

Wholesale Pricing Changes

Wholesale Customers

Information Session

February 4, 2015



**LIQUOR
DISTRIBUTION
BRANCH**



Discussion points

- Introductions
- Objectives for today
- Background
- Wholesale pricing: overview of the government's announcements
- Key upcoming changes: what and when?
- Next steps
- Questions

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- **Introductions**
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Introductions

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Chief Financial Officer

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Disclaimer:

This information is based on current processes and decisions. In the event of any changes, this information will be subject to amendment.

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Objectives for today

To provide an overview of:

- **Wholesale pricing-related changes** that are being implemented associated with the government's announcements;
- Upcoming changes that **impact industry** partners; and
- Key timelines and **next steps**.

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Background

- 2013 B.C. Liquor Policy Review
- New Wholesale pricing model
 - Even footing for industry and increase transparency
 - Implementation – April 1, 2015



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Wholesale pricing: overview of the governments announcements

In association with licensing and other changes, steps aimed at modernizing BC's liquor industry include:

Common wholesale price for all retailers

Prices as of April 1, 2015

Wholesale cost to retailers will be set by the BC Liquor Distribution Branch. This will create a competitive market in B.C. and a level playing field for all retailers, including BC Liquor Stores.

Gradual mark-up system for breweries

Breweries in B.C.

Global production in hectolitres (hl)	Number of breweries
350,001 hl or more	4
160,001 to 350,000 hl	1
15,001 to 160,000 hl	6
15,000 hl or less	83
Total breweries in B.C.	94

1 hl = 100 litres or 282 cans of beer

"Breweries don't need to choose between staying small or paying large."

Honourable Suzanne Anton,
Attorney General and
Minister of Justice

BRITISH COLUMBIA

B.C.'s new gradual mark-up system creates growth opportunities for 90 breweries and counting...

Increasing convenience to consumers

Ability for some of these to include:

- Eligible grocery stores to sell alcohol
- Ability for BCLS to expand operating hours
- Ability for BCLS to offer refrigeration.

To be implemented by April 1 2015

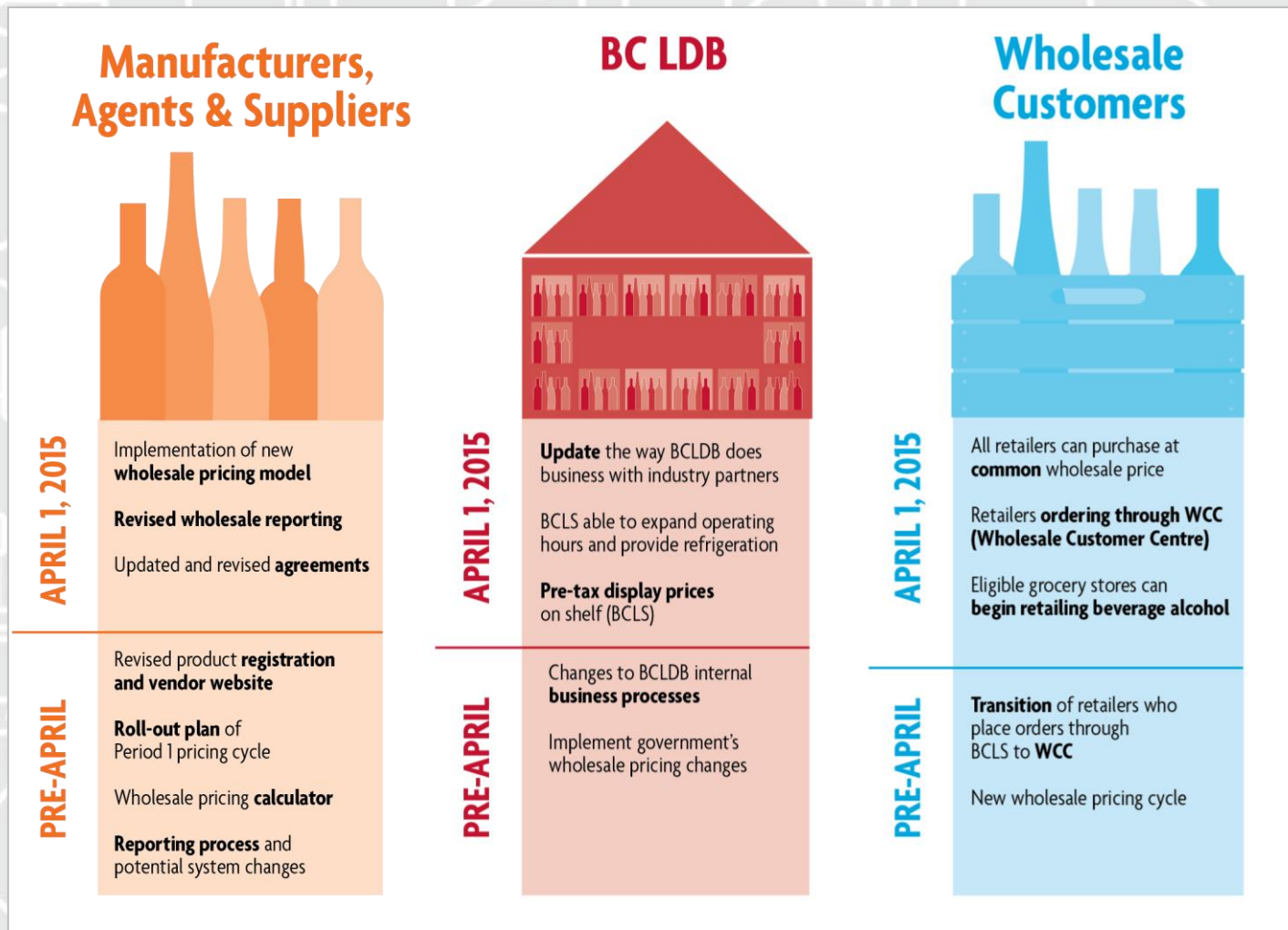
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Key upcoming changes: what and when?

