

BC Liquor Distribution Branch

2020/21 – 2022/23 SERVICE PLAN

February 2020



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General Manager and CEO Accountability Statement



The 2020/21 – 2022/23 BC Liquor Distribution Branch (LDB) Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 30, 2020 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, the LDB's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of LDB's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, appearing to read 'R. Blain Lawson', with a horizontal line extending to the right.

R. Blain Lawson
General Manager and Chief Executive Officer

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Strategic Direction and Alignment with Government Priorities

The Government of British Columbia remains focused on its three strategic priorities: making life more affordable, delivering better services, and investing in a sustainable economy. The BC Liquor Distribution Branch (LDB) is essential to achieving these priorities by providing quality, cost-effective services to British Columbia families and businesses.

Additionally, where appropriate, LDB operations will contribute to:

- The objectives outlined in the government’s newly released A Framework for Improving British Columbians’ Standard of Living,
- Implementation of the *Declaration on the Rights of Indigenous Peoples Act* and the Truth and Reconciliation Commission Calls to Action, demonstrating support for true and lasting reconciliation, and
- Putting BC on the path to a cleaner, better future – with a low carbon economy that creates opportunities while protecting our clean air, land and water as described in the CleanBC plan.

By adopting the Gender-Based Analysis Plus (GBA+) lens to budgeting and policy development, the LDB will ensure that equity is reflected in its budgets, policies and programs.

The LDB is aligned with the Government’s key priorities:

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

Operating Environment

Economic Growth Statement

The Economic Forecast Council (EFC) expects B.C.’s real GDP to grow by 2.4 per cent in 2020 and 2.3 per cent in 2021. Meanwhile for Canada, the EFC projects national real GDP growth of 1.7 per cent in 2020 and 1.8 per cent in 2021. As such, B.C.’s economic growth is expected to outperform Canada’s in the coming years. Risks to B.C.’s economic outlook include ongoing uncertainty regarding global trade policies and weak global economic activity, as well as lower commodity prices and slower domestic economic growth. Meanwhile, LNG development in the province is expected to have a positive impact on B.C.’s economy.

Business Technical Advisory Panel

In April 2018, Government received the Business Technical Advisory Panel (BTAP) Report and Recommendations related to liquor policy. The LDB will continue to implement the recommendations as direction is provided by the Office of the Attorney General, analyzing and considering the potential health, public safety, social, financial and labour impacts of implementation.

Of the 24 total BTAP recommendations, there are eight active recommendations which the LDB is leading reviewing and accountable for, including:

- Recommendations 1 and 3: Non-Stocked Wholesale Product alternative distribution and third-party review of the LDB distribution centre;
- Recommendation 2: allowing BDL to deliver other products manufactured by the companies that own BDL;
- Recommendation 10: selling liquor products to hospitality customers at a “proper” wholesale price;
- Recommendation 17: direct-to-consumer sales;
- Recommendation 18d: blended mark-up structure for breweries;
- Recommendation 20a: allowing craft distilleries to produce refreshment beverages; and
- Recommendation 20b: eliminating the restriction preventing craft distillers from selling directly to duty free stores.

The LDB is also engaged on several other remaining recommendations currently being led by the Liquor and Cannabis Regulation Branch. The number of active recommendations, and the responsible organization for each, may change as further analysis is undertaken.

As outlined in the [LDB’s 2020/21 Mandate Letter](#), some of the recommendations could impact aspects of the LDB’s business.

Increasingly competitive marketplace

In November 2019, the Provincial government followed through on a commitment to remove measures contested by trade partners specific to selling only BC wine on grocery store shelves. This is a result of an agreement reached between the federal government and the United States during the Canada-United States-Mexico trade agreement negotiations. This change creates additional competition for BC Liquor Stores (BCLS); while the full impact remains to be seen, BCLS will continue to be monitored for any impact.

Warehouse relocation

The transition from the Vancouver distribution centre to the distribution centre in Delta is complete and all customers are now serviced through the Delta distribution centre. As part of the stabilization process, operational efficiencies are being identified and implemented to ensure the new systems and processes are working to benefit wholesale customers. Additional systems and processes may be implemented as a result of the review of the LDB’s distribution system and the process for managing the distribution of non-stocked wholesale products (BTAP recommendations one and three).

