Ministry of Finance
Tobacco and Fuel Tax Exemption Study

Retailer Engagement Summary and Analysis

Submitted by: **Submitted on May 25, 2020**
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Introduction

In November of 2019, Indigenuity Consulting Group Inc. (Indigenuity) was hired by the Ministry of Finance to provide First Nations engagement services to support the Tobacco and Fuel Tax Exemption (TFTE) Project.

The goals of the engagement services were to:

1. Assess the level of support of First Nations retailers and First Nations partners in implementing a new technology solution to streamline the tobacco and fuel tax exemption process.
2. Communicate the need for change and the key benefits of that change, including obtaining feedback on potential options to improve and modernize the tax exemption programs.
3. Identify challenges and barriers to the potential solution(s) and resultant change.

Prior to initiating engagement, Indigenuity worked with the Ministry to send outreach letters to authorized tax-exempt tobacco and fuel retailers on reserves and all First Nations chiefs and councils announcing the launch of the project and its goals and key benefits.

Indigenuity designed an engagement plan recommending the methods and types of communication required to engage with First Nations partners and retailers. Engagement was planned in two phases. The first phase of engagement took place from December 2019 to February 2020, and included an online survey with questions related to current practices around tobacco and fuel tax exempt purchase tracking, ability and/or interest in switching to a new system, current technical capabilities or limitations, and general questions around processes and consumer interaction. Indigenuity reached out to all 192 tax exempt retailers in the Province by email and phone, and received 69 responses.

After the survey was complete, Indigenuity analysed the responses and provided a report to the Ministry on February 18, 2020. A summary of this analysis is provided as Appendix I.

The second phase of engagement consisted of phone interviews that took place over March and April 2020, and was focused on reaching out to retailers in segments that were under-represented in Phase 1, as well as to collect more in-depth information from retailers who had completed the survey.

While face-to-face meetings were considered, both Indigenuity and the Ministry decided that they were not necessary to complete the engagement process as sufficient feedback was obtained through the survey and phone interviews.

The following report outlines the approach and methodology for the second phase of engagement, observations and key findings of that engagement, and provides recommendations and next steps.

Methodology

To begin the second phase of engagement, Indigenuity worked with the Ministry of Finance to create a list of follow-up questions and general project messaging to be used in phone interviews with Indigenous retailers. The interview questions were designed to allow flexibility, as follow up varied on whether or not the survey was completed, and if it was, how the questions were answered. The full list of questions and key messages is provided as Appendix II.

Next, the analysis and summary information from the initial survey was used to create a list of retailers from under-represented market segments. This segmentation was based on retailer size (cluster information was based on the monthly carton allocations as provided by the Ministry), and geographic location. The initial data from Phase 1 of engagement showed that retailers in the 0-301 cartons per month cluster and retailers in the Nechako region had disproportionately low response rates.

Next, the survey results were reviewed to determine which retailers had provided answers that warranted clarification or additional follow up. Some of the topics of interest were related to customer complaints and conflict, challenges with existing tracking systems, reliability of technology and internet connection, and general interest in switching to a new tracking system. Retailers were also given the opportunity to provide additional comments on the overall tobacco and fuel tax exemption program.

After the questions were finalized, Indigenuity created individual retailer profiles which included basic background information (cluster, location, survey participation, contact), and also outlined the specific applicable questions to be asked based on survey responses. For retailers that did not complete the survey, the questions were generalized to capture their input. Finally, outreach for participation was made through two mass emails, individual targeted emails, and over 250 phone calls. Interview times were then arranged with the retailers we were able to reach.

Challenges

While some Phase 1 survey participants had indicated they were very interested in further conversations, the outreach for further engagement and phone interviews was challenging. In some cases, it was hard to connect to the individuals who had completed the survey as they

were not always available within working hours or were not available at the contact information associated with their location. There were also some retailers who felt like everything they needed to say had been provided in the survey, and they weren't interested in spending additional time on phone discussions. Many individuals stated that they would prefer to provide feedback based on the actual proposed system or solution as opposed to their current situations, and other retailers were more interested in providing general feedback rather than answering any specific questions.

