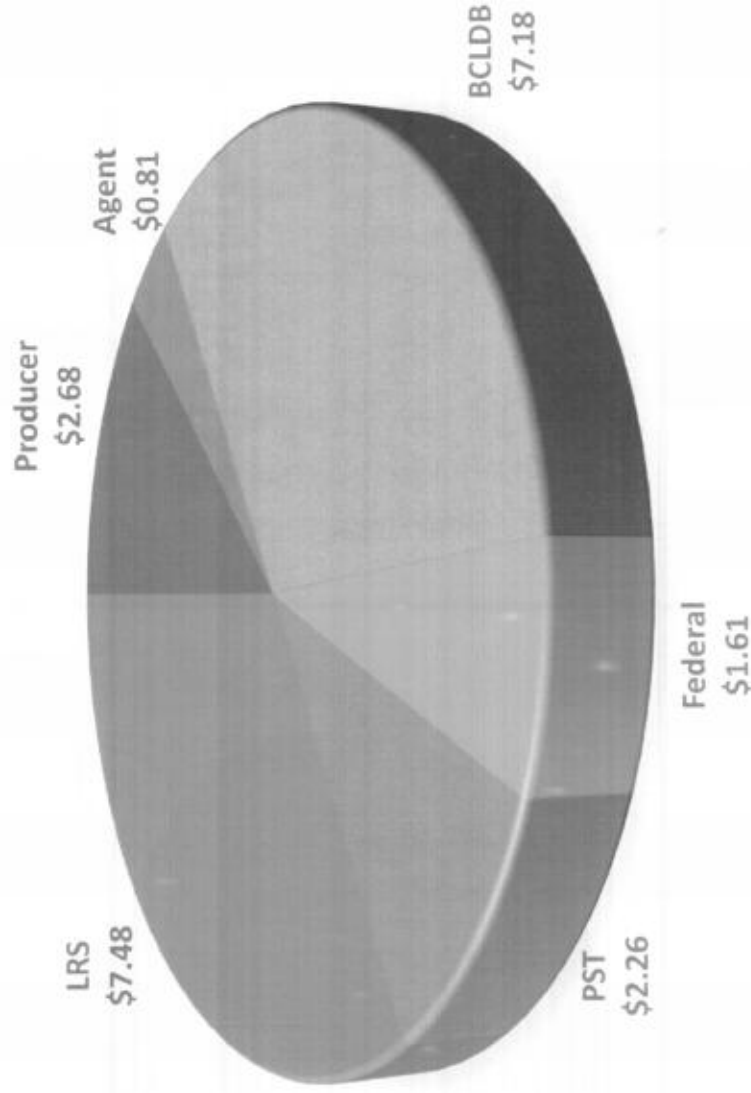
Assuming the following factors:

- A case cost in Canadian dollars of \$64.50
- Producer cost is 50% of the FOB price to the agent
- An agent commission of 15%
- Per case shipping (\$12) and logistics (\$3.25) costs of \$15.25

Producer - \$2.68/btl \$32.16/cs
 Agent - \$0.81/btl \$9.68/cs
 BCLDB Mark up - \$7.18/btl \$86.14/cs
 BCLDB Retail - \$2.28/btl \$27.36/cs
 Federal - \$0.48/btl \$5.75/cs
 GST - \$0.87/btl \$10.44/cs
 PST - \$1.74/btl \$20.88/cs