Legalization of Cannabis

The LDB is the sole wholesale distributor and public retailer of non-medical cannabis. Regulations allowing the possession and consumption of edibles, topicals and extracts came into force October 17, 2019, marking the second phase of the legalization of this controlled product. LDB anticipates it will take time before suppliers will be able to supply a full suite of products. Availability of product will be dependent on a number of factors, such as supply, and the demand suppliers are meeting in other markets across Canada.

LDB Cannabis Retail Operations continues to open new BC Cannabis Stores (BCCS) across the province, working with local governments and municipalities to understand and align with their bylaws and business requirements. As the new regulated market begins to stabilize, and we see the illicit market being impacted by their conversion to the legal market, we anticipate that our sales will continue to increase, making way for a sustainable industry in BC.

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)	Baseline	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
1.1a Net income (in \$ millions) ¹	1,119.6	1,104.0	1,092.2	1,133.5	1,152.0	1,173.1

¹Data 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 2019/20 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. See "Key Forecast Assumptions, Risks and Sensitivities" on page 23 for a list of the assumptions used in LDB's forecast. Fiscal 2019/20 net income is forecast to be slightly lower than the prior year due to lower cannabis sales than originally anticipated.

Goal 2: Maintain Focus on Customer Experience

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

BCLS Retail Division Strategies:

- Continue to renovate BCLS to enhance the customer experience by providing new service experiences, such as brighter, more welcoming store appearances and refrigeration.
- Continuously provide enhanced customer service through on-going employee training and support of a customer-centric culture across the retail store network.
- Continuously update store layouts and optimize product assortment for each BCLS location.

Performance Measure	Baseline	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
2.1a Retail customer satisfaction ¹	83%	86%	n/a	85%	n/a	86%

¹Data 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:

Customer service and satisfaction is an ongoing focus. LDB 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.

Action plans target key components of the GREAT service program, BCLS’ comprehensive customer service training program, emphasizing the importance of customer-centric behaviors such as building rapport with customers and sharing relevant product knowledge to help customers with product selection.

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	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
2.1b Wholesale customer satisfaction ¹	68%	n/a	Deloitte survey (see below)	75%	n/a	80%

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

Linking Performance Measures to Objectives:

2.1b Every two years, LDB Liquor Wholesale Operations customers (public and private retail stores, rural agency stores, bars and restaurants) are surveyed by a professional survey company to evaluate customer satisfaction. The results of these surveys allow the Wholesale Division to compare wholesale customer satisfaction over time, and to determine if a high level of satisfaction is being maintained. The last wholesale customer satisfaction survey was completed in 2016/17 and resulted in a 68 per cent wholesale customer satisfaction rate. The target for 2020/21 represents a seven per cent increase from this benchmark and is likely achievable now that the LDB has completed the move to a new distribution centre in Delta.

The wholesale customer satisfaction survey was not conducted in 2018/19 as the LDB was in the midst of transitioning to its new distribution centre in Delta. In 2019/20, an industry wide survey was completed by Deloitte as a result of the BTAP initiative. The results of the industry survey were used by Deloitte to make recommendations to government specifically regarding LDB’s wholesale warehouse and distribution. Due to this survey, the LDB did not duplicate or conduct its own survey. The next LDB survey will be conducted in 2020/21 and will survey customers on service levels, delivery services, responsiveness, consistency and communications.

Discussion:

In May 2019, LDB completed the move of its warehouse from Vancouver to Delta. Since then, fulfillment levels have improved substantially, from 83 per cent in 2018 (year-to-date), to 95 per cent in 2019 (year-to-date).

Cannabis Division Strategies (Wholesale and Retail):

- Satisfy wholesale and retail customers by providing an excellent experience and supplying fresh product.
- Support the introduction of new private cannabis retail stores.
- Maintain a broad assortment of high-quality, competitively priced cannabis products.
- Supply customers with new cannabis product categories (edibles, beverages, extracts & concentrates).

Performance Measure	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
2.1c Retail customer satisfaction ¹	82%	85%	87%	90%
2.1d Wholesale customer satisfaction ²	82%	85%	87%	90%

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

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

Linking Performance Measures to Objectives:

2.1c Starting in calendar year 2020, LDB Cannabis Operations plans to partner with a professional survey company to determine retail customer satisfaction. The results of these surveys will allow the BCCS chain to compare retail customer satisfaction over time and determine if a high level of satisfaction is being maintained. In addition, the LDB Cannabis Operations Customer Care Centre responds to online retail customer inquiries and actively tracks customer complaints, issues and satisfaction.