Unfortunately, the timing of this outreach and subsequent phone interviews also coincided with the global outbreak of COVID-19, which resulted in significant changes to the way retailers conducted business, and in some cases, closure of businesses. Many retailers were too busy or overwhelmed with these new circumstances, and in some cases declined to participate or were not reachable. To address this, additional contacts were added to this list to ensure that the second phase of engagement provided useful information.

In total, 52 retailers were contacted to participate in a phone interview. To date, 37 retailers have completed follow-up phone interviews. The retailers are: [NAMES OF BUSINESSES REDACTED]

Key Findings and Observations

This section provides a summary of the key findings that can be drawn from the phone interviews with the 37 retailers conducted in this phase of engagement. Detailed notes were taken during all interviews, and these notes were later summarized into responses for each question or topic of discussion. This information was then reviewed again, with the most common responses forming the key findings. In some instances, specific feedback from individual retailers was included to provide specific examples. These observations are organized into four categories; Respondent Segmentation, Retailer Change Readiness, Retailer Concerns, Opportunities, and Additional Comments.

It should be noted that as the sample size is only n=37, any figures or charts that we present are not statistically significant, they are only suggestive. These numbers cannot predict behaviour with mathematical confidence if applied to the larger population of retailers, as they only report what is happening with the respondents who participated in the phone interviews.
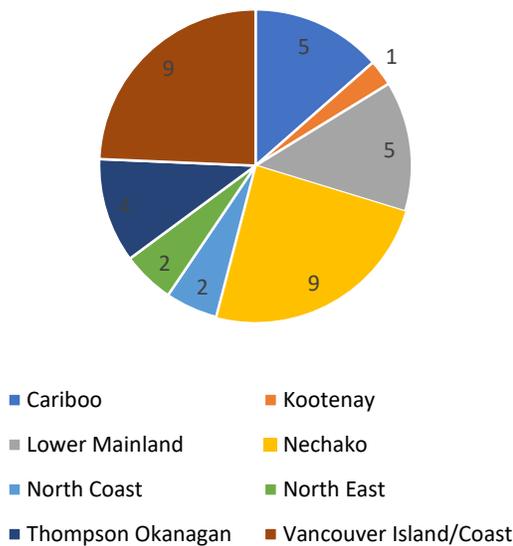
Respondent Segmentation

The following graphs show the regional and size (cluster) break down of all 37 phone interview respondents. All retailer responses were coded based on B.C.'s Economic Development Regions (as shown in the corresponding map). Retailer size was based on the cluster coding provided by the Ministry, which groups retailers into three size categories based on monthly carton allocations: 0-301, 301-1000, and 1001-4000.
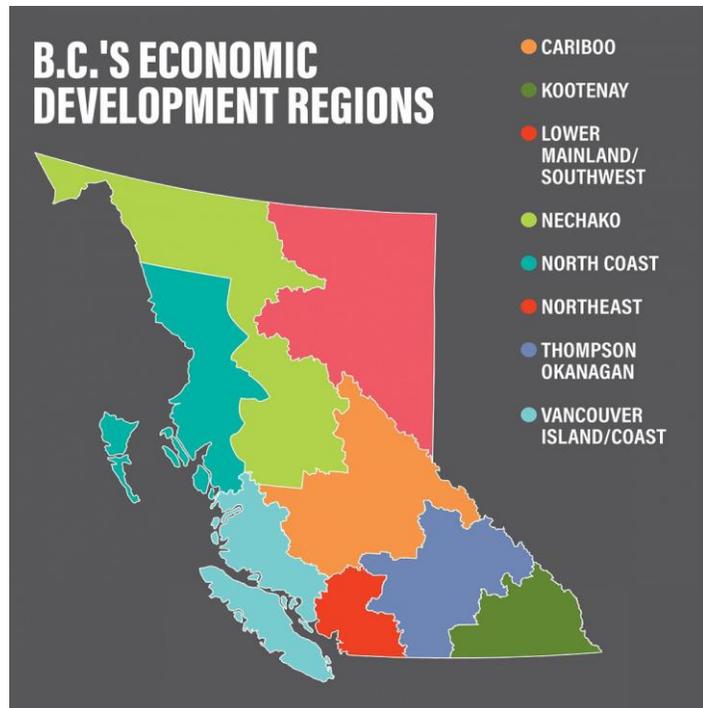
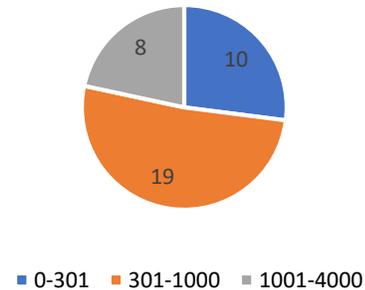Despite the challenges of outreach, Indigenuity was able to capture a high percentage of information from under-represented retailers in the Nechako region, as well as those in the 0-301 cartons per month cluster size as depicted in the graphs below – nine of the 37 respondents (almost 25%) were from the Nechako region, and 19 out of 37 respondents (51%), were from the 301 - 1000 cartons per month cluster size.