**SOLD IN AN LRS
WITH A 30%
MARK UP
= \$22.59**

**\$15.11
WHOLESALE
\$17.39
RETAIL/HOSPITALITY**



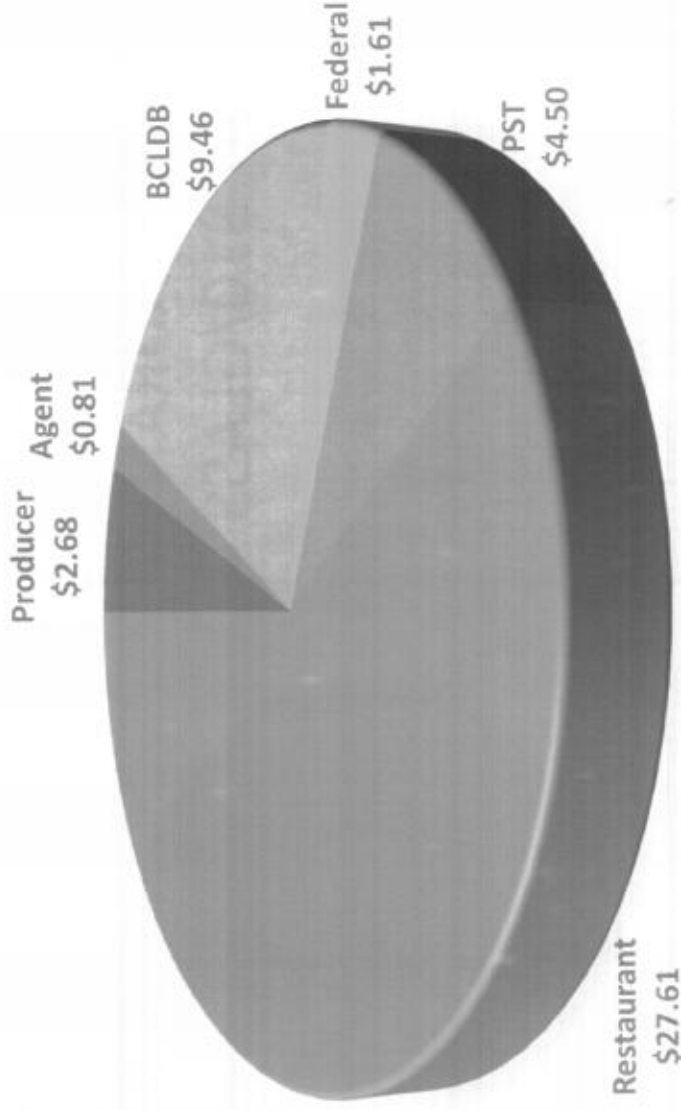
Assuming the following factors:

- A case cost in Canadian dollars of \$64.5
- Producer cost is 50% of the FOB price to the agent
- An agent commission of 15%
- Logistics = Per case shipping (\$12) and logistics (\$3.25) costs of \$15.25

Producer - \$2.68/btl \$32.16/cs
 Agent - \$0.81/btl \$9.68/cs
 BCLDB Mark up - \$7.18/btl \$86.14/cs
 LRS Retail - \$7.48/btl \$89.76/cs
 Federal - \$0.48/btl \$5.75/cs
 GST - \$1.13/btl \$13.56/cs
 PST - \$2.26/btl \$27.12/cs