2.1d Starting in calendar year 2020, LDB Cannabis Operations plans to partner with a professional survey company to determine wholesale customer satisfaction. The results of these surveys will allow the Cannabis Wholesale Division to compare wholesale customer satisfaction over time and determine if a high level of satisfaction is being maintained. The LDB 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 currently includes both retail and wholesale lines of business, with both operating under the direction of one executive director. On the retail side, the first bricks-and-mortar cannabis store was opened in Kamloops on October 17, 2018 and an e-commerce website was launched that same day. The Cannabis Retail Division is focused on establishing its BCCS brand and building relationships with customers through exceptional customer service. A total of twelve BCCS were operational and serving the public as of January 29, 2020

Private retail stores play an important role in the industry and are an important customer segment for the Cannabis Wholesale Division. The pace of licensing for private cannabis retail stores increased dramatically in the second half of 2019. As of January 29, 2020, 185 private store licenses had been issued by the Liquor and Cannabis Regulation Branch (LCRB). Of those licensed stores, 142 had successfully registered and placed an order for non-medical cannabis. 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.

The LDB had intended to survey retail and wholesale customers in 2018/19; however, those plans were delayed due to a number of factors, including a relatively small base of stores, the lack of an internal survey tool that would meet provincial privacy requirements, and a high degree of change within the cannabis industry. Surveys will be completed in 2020 to better assess customer satisfaction relative to our stated goals. Customer satisfaction targets have been defined but are subject to change once the methodology of the survey is determined. In general, it is expected that satisfaction will increase over time as the regulated market stabilizes and LDB looks for opportunities for continuous improvement.

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 and engagement through leadership development, employee training and increased communication.
- Implement Strategic Leadership Development for the organization.
- Provide a safe, healthy and harassment-free workplace.
- Enhance our employee experience and engagement initiatives.

Performance Measure	Baseline	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
3.1a Employee engagement ¹	69	n/a	71	n/a	71	n/a

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

Linking Performance Measures to Objectives:

3.1a The LDB measures employee engagement every two years by 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:

The LDB has grown with the addition of cannabis retail and wholesale operations as well as the relocation and expansion of liquor distribution operations. This growth requires the LDB to shift its approach to workplace culture and engagement in retail stores, distribution centres and head office by engaging employees in new ways. LDB is developing and implementing programs to enhance leadership development and growth at all levels of the organization through new leadership development training to enhance skill development, collaboration, communication and coaching to support the employee experience and organizational commitment. In addition to training, enhanced

charitable campaigns, inclusion and recognition initiatives are planned to increase employee engagement.

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 the new liquor industry, improve efficiency and provide a customer-centric retail experience.

Performance Measure	Baseline	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
4.1a BCLS sales per square foot ¹	\$1,402	\$1,403	\$1,418	\$1,426	\$1,450	\$1,470

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

Linking Performance Measures to Objectives:

4.1a This indicator is based on the annual dollar sales of all stores divided by the total of all stores’ square footage. This measures how well BCLS converts floor space and is linked to how efficiently the BCLS chain is operating. 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:

It is anticipated that BCLS sales per square foot will steadily increase over the next few years, as a result of the continuing optimization of individual store operating hours, completion of a number of store renovations and upgrades, continuing application of various marketing strategies such as radio advertisement, and the ongoing focus on enhancing the customer experience by the consistent application of the GREAT service model.

Liquor Wholesale Division Strategies:

- Continue to improve service levels to customer base through increased inventory, improved forecasting and communications with vendors and customers.
- Stabilize and move into the continuous improvement phase of LDB Wholesale Operations new warehouse management system, in both Delta and Kamloops distribution centres, to improve wholesale customers’ experience.
- Continue to modernize the Wholesale Division’s systems and processes, including the use of current and cost-effective technology, to improve service and relationships with customers, suppliers and employees.
- Roll-out plans for improved productivity and reduce labour cost-per-case as both distribution centres stabilize.

Performance Measure	Baseline	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
4.1b Distribution Centre labour cost per case shipped ¹	\$1.99	\$2.29	\$2.15	\$1.90	\$1.75	\$1.75
4.1c Distribution Centre order fill rate ²	89%	83%	95%	95%	96%	97%

^{1,2}Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose

Linking Performance Measures to Objectives:

4.1b This performance measure is calculated by dividing distribution centre labour expenses by total case shipments. A decreased cost per case indicates that less labour is being utilized to ship product, which results in operational savings for the LDB and, therefore, BC citizens.