Retailers Interviewed - by Region

- ■ Cariboo
- ■ Kootenay
- ■ Lower Mainland
- ■ Nechako
- ■ North Coast
- ■ North East
- ■ Thompson Okanagan
- ■ Vancouver Island/Coast

Retailers Interviewed - by Size/Cluster

- ■ 0-301
- ■ 301-1000
- ■ 1001-4000

Retailer Change Readiness

Throughout the interviews, it became apparent that the majority of retailers in the 301-1000 and 1001-4000 cartons per month clusters were open to the prospect of a new electronic tracking and filing system. Some of these retailers further explained that the real change benefit would come from implementing an online filing system that eliminated the need for paper tracking all together. While these retailers generally indicated a willingness to welcome a new and streamlined process, many indicated that their customers may not be as open to the change in process. In some cases, retailers noted that people who were currently manipulating the system would take issues with a new system. Other respondents suggested that an electronic system that was only available in store at a till would slow down transaction time which in turn would not be received well by customers, and others suggested that a more formalized approval and tracking system may be met with resistance from customers who were opposed to increased government oversight and restriction.

In contrast, many of the retailers in the 0-301 cartons per month cluster size felt that an electronic system would be too complex for their small operations, and would place unnecessary burden on them to learn and manage a new system. Some of these respondents also specified that they wanted to remain on paper tracking, as it was faster and more efficient than a software-based system. There was also reluctance from small retailers due to the fact that electronic submission may not provide the same tracking availability as traditional mail, and that records may not automatically be backed up.

Retailer Concerns

While many retailers responded positively to discussions about a proposed new tracking system, there were many concerns raised that respondents would like to have considered in the solution development.

- Connectivity: One of the key issues we heard repeatedly was regarding connectivity and reliability of the system. Some respondents were able to give examples of how their current electronic tracking systems had created new challenges in their stores – for example, those that are internet reliant shared that any loss of power or connection resulted in a total closure of sales (including cash transactions which were previously tracked on the paper exemption forms), which in turn created lost revenue opportunities.

- Cost: Numerous retailers who have installed electronic systems also said that they were expensive and incredibly challenging to set up, and there were also specific examples in multiple interviews regarding constant issues and repairs required with faulty signature pads. One respondent suggested that for smaller operations, the cost should not exceed $1500. This sometimes resulted in signatures being completely illegible or improperly captured. In one response, a retailer shared their experience with having a system failure which caused the loss of electronic tracking sheets, which then resulted in a large cost to the company. Some respondents were also concerned about the costs associated with a new system and felt that the Ministry should provide the software and hardware if this would be a future requirement for verification of purchases and electronic filing.