SOLD IN A RESTAURANT AT \$45/BTL

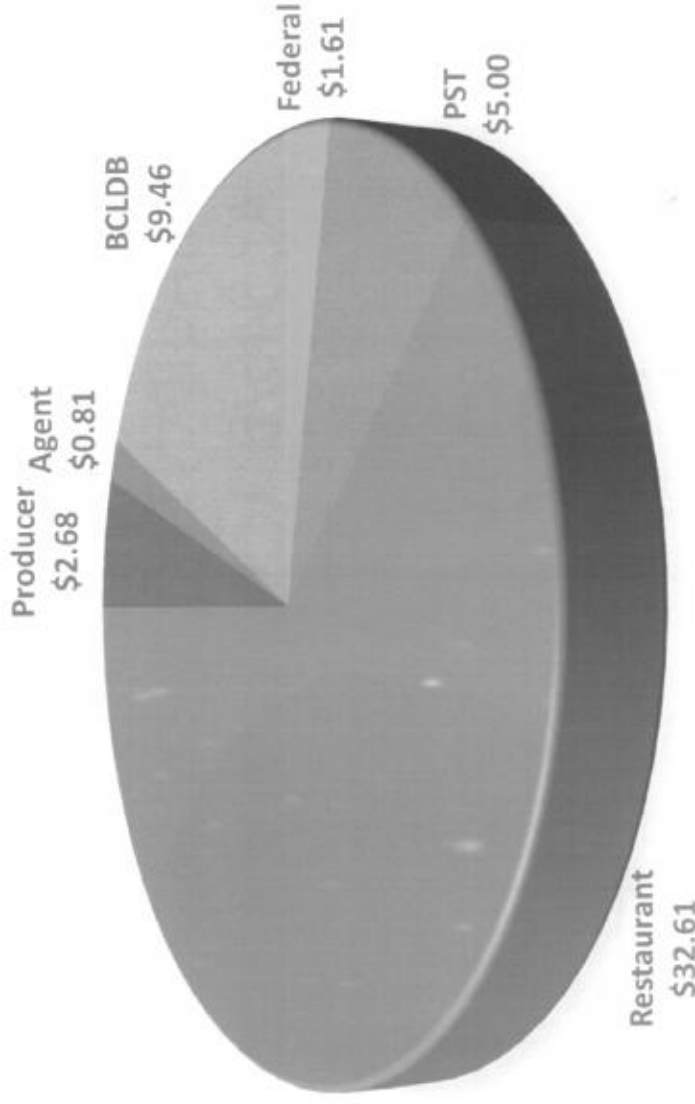
\$15.11
WHOLESALE
\$17.39
RETAIL/HOSPITALITY



Assuming the following factors:	
• A case cost in Canadian dollars of \$64.5	Producer - \$2.68/btl \$32.16/cs
• Producer cost is 50% of the FOB price to the agent	Agent - \$0.81/btl \$9.68/cs
• An agent commission of 15%	BCLDB Mark up - \$7.18/btl \$86.14/cs
• Logistics = Per case shipping (\$12) and logistics (\$3.25) costs of \$15.25	BCLDB Retail - \$2.28/btl \$27.36/cs
	Federal - \$0.48/btl \$5.75/cs
	GST - \$1.13/btl \$13.56/cs
	PST - \$4.5/btl \$54.00/cs
	Restaurant - \$27.61/btl \$331.32/cs

SOLD IN A RESTAURANT AT \$10/GLASS

\$15.11
WHOLESALE
\$17.39
RETAIL/HOSPITALITY



Assuming the following factors:

- A case cost in Canadian dollars of \$64.5
- Producer cost is 50% of the FOB price to the agent
- An agent commission of 15%
- Logistics = Per case shipping (\$12) and logistics (\$3.25) costs of \$15.25
- 5oz glass size = 5 glasses per bottle

Producer - \$2.68/btl	\$32.16/cs
Agent - \$0.81/btl	\$9.68/cs
BCLDB Mark up - \$7.18/btl	\$86.14/cs
BCLDB Retail - \$2.28/btl	\$27.36/cs
Federal - \$0.48/btl	\$5.75/cs
GST - \$1.13/btl	\$13.56/cs
PST - \$5.00/btl	\$54.00/cs
Restaurant - \$32.61/btl	\$391.32/cs

RESTRICTIONS ON TRADE PRACTICES

- Trade tastings and events – cost of doing business or lost revenue?
 - Agents own the bonded inventory, but must purchase this stock from the BCLDB at full markup to promote the sale of this inventory
 - Agents must purchase full cases of wholesale products from BC Liquor Stores to pour at trade tasting events, even if they only require a few bottles
- Re-seller marketing and advertising promotions are almost always created, (e.g. in-store tastings, festivals, discounts, magazine or in-store advertising, etc.)

TRADE PRACTICES

RECOMMENDATIONS

- Allow agents to purchase their samples at the in-bond cost rather than at full retail.
 - Used to educate industry, customers to increase awareness, sales and build BC's as a Food and Drink destination
 - brand building initiatives may undertake staff and consumer education initiatives and consumer facing promotions
 - Support charities
- Allow agents to purchase less than full case lots from private Retailers to reduce agent costs, as long as proof of purchase in BC is provided upon request
 - Reducing agents cost of promotion



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