

# **BC Liquor Distribution Branch**

## **2021/22 – 2023/24 Service Plan**

**April 2021**



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## General Manager and CEO Accountability Statement



The 2021/22 – 2023/24 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 March 31, 2021 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 the LDB’s operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in blue ink, appearing to read 'R. Blain Lawson', written in a cursive style.

R. Blain Lawson  
General Manager and Chief Executive Officer

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## **Strategic Direction and Alignment with Government Priorities**

In 2021/22, British Columbians continue to face significant challenges as a result of the global COVID-19 pandemic. Recovering from the pandemic will require focused direction, strong alignment and ongoing engagement between public sector organizations and the Government of British Columbia. The government has identified five foundational principles that will inform each Crown agency's policies and programs and contribute to COVID recovery: putting people first, lasting and meaningful reconciliation, equity and anti-racism, a better future through fighting climate change and meeting our greenhouse gas commitments, and a strong, sustainable economy that works for everyone.

## **Operating Environment**

### **Economic Growth Statement**

The COVID-19 pandemic significantly reduced economic activity in B.C. in 2020. The ongoing evolution and economic cost of the pandemic on B.C. and its trading partners remains highly uncertain. The Economic Forecast Council (EFC) estimates a 5.1 per cent decline in B.C. real GDP in 2020 and expects growth of 4.9 per cent in 2021 and 4.3 per cent in 2022. Meanwhile for Canada, the EFC projects national real GDP growth of 4.7 per cent in 2021 and 4.2 per cent in 2022, following an estimated decline of 5.4 per cent in 2020. As such, B.C.'s economic growth is expected to outperform Canada's in the coming years. The pandemic has increased risks to B.C.'s economic outlook, such as the timing of the global vaccination rollout, extended travel restrictions, a weaker global recovery, and the continued impact of a slower recovery in some sectors of the B.C. economy. Further risks include ongoing uncertainty regarding global trade policies and lower commodity prices.

### **Impact of COVID-19 on operations**

The COVID-19 pandemic has impacted LDB operations and work practices across all lines of business. Countless cleaning and safety protocols are in place and reviewed on a regular basis, and teams continue to install and maintain protective barriers, shields and other equipment to promote physical distancing in stores, distribution centres and offices. Adopting new ways to work remotely will continue to require additional capital and resources for Information Technology equipment and support.

In the coming fiscal year, the LDB will continue to review and implement initiatives – temporary and permanent – that will support customers and suppliers impacted by the pandemic, while meeting government's net income targets to support public services like health care and education.

### **Implementation of new pricing model for Hospitality sector**

Early in the pandemic, government took urgent action to support restaurants, pubs and tourism operators with liquor licenses by allowing them to purchase alcohol at a wholesale cost on a temporary basis. To continue to assist this sector in its recovery and moving forward in the future, the model was made permanent on February 23, 2021.

These licensees – whose businesses have been particularly impacted as a result of the COVID-19 pandemic – had previously paid a retail mark up on products purchased from the LDB; the wholesale

price is the same paid by government and private liquor stores in the province when they purchase stock for retail sale. The change benefits an estimated 8,500 businesses employing upwards of 190,000 British Columbians.

The LDB estimates the change will mean a \$71 million annual reduction in revenue, assuming that hospitality sales return to pre-pandemic levels.

### **Business Technical Advisory Panel**

In April 2018, Government received the Business Technical Advisory Panel (BTAP) Report and Recommendations related to liquor policy. Recognizing the impact that the COVID-19 pandemic is having on the hospitality and liquor industries, the LDB has enacted several of BTAP's recommendations and is leading and accountable for others in the analysis stage and/or awaiting decision on implementation.

The LDB will continue to work with the Liquor and Cannabis Regulation Branch (LCRB) and the Crown Agencies Secretariat to analyze and consider the potential health, public safety, social, financial and labour impacts, and then to implement additional recommendations as direction is provided.

The BTAP process is an effective method for government and industry to collaborate on COVID-19 response and address the original recommendations.

### **Increasingly competitive marketplace**

In June 2020, the provincial government amended regulations to allow all remaining independent wine stores to convert their license type to sell beer, cider, and distilled products in their current location. Essentially, they are now permitted to operate as full service liquor stores without the requirement of being situated at least one kilometer away from another private or public store, which new liquor retailers must adhere to. The change has resulted in increased competition for BC Liquor Stores especially in the lower mainland, where 10 of the licensees are located.