- Maintenance and Integration: Retailers also wanted clarification on who would be responsible for repair of any Ministry provided equipment, and whether or not 24-hour technical assistance would be available to ensure they didn't suffer from any service interruptions. A number of interviewees also highlighted the importance of having a new system that can speak to and integrate with whatever POS systems or additional software they are already using; some respondents noted that the solution needed to consider the already complex set ups some stores have which includes a till system, separate payment system, and rewards system.

- Customer Conflicts: Many retailers suggested that the change in system may upset or cause conflict with customers, and some concern was raised that this would create challenges for staff members. A number of respondents shared stories of existing challenges with asking for status cards, especially in smaller or tight knit communities where staff members know the consumers (or are related) and are still required to have them present their physical card. Some retailers also suggested that this practice, especially if escalated to a system that required 'validation', was racist and was a further example of entrenched colonialism and a Government system designed to control Indigenous Canadians. In a few interviews, retailers also commented that a system that tracked tobacco quotas may be unwelcome from some customers who have already tried to challenge their internal tracking systems.

Opportunities

Many of the respondents in the 301-1000 and 1001-4000 cartons per month clusters responded very positively to the prospect of having a system that would validate status numbers and track tobacco quotas. Some retailers noted that it was challenging for their staff to keep up with eligibility for communities who were under Treaty versus those that were not, and if numbers were recorded incorrectly on the manual tracking sheets it created challenges when filing the records. Respondents also noted that they were not always able to accurately track tobacco purchases per person, and were aware that some consumers were abusing the system by buying at multiple locations. One comment suggested that the tobacco tracking would also be helpful to understand local purchase patterns, specifically around whether the monthly allocations were being purchased by locals or by out of area consumers. It was also noted that some existing [REDACTED] and [REDACTED] systems flag when an individual is over their allotment, but the system technically still allows the sale to be pushed through.

A small number of respondents also saw an electronic system as a way to help their staff in enforcement around physically providing status cards and having people purchase only for themselves, as it would then be a system requirement and not merely a policy to be enforced with a manual entry system.

Finally, some retailers also suggested that in addition to validating status numbers, they would appreciate if the system could verify age for tobacco purchases. One respondence expressed interest in whether this system could be used for validating liquor purchases, and another suggested it would be useful in the cannabis retail location they were planning to open.

Additional Comments

A number of retailers noted that requiring a physical card did present some challenges to consumers, specifically if a family member was purchasing for someone who was physically unable to leave the home, or for those who were waiting for replacement status cards (as there can be extremely long processes and wait times associated with the provision of new cards). It was suggested that the new system accept temporary status cards to help address this. Some respondents also raised an interest in understanding the extent of verification, especially as it related to verifying status numbers for out of Province purchasers. One retailer specifically referenced the success of the 'card swipe' system in Alberta, and suggested a similar solution would work well in B.C.

Interviewees also talked about the fact that tobacco allotments don't consider the variable aspects of geographic regions or environmental factors; some stores see consistently high increases in sales over the summer due to recreation, fire seasons, cultural practices, etc., and

others noted that non-member consumers who are attending local colleges and universities often buy out their allotments before members can make their own purchases.

There was also an interest in the amount of time a transaction would take with the new system. Some retailers who had installed their own electronic systems had felt it made the purchase process easier and faster, while others felt it had slowed things down. There was also a concern raised that an electronic system may not be available or applicable to fuel purchases made at the pump, whereas the current paper system allows a clipboard to be brought outside of the store to capture information.

Some retailers shared their concern that this system would be voluntary, and as such would continue to create inconsistent practices among retailers. This can sometimes cause issues with consumers who challenge or harass staff when they are asked to use the electronic system versus paper, or vice versa.

Recommendations and Suggested Next Steps

Throughout both phases of engagement, it was very apparent that retailers are most interested in getting information on what the proposed solution or system will be - some of the retailers we reached out to specifically said they didn't want to provide general feedback on their current systems or processes, but rather only wanted to comment on the solution once it had been designed. In all cases, it was clear that respondents wanted to be kept up to date on progress on the project, and valued ongoing communication.