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. A higher order fill rate leads to increased satisfaction and efficiencies for our customers by reducing the amount of work spent filling orders, managing inventory and reducing the amount of time spent submitting orders.

Discussion:

Since April 2015, the LDB’s Wholesale Division has seen a 30 per cent increase in new customers with much smaller and more labour-intensive orders, impacting the distribution centre labour cost per case shipped. This is a result of the split between the LDB Retail and Wholesale Divisions and the fact that all private liquor stores, rural agency stores and many hospitality customers must now order directly from the warehouse. With the new distribution centre in Delta, the LDB is better positioned to continue to provide high quality and timely service to wholesale customers.

The forecasted labour cost per case for 2019/20 reflects the labour costs used to operate both the new Delta Distribution Centre and the Vancouver Distribution Centre into the spring of 2019. Costs are expected to stabilize and result in a decreased cost per case beginning in 2019/20.

Regarding the distribution centre order fill rate, LDB has been partnering with retailers and vendors to improve forecasting and planning, and to solve inventory and space shortages to ensure product can

be supplied to meet the needs of customers. LDB is on target to meet the 2019/20 forecast of 93 per cent as set in the previous Service Plan. The future targets balance the effective management of inventory and the minimization of product stock-outs and reflect additional warehouse space to hold and distribute product.

Cannabis Division Strategies (Wholesale and Retail):

- Successfully open an additional seven BCCS by March 31, 2020.
- Complete required process, systems, and infrastructure updates to enable the distribution and sale of new product classes (beverages, edibles, extracts and concentrates).
- Complete system work that was within scope but not delivered since cannabis legalization on October 17, 2018.
- Increase the sale of legal cannabis and optimize financial performance.

Performance Measure	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
4.1d BCCS sales per square foot ¹	\$4,062	\$1,309	\$2,013	\$2,010	\$2,100
4.1e BCCS.com order fill rate ²	99.84%	99.96%	98.5%	99%	99%
4.1f Wholesale (B2B) order fill rate ³	99.18%	98.91%	97%	98%	99%

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

^{2,3}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. This measures how well BCCS converts floor space and is linked to how efficiently the chain is operating.

4.1e This indicator is the percentage of consumer online orders that are filled completely and shipped within 24 hours (excluding weekends & holidays) by the distribution centre in Richmond. 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:

Over the past year, cannabis producers have made significant investments to expand capacity and develop new products. The country-wide shortage of inventory following legalization has dissipated with the focus now turning to product quality, freshness, new product formats, and consumer value relative to the illicit market. Retail licensing and store openings occurred at a slower pace than originally projected; however, the pace of licensing increased significantly in the second half of 2019. As the industry stabilizes, all sectors are looking more closely at financial performance. LDB Cannabis Operations expects sales, profitability, and efficiency will improve in the year ahead and has identified a number of key performance indicators to assist in determining how efficiently and effectively it is operating.

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	2017/18 Actuals	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
5.1a Store compliance with ID-checking requirements ¹	96%	100%	100%	100%	100%	100%	100%
5.1b Customer awareness of LDB Corporate Social Responsibility programs ²	89%	n/a	96%	n/a	90%	n/a	90%

¹Data Source: The Liquor and Cannabis Regulation Branch (LCRB) administers an ID compliance checking program and provides the results of BCLS compliance to the LDB.

²Data 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.

Cannabis Retail Division Strategies:

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

Performance Measure	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
5.1c Store compliance with ID-checking requirements ¹	100%	100%	100%	100%	100%

¹Data 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; since the opening of the first BCCS store on October 17, 2018, store compliance is forecast to be 100 per cent.

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

Liquor Division (Retail and Wholesale) Strategies:

- Reduce the overall amount of waste generated by LDB’s Liquor 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	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
5.2a Waste diversion rate at LDB liquor distribution centres (DDC, KDC) and BCLS ¹	--	90%	91%	92%	93%

¹Data 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. As a result, it is an appropriate measure to use when considering the LDB’s objective of minimizing the impact of operations on the environment.

This performance measure has been expanded over previous years to include the Delta Distribution Centre (previously the Vancouver Distribution Centre), the Kamloops Distribution Centre, and our network of BC Liquor Stores.