### **Development of Cannabis line of business**

The LDB is the sole wholesale distributor and public retailer of non-medical cannabis. Further establishing the wholesale line of business will ensure an efficient supply chain and support for private cannabis stores entering the marketplace.

LDB and provincial government are working together to look at ways to support Indigenous Nations' entry into, or transition to, the legal non-medical cannabis market. This may support the revenue generated by LDB Cannabis Operations which, in turn, would positively impact the overall net returns to the province

The network of BC Cannabis Stores will continue to be built out as we work with local governments and municipalities to understand and align with their bylaws and business requirements.

## Performance Plan

### Goal 1: Grow LDB's 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)	2019/20 Actuals	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
1.1a Net income (in \$ millions) <sup>1</sup>	1,107.2	1,150.7	1,099.0	1,103.0	1,145.6

<sup>1</sup> Data Source: BCLS and BCCS 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 2020/21 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 for liquor and cannabis. Future year targets are lower compared to Budget 2020 to reflect impacts of the new permanent hospitality pricing policy and expected shifts in the market as COVID restrictions ease and consumers increase dining out. See "Key Forecast Assumptions, Risks and Sensitivities" on page 23 for a list of the assumptions used in LDB's forecast.

### Goal 2: Maintain Focus on Customer Experience

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

##### BCLS Retail Division Strategies:

- Improve digital experience for customers by launching social media and improving web accessibility and usability.
- Continue to renovate BCLS to enhance the customer experience by providing brighter, more welcoming store appearances and refrigeration, and optimization of product assortment and placement.
- Continuously provide enhanced customer service through on-going employee training and support of a customer-centric culture across the retail store network.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
2.1a Retail customer satisfaction <sup>1</sup>	83%	85%	n/a	86%	n/a

<sup>1</sup> 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:**

It’s crucial that LDB improve BCLS’ digital presence and experience in order that customers can provide and receive information through mediums that are most relevant to them. BCLS introduced its Facebook and Instagram accounts in fiscal 2020/21 to offer relevant promotions and content and to provide additional avenues where customers could ask questions, seek product information and lodge concerns. BCLS continued to improve its website usability and presence by migrating popular app features onto the website, exploring search engine optimization and marketing, and offering virtual events and special releases online as a part of BCLS’ adaptation to COVID-19 restrictions.

Customer service and satisfaction will continue to be an ongoing focus. Liquor Retail Operations regularly reviews the execution of various customer service standards, such as how customers are greeted, if they are offered assistance, the availability of cold products, etc., and identifies store-specific strengths and opportunities. BCLS then develops action plans to ensure opportunities identified are addressed. Results of the next customer survey will be delivered in May 2021 and action plans will be developed accordingly.

BCLS updated several of its larger stores during the past fiscal year, and re-opened its first Express format in Vancouver. Two stores will be relocated in 2021/22, and three additional stores will be upgraded.

**Liquor Wholesale Division Strategies:**

- Continuously provide enhanced customer service through efficient order processing and fulfillment.
- Support a customer-centric culture within the warehouse team and continue to provide employee training opportunities.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
2.1b Wholesale customer satisfaction <sup>1</sup>	68%	85%	n/a	85%	n/a

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



**Linking Performance Measures to Objectives:**

2.1b The last wholesale customer satisfaction survey was completed in 2016/17 and resulted in a 68 per cent wholesale customer satisfaction rate. The survey scheduled to be undertaken in 2018 was pushed to 2019 while the transition to a new distribution centre was underway, and then further delayed to avoid doubling up with a survey conducted by a third party consultant.

The target for 2020/21 represents a 10 per cent increase from the 2019/20 target of 75 per cent, and takes into consideration that the LDB has completed the move to a new distribution centre in Delta, and the Kamloops distribution centre has been onboarded to the same operating system as Delta.

**Discussion:**

Every two years, LDB Liquor Wholesale Operations customers (public and private retail stores, rural agency stores, bars and restaurants) are surveyed by a professional survey organization to evaluate customer satisfaction. The results of these surveys allow the Wholesale Division to compare wholesale customer satisfaction over time, and to determine if a high level of satisfaction is being maintained.

Despite improvements in availability of inventory, on-time delivery and high levels of accuracy, results of the customer satisfaction survey are expected to come in below target, and will continue to be an area of focus for LDB.