Based on the key findings and observations above, Indigenuity would suggest that the Ministry consider the following throughout solution design (in no particular order):

- Whether or not the system will be operational in internet outages.
- Whether the system can verify age for tobacco purchases.
- What type of technical support would be available.
- Who would be responsible for bearing the cost of repairs to equipment.
- Whether or not this new system will eventually be a requirement for all retailers, and if not, messaging around why.
- Whether or not the system can be portable and used at gas pumps, or if it will be limited to instore purchases only.
- Whether the system will integrate with existing POS and points management software.

In terms of ongoing engagement, Indigenuity would propose the Ministry consider the following actions to continue communication with Indigenous retailers throughout the remainder of this project and through solution implementation:

1. Provide all retailers with a summary of the results of engagement.
2. Provide all retailers with a project update, including proposed timelines for implementing a new system and an overview of solution design.
3. When the draft solution design is complete, provide retailers with an opportunity (online or by phone) to provide feedback, comments, and questions.
4. After receiving and, where appropriate, incorporating feedback, communicate the final solution design with all retailers.
5. Provide a project summary and update to all First Nations in B.C.
6. Develop communication materials to share with retailers, community members, and consumers regarding the system changes through a FAQ or high level "What to Expect" document.
7. Designate one point of contact on the project team to respond to and manage all Indigenous retailer communication, including tracking of project related correspondence through solution design, delivery, and implementation.
8. Ensure the Steering Committee continues to include and consider the unique interests of Indigenous retailers and communities.

Appendix I – Survey Analysis

General Analysis

The following analysis includes initial and high-level thoughts specifically from the data that was gathered through the survey in Phase 1 of engagement. More detailed and nuanced feedback will be obtained from the direct engagement that will be conducted in Phase 2 of the outreach.

Representative Sample

Our overall number of survey responses was impressive. While we received a reasonable number of responses from rural and off-grid communities, we would like to garner more feedback from them in the next phases to ensure that we are adequately addressing concerns that are unique to their situation.

We did not hear from many home-based retailers in this phase of the research, and would like to target additional home-based retailers in the upcoming phone interviews.

POS Systems

While we believe the survey gave a clear explanation of what the different POS systems look like, there still appeared to be some confusion in the answers about what systems are which. In some cases, it is possible that the end users of these systems are responding to the survey but are not, in fact, the ones that set up the POS systems in the first place.

Tax Exempt Reporting Software

The response suggest that it is the more technically sophisticated respondents that are using specialty tax exempt sales tracking software. However, we are unsure about some of the responses indicating that they have [REDACTED] systems. We believe most [REDACTED] systems are either a tablet (iPad, usually) based POS system for a restaurant or small-scale retail store (like [REDACTED]), or a simple debit/credit processing machine. We don't believe that [REDACTED] makes systems that help with tax exempt sales reporting.

Systems Integration

With most respondents either using the paper system or a solution that is integrated into their existing POS, it is clear that integration of whatever solution the Ministry decides to go with will be key. It will have to work well and work quickly.

The Ministry might also get some pushback on making the switch from those respondents who have already invested in these systems. The responses suggest that some retailers have made the switch from paper recently and have, in some cases, made an investment of tens of thousands of dollars in order to make these upgrades. There were a lot of concerns raised about the cost of implementing a new system; an option that integrated with existing and new systems would be one way to address the multiple interests.

Challenges with Current System

One of the biggest challenges we heard about with the current system was regarding the logistics of submitting monthly reporting number to the Ministry on time. Several respondents suggested that if they could just submit their reports electronically instead of mailing in hard copies, it would be a good system. In general, respondents seem to be okay with the current system. The more sophisticated retailers have developed standard operating procedures around the tax exemption reporting and are leveraging digital systems already. The big gap for them appears to be the ability to check across the whole system to see if a customer has reached their limit of exempt tobacco.

Feedback on Proposed System

Respondents in general seem to see the benefit of moving to a digital system for tax exemption reporting. Their concerns, if any, seem to revolve around how reliable an electronic system would be if there is spotty internet, power or lack of access to tech support. A significant number of respondents wanted to make sure such a system would still be able to fall back to the paper system during an outage.