Discussion:

In 2019/2020, the LDB underwent significant changes in operating facilities. In addition to moving fully into the distribution centre in Delta, new BCCS have opened and the LDB’s head office has moved to a new location in Burnaby. LDB’s Head Office is no longer physically attached to the liquor distribution centre and so the performance measure for waste diversion has been split into three areas: liquor retail and wholesale, cannabis retail and wholesale, and head office.

As in previous years, the LDB tracked waste diversion from Metro Vancouver distribution centre(s), which in 2019/2020, included the Vancouver and Delta facilities. Additionally, waste diversion was tracked from the distribution centre in Kamloops and BCLS (where data was available). Given the significant expansion of waste sources, LDB anticipates a decrease in diversion rates for liquor retail and wholesale as compared with previous years where diversion rates were only measured from the Vancouver distribution centre and Head Office.

In 2019/20, waste diversion rates for the distribution centres in Vancouver, Delta and Kamloops, and BCLS within Metro Vancouver were determined by using ongoing weight measurements taken over the entire fiscal year. In Vancouver and Delta locations, materials diverted from landfill and tracked in 2019/20 included mixed containers, paper, organics, electronics, styrofoam, wood, metal, cardboard, and soft plastics. In Kamloops, materials diverted from landfill and tracked in 2019/20 included

cardboard, wood, and mixed paper. BCLS in Metro Vancouver divert cardboard, certain soft plastics, and organics from landfill.

The 2019/20 diversion rate for the LDB’s Liquor Division is anticipated to be 90 per cent. The high diversion rate for this area is in part because of the quantity of heavier materials such as cardboard and wood diverted from the distribution centres and BCLS.

Moving forward, it is expected that the Liquor Division can incrementally increase diversion 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	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
5.2b Waste diversion rate at LDB’s cannabis distribution centre (RDC) and BCCS ²	--	86%	88%	89%	90%

²Data 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:

Waste diversion rates from the Richmond distribution centre and existing BCCS is forecast to be 86 per cent for 2019/20. The Richmond distribution centre diverts mixed containers, paper, organics, electronics, styrofoam, wood, metal, cardboard, and soft plastics from landfill. It is anticipated that a significant percentage of waste materials generated at the facility can be and will continue to be diverted from landfill. The Richmond distribution centre will be implementing changes to the type of soft plastic shrink wrap used in the warehouse, which is expected to increase diversion rates for 2020/21.

While some of the additional BCCS will be located in communities that do not have collection services or facilities to process certain recyclables such as organics, future target diversion rates remain relatively stable after 2020/21.

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	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
5.2c Waste diversion rate at LDB’s Head Office ³	--	70%	75%	78%	80%

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

Discussion:

Waste Diversion

In 2019/20, the LDB’s move to a new head office was mostly complete. For the months of April and May 2019, waste and recycling continued to be collected from the old site and those two months of collection are reflected in the forecast diversion target for 2019/2020. The forecasted diversion rate for head office is 69 per cent, which means that there is still a significant amount of material generated from head office and ending up in landfill. Given the timing of the move and the change in facility, new targets have been established for this performance metric moving forward.

In 2019/20, the LDB conducted a waste audit at head office which will inform new employee training and awareness for waste sorting, as well as support improved practices by contracted cleaning and food services staff. With the implementation of these programs in 2020/21, it is anticipated that the LDB head office should be able to significantly increase diversion rates. The target begins to level off after 2020/21 due to the challenge of continuing to divert material at higher rates without the addition of new waste diversion streams, which is not anticipated at this point.

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](#).

Financial Plan

Summary Financial Outlook

(\$millions)	Fiscal 2019/20 Forecast	Fiscal 2020/21 Budget	Fiscal 2021/22 Budget	Fiscal 2022/23 Budget
Sales	3,803.7	4,092.7	4,214.8	4,340.7
Cost of sales	2,246.3	2,467.1	2,557.5	2,650.9
Gross Margin	1,557.4	1,625.6	1,657.3	1,689.8
Operating Expenses – Employment	251.2	269.7	279.7	290.1
Operating Expenses – Amortization	79.1	92.2	95.2	94.2
Operating Expenses - Administration	74.6	69.8	70.6	72.0
Operating Expenses - Bank Charges	33.3	35.1	36.2	37.2
Operating Expenses – Building	27.6	28.5	29.9	31.4
Operating Expenses - Lease Financing	11.8	11.3	10.1	8.6
Total Expenses	477.6	506.6	521.7	533.5
Other income	12.4	14.5	16.4	16.8
Net income	1,092.2	1,133.5	1,152.0	1,173.1
Capital	66.6	71.8	40.0	41.6
Debt ¹	297.6	273.2	235.2	188.2
Retained Earnings	0	0	0	0

¹Debt includes tenant improvement loan inducements and capital lease obligations.