**Cannabis Division Strategies (Wholesale and Retail):**

- Satisfy wholesale and retail customers by providing an excellent and safe experience, along with a broad and competitively priced assortment of products that meet customer expectations.
- Deliver a positive onboarding experience for private retail stores.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
2.1c Retail customer satisfaction <sup>1</sup>	82%	82%	87%	90%	90%
2.1d Wholesale customer satisfaction <sup>2</sup>	82%	71.2%	87%	90%	90%

<sup>1</sup> Data Source: BCCS placed customer survey tablets in five stores as a pilot project. Tablets will be rotated throughout the chain.

<sup>2</sup> Data Source: Private cannabis retailers participated in an online survey.

**Linking Performance Measures to Objectives:**

2.1c Due to health and safety precautions related to the pandemic, plans to contract a professional survey company to determine retail customer satisfaction have been delayed indefinitely. In order to gather information on the customer experience, BC Cannabis Stores installed survey tablets at five locations as part of a pilot project and will cycle the free standing lecterns throughout the chain. 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 Cannabis Operations Customer Care Centre responds to online retail customer inquiries and actively tracks customer complaints, issues and satisfaction.

2.1d LDB launched its first online survey of private retail stores in 2020/21 to determine wholesale customer satisfaction. Results will compare wholesale customer satisfaction over time, and determine if a high level of satisfaction is being maintained. The Cannabis Operations Customer Care Centre

also answers inquiries from wholesale customers and, as noted above, actively tracks customer complaints, issues and satisfaction. These results are reported to executive management.

**Discussion:**

The LDB’s Cannabis Division includes both retail and wholesale lines of business, with both operating under the direction of one executive director. The Cannabis Retail Division is focused on establishing its BCCS brand and building relationships with customers through providing an excellent and safe customer service experience. A total of 25 BCCS are operational and serving 22 markets.

The Cannabis Wholesale Division is responsible for onboarding new private retailers and for developing and refining procedures and policies to best serve this customer segment. The Cannabis Customer Care Center provides support for day-to-day operational issues for all customers, including private retailers, BCCS stores, and BC Cannabis Stores online customers.

Licensed cannabis retailers were invited to take part in an online survey in June 2020, allowing for the creation of a wholesale customer satisfaction measurement. Positive feedback regarding onboarding experiences and service provided by wholesale staff met targets, however retailers also expressed frustration about order limits imposed due to lack of supply; this is an issue largely outside LDB’s control as it results from demand outstripping supply available to the LDB. The survey provided valuable feedback on areas where customers were highly satisfied as well as service areas that could be improved upon. The survey will be repeated annually to track improvements and satisfaction over time. Additionally, LDB will continue to solicit feedback through a variety of means and is focused on delivering continuous improvements for customers.

The number of private retail stores being supplied by the Wholesale Division increased by 146 stores this fiscal year. As of January 31, 2021, 311 private store licenses had been issued by the LCRB and 286 of them had successfully registered and placed an order for non-medical cannabis.

**Goal 3: Improve Workplace Quality and Employee Excellence**

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

**Key Strategies:**

- Enhance employee skills, experience and engagement through strategic leadership development, employee training, recognition, diversity and inclusion programs.
- Build a safe and healthy culture of integrity, harassment-free and ethical conduct across the organization through training and accountability frameworks.
- Improve the ways employees work to create a more connected and modern workforce.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
3.1a Employee engagement <sup>1</sup>	69%	n/a	71%	n/a	71%

<sup>1</sup> Data Source: Work Environment Survey (WES) conducted by BC Stats for the LDB. The WES is conducted every two years.

**Linking Performance Measures to Objectives:**

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

**Discussion:**

Historically, engaging employees across the LDB has proved challenging due to the variety of work places and the fact the majority of employees do not have access to email. The global pandemic introduced another layer of challenges with the addition of extra duties and tasks related to cleaning of public facing surfaces and shared equipment, as well as enforcement of physical distancing measures in stores and communal work spaces. Other pandemic-related concerns, including those around pay and vaccine access, are expected to also play a role in impacting employee engagement rates.

The roll out of My Peak Performance Plan (MyP3), an employee-created development plan that promotes a growth-centric culture, will continue across the business this spring; it had been paused due to the global pandemic. The WES has indicated those employees participating in quarterly MyP3 evaluations rate their career and personal development higher. The coming fiscal year will also bring a focus on Integrity and Ethical conduct training in addition to ongoing compliance and Standards of Conduct modules. The success of these educational components will be measured by a reduction in issues and grievances as well as key WES results over time.