Ability to Implement a Digital System

There are definitely some concerns with retailer's ability to implement a new system. One of the concerns is cost – this is probably coming from folks who have already invested in a digital system and have paid sometimes tens of thousands of dollars to implement a solution. If the new solution didn't integrate into existing system, the prospect of having to do switch to a new system again may not be well received.

Another question that came up in our survey responses was related to the reliability of a new system. If it goes down – can they use the paper backup? Retailers would look to the Ministry to provide training or standard operating procedures around what to do if the system does go down. Retailers would also want to see alignment between information collected in the system and on the paper forms, so the forms could be used as a backup.

Respondents in Each MFIN Category

The data provided by the Ministry was colour coded to show the following clusters based on monthly carton allocations:

0-301

301-1000
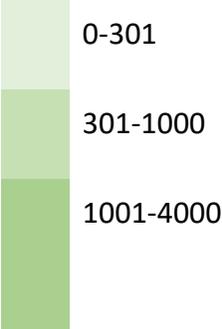
We added a column to the dataset to actually have these datapoints attached to the data in a way that can be analyzed (for whoever did this, colour coding of cells cannot be analyzed). This coding gives us the following information on the total dataset (n=192 retailers):

1001-4000

Row Labels	Count of Temp ID for Data Analysis	Percentage of Total
0-301	61	31.8%
301-1000	78	40.6%
1001-4000	48	25.0%
n/a	5	2.6%
Grand Total	**192**	

Ones marked "n/a" are records that we had insufficient data on to code/cells coded orange in the dataset provided by the ministry. We are not sure what category these orange coded cells fall into.

We can compare the total retailers from the MFIN database (n=192) to the respondents from the online survey (n=69). Our final response rate is 36%, which is considered extremely successful for an external survey. See notes in the following section about why the total number of survey respondents differs from the original final data pull.

Row Labels	Count of Temp ID for Data Analysis	Percentage of Total	Compared to %age of total from table above
0-301	15	21.7%	31.8%
301-1000	27	39.1%	40.6%
1001-4000	23	33.3%	25.0%
n/a	4	5.8%	2.6%
Grand Total	**69**		

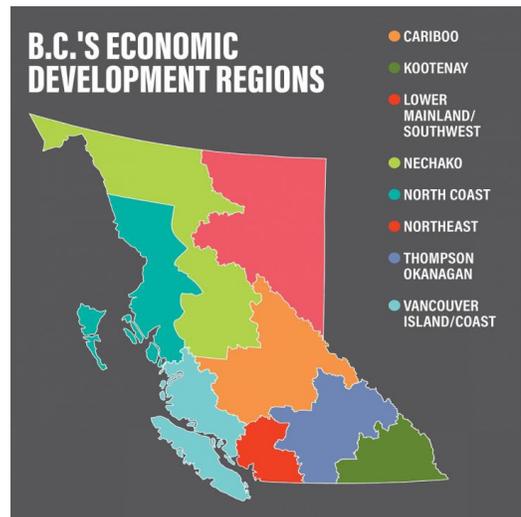This information suggests the following:

1. The MFIN segment "0-301" has been under-sampled by the survey by about 30%.
2. The MFIN segment "301-1000" has been pretty accurately sampled.
3. The MFIN segment "1001-4000" has been over sampled by about 30%.

Our recommendation is to try to get more respondents from the 0-301 category.

Geographic Spread of Respondents

This data was not coded in any of the datasets provided. We hand coded each location to an economic region within BC, using the BCEDA region definitions.