Note: The LDB follows International Financial Reporting Standards (IFRS) policies. Under IFRS, a new lease standard (IFRS 16) was introduced and effective for fiscal years starting after December 31, 2018. Hence, LDB adopted the new standard on April 1, 2019. Under this standard, all leases with a lease term more than a year and significant contract value are recognized as finance leases. In the majority of cases, lease contracts which were previously considered to be operating leases were excluded from the balance sheet. Now, the asset and its associated liability are reflected on the balance sheet. On the income statement, lease expenses were previously included under rent and are now included under amortization and interest expense. This is a requirement for all entities that follow IFRS.

Key Forecast Assumptions, Risks and Sensitivities

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 2019/20 overall sales growth will be 5.8 per cent over the previous fiscal year, driven by volume growth, retail margins, inflation and increased cannabis retail locations;
- Beverage alcohol sales growth in future years will move in line with historical trends and will be an average of 1.9 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 all future years;
- 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 increase as existing licensed producers optimize their production facilities and more licensed producers enter the market; capital requirements reflect expenditures for opening and renovating retail stores, improving systems, technology-related projects and on-going equipment replacements.

Future capital-related projects include implementing the Delta warehouse management technology to the Kamloops distribution operations; expansion of the BCCS retail chain and continued investments 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.

Changes in the regulatory framework or trade agreements can impact consumer purchasing patterns. Non-medical cannabis was legalized in October 2018, and further changes to the cannabis industry are expected with the recent legislation for edibles. Non-medical cannabis has become a new revenue stream for the LDB.

Government policies and decisions can also have a significant impact on LDB revenue. Municipal government regulations around the operation of cannabis retail stores is a determining factor in the location and number of retail stores and when they are open for business.

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

- Changes in the marketplace – 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;
- Beverage alcohol and non-medical cannabis are discretionary consumer products and sales are affected by economic conditions. Consumer confidence 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 cannabis edible products and an improved quality of supply, cannabis consumption will increase and likely become more socially acceptable over time. Current trends in liquor already reflect shifting preferences as consumers shift towards refreshment beverages 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 \$12.8 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 only increases margin dollars when more beer products are sold. Mark-up varies within the beer category with lower margins generated on craft beer. The growing popularity towards craft beer and away from products with higher margins results in lower LDB product margins.

BC VQA wines and wines produced from 100 per cent BC grapes also generally generate lower gross margin dollars. 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

In April 2018, the Business Technical Advisory Panel presented Government with a report containing 24 recommendations focused on improving efficiency and business relations between government and the liquor industry. Government is in the process of reviewing these recommendations and this may result in changes to LDB operations.

As the legal cannabis industry continues to mature, LDB will focus on developing 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. With the introduction of edibles, LDB will continue to expand product offerings to the marketplace. 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. The larger liquor warehouse facility in Delta will drive greater efficiencies in product delivery and will position LDB to better meet future demand.

Major Capital Projects

Major Capital Projects (over \$50 million)	Targeted Completion Date (Year)	Project Cost to Dec 31, 2019 (\$ millions)	Estimated Cost to Complete (\$ millions)	Approved Anticipated Total Capital Cost of Project (\$ millions)
Warehouse Relocation	2020	43.9	49.4	\$5.5

The Delta facility became operational in fall 2018 and began fulfilling orders for a limited number of customers. The transition of all customers was completed in May 2019. Kamloops Distribution Centre is anticipated to transition to the new warehouse management system in early 2020.

The capital cost is funding for material handling equipment, racking and conveyors, as well as a new computerized warehouse management system.

The Major Capital Project Plan that was filed in accordance with section 14 of the Budget Transparency and Accountability Act can be found here: https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/initiatives-plans-strategies/vancouver-distribution-centre-project/ldb_distribution_centre_project_capital_project_plan.pdf

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](#).