Planning is underway to improve the ways employees work - through people, process and technology. Ultimately, this will result in a culture change for the organization and create a more connected and modern workforce; success would see an increase in employee satisfaction, as measured through the WES.

**Goal 4: Increase 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.
- In order to provide quality service to customers, continue utilizing training programs to better equip store employees with product knowledge.
- Continue with long-term efforts to update BCLS retail systems to reflect customer expectations of a modern retailer, improve efficiency and provide a customer-centric retail experience.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
4.1a BCLS sales per square foot <sup>1</sup>	\$1,402	\$1,466	\$1,450	\$1,470	\$1,488

<sup>1</sup> 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 utilizes floor space and is linked to how efficiently the BCLS chain is operating. The adjusted forecast represents the decline in sales within the beer and wine product categories, which are generally priced higher than the refreshment beverage category, which is on the incline. While BCLS sales are growing, the increase is not expected to be as steep as in previous years. This trend is also reflected in the adjusted Targets for 2020/21 and 2021/22.

**Discussion:**

Prior to the pandemic, BCLS anticipated that sales per square foot would steadily increase over the next few years as a result of the continuing optimization of individual store operating hours and various marketing strategies, and the ongoing focus on enhancing the customer experience by the consistent application of the GREAT (Greet, Rapport, Evaluate, Action, Thank) service model, which emphasizes the importance of customer-centric behaviours such as building rapport and sharing relevant product knowledge. COVID-19 restrictions on hospitality providers have resulted in increased customer traffic to liquor retailers resulting in higher retail sales, at both public and private liquor stores. BCLS anticipates this trend will continue until B.C.’s immunization plan is fully rolled out.

**Liquor Wholesale Division Strategies:**

- Continue to improve service levels to customer base through increased on-hand inventory, improved forecasting and communications with vendors and customers.
- Continue to modernize the systems and processes, including the use of current and cost-effective technology, to improve service and relationships with customers, suppliers and employees.
- Roll-out plans for improved productivity and reduce labour cost-per-case as both distribution centres stabilize.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
4.1b Distribution Centre labour cost per case shipped <sup>1</sup>	\$1.99	\$1.90	\$1.75	\$1.75	\$1.70
4.1c Distribution Centre order fill rate <sup>2</sup>	89%	95%	95%	95%	95%

<sup>1,2</sup> 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. A decreased cost per case indicates efficiencies have been achieved, resulting in less labour being utilized to ship product, which results in operational savings for the LDB and, therefore, the Province.

4.1c This performance measure is the percentage of each order filled completely by the LDB Distribution Centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered.

**Discussion:**

Process changes introduced at the distribution centres to manage the impact of COVID-19 will continue to impact labour costs in the coming fiscal year. For example, employees have been allotted additional time to enter and exit the building to maintain physical distancing and have additional responsibilities with regards to cleanliness of equipment and work spaces. As the impact of COVID-19 evolves, work will continue to stabilize costs and manage efficiencies in order that total costs are contained and service is maintained.

A higher order fill rate indicates LDB has provided the right product at the right time and managed inventory efficiently, resulting in higher customer satisfaction. The rate has improved dramatically and is expected to be maintained given the completed transition of both liquor distribution centres to the improved operating system, and larger premises for the principal warehouse. Targets were readjusted and held steady to take into account vendor related stock outs, production, and supply challenges.

Wholesale Operations will initiate an update to the third-party review undertaken in September 2019 related to BTAP recommendations #1 and #3. This work is required to understand if the priorities and recommendations are still relevant and to revise, where necessary, in order to achieve prescribed outcomes.

LDB has been partnering with retailers and vendors to improve forecasting and planning, to ensure product is available and can be supplied to meet the needs of customers. LDB is on target to meet the 2020/21 target of 95 per cent. Future targets will balance the effective management of inventory and the minimization of product stock-outs.

**Cannabis Division Strategies (Wholesale and Retail):**

- Successfully open an additional six BCCS in fiscal 2021/22.
- Increase the sale of legal cannabis and optimize financial performance.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
4.1d BCCS sales per square foot <sup>1</sup>	\$781	\$753	\$800	\$825	\$825
4.1e BCCS.com order fill rate <sup>2</sup>	98%	98.5%	99%	99%	99%
4.1f Wholesale (B2B) order fill rate <sup>3</sup>	98%	97%	99%	99%	99%

<sup>1</sup> Data Source: BCCS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. It is based on total square footage, not sales floor space.