What we found when we looked at the total MFIN database of retailers was that the distribution looked like this:

B.C.'S ECONOMIC DEVELOPMENT REGIONS
- CARIBOO
- KOOTENAY
- LOWER MAINLAND/ SOUTHWEST
- NECHAKO
- NORTH COAST
- NORTHEAST
- THOMPSON OKANAGAN
- VANCOUVER ISLAND/COAST

Row Labels	Count	Percentage of Total
Cariboo	24	12.5%
Kootenay	4	2.1%
Lower Mainland	25	13.0%
Nechako	39	20.3%
North Coast	24	12.5%
Northeast	12	6.3%
Thompson Okanagan	24	12.5%
Vancouver Island/Coast	40	20.8%
Grand Total	**192**	

We then compared this regional breakdown (n=192) with the survey respondents (n=69) and found the following:

Row Labels	Count	Percentage of Total	Compared to %age of total from table above
Cariboo	9	13.0%	12.5%
Kootenay	2	2.9%	2.1%
Lower Mainland	10	14.5%	13.0%
Nechako	10	14.5%	20.3%
North Coast	7	10.1%	12.5%
Northeast	6	8.7%	6.3%
Thompson Okanagan	12	17.4%	12.5%
Vancouver Island/Coast	13	18.8%	20.8%
Grand Total	**69**		

This information suggests the following:

1. The Nechako region is under-represented by this survey by about 30%
2. The Thompson Okanagan is over-represented by this survey by about 40%

Our recommendation is to look for more respondents from the Nechako region.

Multiple Respondents from One Location

We coded the data we received with unique retailer IDs based on their address. We found 192 individual retailers in the dataset and discovered that there were some duplicates in our dataset.

Six retailers were represented twice in the final data pull analysis.

Appendix II – Interview Questions and Project Messaging

- Customers complain about current system. If Agree or Strongly Agree, what are the nature of these complaints? Is this something an electronic system could help address?
- Current system causes conflicts. If Agree or Strongly Agree, are these conflicts internal within the store, or external in your interactions with customers? Is this something an electronic system could help address?
- Paper based makes reporting difficult. If Yes, what is the most difficult aspect? How could an electronic system make this easier?
- For open ended response on current systems: If cost was mentioned as an issue, would you be interested in participating as a volunteer if cost was reduced? What is most problematic for you about manual data entry and how could an electronic system address this? If customers complain, what are the main concerns?
- Electronic system would make reporting easier. If Disagree or Strongly Disagree, why?
- Electronic system would be quicker/more convenient. If Disagree or Strongly Disagree, why?
- Open ended about switching to a new system. One response suggested it needed to be rolled out at once, explore why?
- Is your internet reliable. If no, how often are you without connection?
- Open ended on ability to connect to a new system. If electricity and internet connection are an issue, how often are you without internet/power?
- If cost is an issue, how much is a reasonable amount to pay?
- Would cost be an issue if you were able to use your own device such as a tablet?
- Confirm whether their current POS system (e.g. [REDACTED]) is used for exempt sale reporting
- System/internet/power reliability: We will ensure the system considers options for allowing exempt sales if system is unavailable
- What do you do if you are without power? Is your business able to remain open and still make sales of tobacco/fuel?

General:

- Who would make the decision in your business to switch to an electronic system?
- Do you have any additional thoughts on switching to an electronic system?
- If you have already put a system in place, are there any lessons learned you would like to share?
- Do you have any feedback on the Tax Exempt Fuel and Tobacco purchase program overall? Are there any specific changes to the system that you would like to see?
- Intentions for general feedback on the program: While the purpose of the project is to implement a new electronic system, there may be opportunities to make other improvements to the program. We welcome and will consider all feedback but our focus is on developing the electronic system.

Other messaging:

- We will be engaging with retailers throughout the process of developing and implementing the system.
- We are not anticipating a one-size fits all solution and, where possible, plan to tailor the solution to the retailer. We are looking into the possibility of allowing existing electronic systems, with modifications, to link to the new Ministry system or allowing the retailer to use their own device, such as a tablet, to connect through a web-based application.

Benefits of the electronic system:

- Improve the service experience for customers when making tax-exempt purchases
- Streamline the process for retailers by eliminating the paper-based documentation process for capturing individual purchases
- Simplify monthly reporting to the Ministry
- Real-time verification of eligibility for tax-exempt tobacco and fuel purchases