<sup>2,3</sup> 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 BCCS divided by the total of all stores' footage. Targets have been updated to reflect more accurate market data, which was not available before legal stores were established and operating.

4.1e This indicator is the percentage of consumer online orders that are filled completely and shipped within 24 hours (excluding weekends and holidays) by the distribution centre. It is calculated by dividing the number of ordered items that are filled completely and shipped on-time by the total number of items ordered. A higher order fill rate leads to increased on-time delivery and higher consumer satisfaction.

4.1f This indicator is the percentage of order lines placed by wholesale customers that are fulfilled in full. It is calculated by dividing the number of order lines placed by BCCS and private retail stores that were fulfilled in full (no shortages) by the total number of order lines placed by those customers. This indicator determines if customers were able to receive inventory displayed as available, and also serves as a gauge for picking issues and distribution centre inventory inaccuracies. A higher percentage means that customers are receiving what they ordered and are not being shorted due to human error or system issues.

**Discussion:**

The legal cannabis market continues to grow as new stores – both private and public – are licensed and new products are developed and brought to market. LDB plans on opening at least six additional BCCS in 2021/22; however, this is contingent on municipal approvals.

Because not all BCCS have been open for a full year, sales performance cannot be measured in the same way BCLS are; instead, performance is determined by how floor space is utilized which links to how efficiently the chain is operating. Additionally, accurate and complete market data is now available and will be factored into targets and plans for future stores.

Cannabis Wholesale has sold \$400 million of product since legalization, \$250 million of which was sold in the last fiscal year. Prices have steadily declined, making legal products more competitive with illicit offerings. The number of different products listed and available to our customers increased to 1,362, from 971 in the prior year. As selection grows so does the complexity of delivering that product to both wholesale and retail customers. To ensure we maximize our transportation effectiveness and continue to manage costs while providing flexibility, Cannabis Wholesale will seek new carriers through a Request for Proposals (RFP) process this year. An RFP will also be issued for BCCS online orders.

Several key initiatives that are in the discovery phase include an Indigenous Shelf Space Program and Direct Delivery for Indigenous and smaller B.C. cultivators. With the Indigenous Shelf Space Program, the LDB will highlight cannabis products that are brought to market by B.C. First Nations cultivators and processors. This program is expected to be implemented in 2021. Through a Direct Delivery program, the LDB intends to create a process that will enable eligible B.C.-based cultivators to ship products directly to retail stores. This program is expected to be implemented in 2022.

Despite the positive developments in the legal market, some producers experienced financial difficulties and a handful entered creditor's protection this year. The financial impact to LDB has not been significant to date but this is an area of risk that will be monitored.

## Goal 5: Support Corporate Social Responsibility

### Objective 5.1: Encourage the responsible use of beverage alcohol and non-medical cannabis

#### **BCLS Retail Division Strategies:**

- Prevent sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Reinforce social responsibility 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 and approving supplier promotional materials to ensure compliance.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
5.1a Store compliance with ID-checking requirements <sup>1</sup>	96%	100%	100%	100%	100%
5.1b Customer awareness of LDB Corporate Social Responsibility programs <sup>2</sup>	89%	90%	n/a	90%	n/a

<sup>1</sup> 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.

<sup>2</sup> 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 BCLS' 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 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. Compliance in 2019/20 is forecasted to be on target at 100 per cent, based on current to-date compliance data from LCRB.

BCLS promotes awareness of the risks associated with alcohol misuse through in-store campaigns, promotional posters and in collaboration with stakeholders and community partners. The results from BCLS' 2018/19 customer survey indicates that customer awareness of BCLS' social responsibility program reached an all-time high of 96 per cent, surpassing the target of 90 per cent; the industry benchmark for retention of messaging is 40-50 per cent<sup>1</sup>.

<sup>1</sup> As set down in the Cone of Experience, aka Learning Pyramid, developed by Edgar Dale.

**Cannabis Retail Division Strategies:**

- Prevent sales to minors in BCCS through staff education and enforcement of ID-checking requirements.
- Develop and deliver unique monthly digital campaigns that encourage the responsible use of non-medical cannabis. These are delivered in BCCS, the ecommerce channel and through social media platforms.

<b>Performance Measure</b>	<b>Baseline</b>	<b>2020/21 Forecast</b>	<b>2021/22 Target</b>	<b>2022/23 Target</b>	<b>2023/24 Target</b>
5.1c Store compliance with ID-checking requirements <sup>1</sup>	n/a	100%	100%	100%	100%

<sup>1</sup> 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.

**Linking Performance Measures to Objectives:**

5.1c 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.

**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, which have 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 per cent has been set.

With respect to in-store corporate social responsibility materials and signage, the LDB encourages the responsible use of non-medical cannabis through promotional posters, digital store screens and social media channels. The BC Cannabis Store e-commerce channel is also utilized to share social responsibility messaging and encourage the responsible use of cannabis.

**Objective 5.2: Minimize the impact of LDB operations on the environment**

Beginning in the 2021/22 fiscal year, performance measures for waste diversion will be measured and grouped by lines of business: liquor retail and wholesale; cannabis retail and wholesale; and Corporate office and central dry goods distribution centre.

**Liquor Retail and Liquor Wholesale Strategies:**

- Reduce the overall amount of waste generated by LDB’s Liquor Divisions through efficiencies at distribution centres and retail locations.
- Increase waste diversion rates through expansion of recycling streams where possible and continued employee training and awareness campaigns.



Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
5.2a Waste diversion rate at LDB liquor distribution centres (DDC, KDC) and BCLS <sup>1</sup>	80%	92%	92%	93%	93%

<sup>1</sup>Data Source: Diversion rates for DDC, KDC, and Metro Vancouver BCLS are determined based on measured weights reported by a contracted waste and recycling service provider. Rates for BCLS outside of Metro Vancouver are determined by estimate weights provided by a contracted waste and recycling service provider.

**Linking Performance Measures to Objectives:**

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. It is an appropriate measure to use when considering the LDB’s objective of minimizing the impact of operations on the environment.

**Discussion:**

The waste diversion rate reported in the 2019/20 Annual Service Plan Report reflected activity at the head office and liquor distribution centres in Metro Vancouver, as well as some BCLS. Targets have been adjusted as a result of the components having been re-categorized and data regarding waste diversion at the liquor distribution centres in Delta and Kamloops being combined with that from BCLS in Metro Vancouver; head office waste is being combined with that generated at the central dry goods distribution centre, also in Burnaby, to determine a corporate service measure.

Determining the combined waste diversion rate for the liquor distribution centres and BCLS within Metro Vancouver was calculated by collecting weight measurements throughout the fiscal period. Materials generated in Delta and diverted from landfill include mixed containers, paper, organics, electronics, Styrofoam, wood, metal, cardboard, and soft plastics. Cardboard, wood and mixed paper generated at the Kamloops distribution centre were diverted from landfill, and Metro Vancouver BCLS diverted cardboard, soft plastics and organics.

The LDB is working to develop contractual requirements for its waste collection service providers across the province, with the goal of collecting information that would more accurately track waste diversion. As the scope increases, it is expected the diversion rates will decrease slightly because more locations will be added and the stores will need to streamline recycling services. Liquor Wholesale’s diversion includes a high volume of and significantly heavier materials, such as cardboard and wood. This accounts for a higher diversion rate for the liquor division than the other divisions. Additionally, waste services at a number of sites are overseen by property managers who do not disclose data.

Incremental increases in the rate of diversion will be accomplished through continued staff training for waste sorting at distribution centres and the expansion of recycling programs, where possible, in BCLS.

**Cannabis Division (Retail and Wholesale) Strategies:**

- Reduce the overall amount of waste generated by LDB’s Cannabis Division through efficiencies at distribution centres and retail locations.

- Increase waste diversion rates through expansion of recycling streams, where possible, and continued employee training and awareness campaigns.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
5.2b Waste diversion rate at LDB's cannabis distribution centre and BCCS <sup>2</sup>	67%	86%	88%	88%	89%

<sup>2</sup>Data Source: Diversion rates for the distribution centre in Richmond are determined based on measured weights reported by a contracted waste and recycling service provider. Rates for BCCS are determined by estimate weights provided by a contracted waste and recycling service provider.

**Discussion:**

A change in the type of soft plastic shrink wrap used in the Richmond distribution centre helped reduce use, and combined with the increased diversion of mixed containers, paper, organics, electronics, Styrofoam, wood, metal, and cardboard to improve overall diversion. It's expected that a significant percentage of waste materials generated at the distribution facility will continue to be diverted from landfill.

Several BCCS stores operate in communities where waste service providers either do not collect certain recyclables or divert organics to commercial grade compost facilities. Additionally, waste services at a number of sites are overseen by property managers who do not disclose data.

**Corporate Strategies:**

- Increase waste diversion rates at LDB's head office through continued employee training and awareness campaigns.
- Continue to report annually on greenhouse gas emissions (GHGs) and purchase carbon offsets as part of BC's Carbon Neutral Government Program.
- Align LDB operations with government's CleanBC plan through continued efforts to develop and implement programs that reduce GHGs.

Performance Measure	Baseline	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
5.2c Waste diversion rate at LDB's Head Office and Burnaby Dry Goods <sup>3</sup>	79%	80%	80%	81%	82%

<sup>3</sup>Data Source: Diversion rates for Head Office are determined based on measured weights reported by a contracted waste and recycling service provider.

**Discussion:**

LDB's head office in Burnaby diverts mixed containers, paper, organics, electronics, Styrofoam, wood, metal, and cardboard from landfill. The forecasted diversion target is expected to remain steady without the addition of new waste diversion streams, which is not anticipated at this time. The proportion of employees based at head office and ordered to work from home during the pandemic may also impact the diversion rate.

The Burnaby Dry Goods distribution centre consolidates shipments of support materials for stores such as cleaning products, personal protective equipment, paper goods, etc. Since opening in August 2019 the location has had a waste diversion rate of 85 per cent. The combined rates for head office and the Burnaby distribution centre will be calculated and reported in the annual report.

Carbon Neutral Organization

Since 2010, the LDB has been measuring its greenhouse gas (GHG) emissions and purchasing BC-based carbon offsets in order to become carbon neutral on an annual basis. Efforts made to reduce emissions and the LDB's annual emissions profiles are captured in the LDB's [Carbon Neutral Action Reports](#) published on its website

## Financial Plan

### Summary Financial Outlook

<b>(\$millions)</b>	<b>Fiscal 2020/21 Forecast</b>	<b>Fiscal 2021/22 Budget</b>	<b>Fiscal 2022/23 Budget</b>	<b>Fiscal 2023/24 Budget</b>
<b>Sales</b>	4,152.1	4,229.6	4,353.8	4,484.1
<b>Cost of sales</b>	2,514.5	2,590.9	2,692.5	2,779.3
<b>Gross Margin</b>	1,637.6	1,638.7	1,661.3	1,704.8
<b>Operating Expenses – Employment</b>	271.6	304.8	320.8	325.1
<b>Operating Expenses – Amortization</b>	87.7	86.0	84.3	74.8
<b>Operating Expenses - Administration</b>	60.6	81.8	84.5	86.6
<b>Operating Expenses - Bank Charges</b>	38.1	40.6	41.0	42.9
<b>Operating Expenses – Facilities<sup>1</sup></b>	31.1	30.4	32.6	34.3
<b>Operating Expenses - Lease Financing</b>	7.4	8.0	8.6	9.3
<b>Total Expenses</b>	496.5	551.6	571.8	573.0
<b>Other income</b>	9.6	11.9	13.5	13.8
<b>Net income</b>	1,150.7	1,099.0	1,103.0	1,145.6
<b>Capital</b>	32.4	54.0	48.2	20.9
<b>Debt<sup>2</sup></b>	218.1	228.1	238.5	254.4
<b>Retained Earnings</b>	0	0	0	0

<sup>1</sup> Facilities expenses include utilities, property taxes, janitorial, repair and maintenance.

<sup>2</sup> Debt includes capital lease obligations.

## Key Forecast Assumptions, Risks and Sensitivities

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic and the B.C. Government declared a provincial state of emergency on March 18, 2020. This significantly changed the market and consumer behavior. The LDB closely monitors the liquor and cannabis industries and assesses the impacts to financial and business operations.

The LDB's forecast has included the following assumptions:

- Fiscal 2020/21 overall sales growth will be 6.2 per cent over the previous fiscal year, driven primarily by volume growth, inflation and increased cannabis retail locations.
- The slow economic recovery in 2020/21 will continue into 2021/22.
- It is anticipated that a majority of British Columbians will have received a COVID-19 vaccination by fall 2021. This will assist the recovery of the hospitality industry with increased dine-out and social events.
- As COVID-19 restrictions are eased, market share will revert back to historical trends.
- Beverage alcohol sales growth in 2022/23 and future years will move in line with historical trends and will be an average of 4.0 per cent due to a combination of inflation, volume growth and moderate economic growth.
- Liquor industry market share and product mix remains relatively stable for fiscal 2022/23 and onwards.
- 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 continue to improve as more products are introduced and existing licensed producers optimize their production facilities. The cannabis industry will continue to evolve as existing licensed producers consolidate, and new retailers and licensed producers enter the market.

Capital requirements reflect expenditures for opening and renovating liquor and cannabis retail stores, operating equipment, vehicles, technology-related hardware and software and on-going equipment replacements.

Future capital-related projects include investments for omnichannel; continued expansion of the cannabis retail store chain; enabling remote working; cybersecurity; and upgrades for head office systems to support liquor and cannabis.

## Sensitivity Analysis

Beverage alcohol and non-medical cannabis are highly regulated products and their consumption can be influenced by many factors, including regulatory changes, government policy, economic shifts, demographics, changes in climate and statutory holidays.

Government policies and decisions can also have a significant impact on LDB revenue. Provincial health orders issued to stop the spread of COVID-19 have resulted in more people staying home. A NANOS poll (commissioned by the Canadian Centre on Substance Use and Addiction) indicated

increased consumption of beverage alcohol in certain age groups while at home under COVID-19 restrictions. Other policies and directives which impacted LDB revenues include: retail store/hospitality industry hours of operation; hospitality wholesale pricing; and hospitality licensees' ability to sell and deliver packaged liquor with the purchase of a meal for off-site consumption.

Municipal government regulations around the operation of cannabis retail stores is a determining factor in the location, number of retail stores and when they are open for business.

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

- COVID-19 – the timing of vaccinations and impacts of new variants may slow down the province's economic recovery;
- Changes in the marketplace – market share shifts between public/private liquor retail stores, and cannabis consumer conversion from the illicit market will impact LDB net income;
- Price competition among suppliers of wine, spirits, refreshment beverages and non-medical cannabis – 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 and non-medical cannabis are discretionary consumer products and sales are affected by economic conditions. Consumer confidence in the economy dictates the level of entertainment dollars spent on beverage alcohol and cannabis.

Cultural shifts and demographics are also influence purchasing patterns. With the introduction of more cannabis edible products and an improved quality of supply, cannabis consumption will increase and is likely to become more socially acceptable over time. Current trends in liquor already reflect shifting preferences as consumers shift towards refreshment beverages and spirits, and away from beer and wine.

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.

### **Product Margins**

The LDB has different margins on products and changes in product mix impact net income. Each percentage change in the cost of products in the wine, spirit, refreshment and cannabis categories has a direct effect on net income of approximately \$16.9 million, due to the percentage-based mark-up on these products.

Beer has a volume based mark-up and therefore the same margin dollars is generated regardless of supplier prices. The LDB derives more margin dollars when there is a volume increase in beer sales. If there are more sales of products with lower margins and less sales of products with higher margins, this will result in lower LDB product margins overall.

BC VQA wines and wines produced from 100 per cent B.C. grapes also generate lower gross margin dollars, in general. As these two categories grow in relation to other product categories, LDB's margin as a percentage of sales will decrease.

### **Management's Perspective on the Financial Outlook**

As British Columbians look forward to the roll-out of the COVID-19 vaccines and the lifting of the health orders, the LDB will continue to follow orders issued by the Provincial Health Officer and make adjustments in facilities and retail stores to safeguard employees and customers.

Similar to many other industries the economic outlook for the beverage alcohol and cannabis sectors is unclear. The impacts to people due to COVID-19 are many: physical, mental, and economic. Temporary changes may become permanent and future government policies could also impact the LDB.

As the liquor industry changes into the new 'normal' post-COVID-19, the LDB will continue its focus on business efficiencies and adapting to the needs of its wholesale and retail customers. In retail operations, future investments include e-commerce for BCLS to allow customers more choices in their shopping experience. In wholesale operations, pricing processes and systems will be reviewed and streamlined to gain efficiencies and more flexibility.

As the legal cannabis industry continues to mature, LDB will focus on maintaining efficient distribution operations to support both wholesale and retail customers. The LDB will work with licensed producers to provide a variety of high-quality products and to expand product offerings with a focus on having the right product at the right price. On the retail side, the LDB will continue to open retail locations to service the needs of the community and promote safe, responsible consumption.

The LDB's corporate management will continue to monitor wholesale margins for beverage alcohol and cannabis to ensure Government's revenue targets are protected/achieved.

## **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 and Values](#).