- Implementing these changes necessitates an update to many of BCLDB's business **processes and systems** that will also streamline the **way BCLDB does business** with industry partners.

Key upcoming changes: what and when?



Key upcoming changes: what and when?

Manufacturers, Agents & Suppliers



APRIL 1, 2015

Implementation of new **wholesale pricing model**

Revised wholesale reporting

Updated and revised **agreements**

PRE-APRIL

Revised product **registration** and vendor website

Roll-out plan of Period 1 pricing cycle

Wholesale pricing **calculator**

Reporting process and potential system changes

Implementation of new **pricing model**

- Wholesale pricing
 - Changes from Discount-off Display Price to a Duty Paid Cost plus markup
 - Common wholesale price for all retailers
 - Tax excluded pricing
- Commissions on retail sales replaced with supplier's own profit margin
- Graduated mark-up rate for medium sized breweries
- Licensed Hospitality will continue to purchase at the LDB established retail price
- Existing programs for BC Manufacturers will continue
- Wholesale pricing calculators have recently been sent to Manufacturers, Agents and Suppliers

When: **April 1, 2015**, with wholesale pricing calculator released **1 February 2015**.

More information

- New mark-up schedule – effective April 1 2015 - [click here](#)
- Revised beer mark-up schedule - [click here](#)

Product Types	New Wholesale Rates	Mark-up Schedule	Markup Rate	Product Category (Retail Price)
Spirits	12% with graduated mark-up for cost portion over 40%	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%
Refreshments	12% with graduated mark-up for cost portion over 40%	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%
Wines (incl. fortified wines)	7.5%	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%
Beer	8% with graduated mark-up for cost portion above 50%	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%
Large Breweries (>\$250M)	\$128/L	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%
Med Breweries (<\$100M - <\$250M)	\$156/L to \$140/L	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%
Sm Breweries (<\$100M)	\$155/L	20-80% (20-40% for 1st 20% of cost, 40-80% for 2nd 20% of cost)	40%	40-50%

Subject to annual CTA adjustments

Implementation of new pricing model

As Is

Wholesale Customer

LDB Display Price

Less PST and GST

= Retail Price

Less applicable wholesale discount

= Wholesale Price for that Customer Type, plus GST



Hospitality Customer

LDB Display Price

Less PST

= Price for Licensed Hospitality

Pricing Process

Retail Limited Time Offer Program

Price Changes – change requests are made and lead to a tax-in display price

New Model

Wholesale Price (tax excluded), plus GST



Wholesale Price

Plus Retail markup

= LDB established retail price (tax excluded), plus GST

Wholesale Price Promotion Program

Price changes – request changes are made and lead to the tax-excluded wholesale price

Implementation of new pricing model: **Wholesale Pricing**

- The current discount pricing system for wholesale purchases will be eliminated and a **duty paid cost plus category mark-up** pricing will come into place

Display Price – As Is	Wholesale Price – To Be
Prime Cost	Prime Cost
+ Domestic Charges (if applicable)	+ Domestic Charges (if applicable)
= In Bond Cost	= In Bond Cost
+ Excise & Customs (if applicable)	+ Excise & Customs (if applicable)
= Duty Paid Cost	= Duty Paid Cost
+ Volume Markup/Distribution Charge + % Markup for Wine, Spirits, Refreshment Beverages	+ Distribution Charge (beer only) + % Markup for Wine, Spirits, Refreshment Beverages
OR + Volume mark-up for Beer + Cost of Service Fee	OR + Per Litre Markup by Supplier annual production for Beer
+ CRF	+ CRF
= LDB Retail Price	= LDB Wholesale Price
+ GST + PST	+ GST
= LDB Display Price before applicable container deposit	= Final LDB Wholesale Price before applicable container deposit

Implementation of new pricing model:

Wholesale Pricing Mark-up Schedule, effective April 1, 2015.

- The new wholesale pricing schedule simplifies the current, complex model
- All products will fall under the Product Types: Spirits, Refreshments, Wines and Beer

Spirits/Liqueurs

Pre-Mixed Cocktails/
Cider/Coolers

Fortified Wine/
Table Wine

Draught Beer/
Packaged Beer

Previous product types
are now merged to four.

Product Types	New Wholesale Rates			
Spirits	124% with graduated mark-up for cost portion over \$21/L	Mark-up boundaries	Mark-up applied	Product category (Cost per Litre)
		On first \$21 cost per litre	124%	\$0 - \$21
		On next \$8.20 cost per litre	93%	\$21.01 – \$29.20
		On next \$8.20 cost per litre	62%	\$29.21 - \$37.40
		On any amount over \$37.40 cost per litre	43%	\$37.41+
Refreshments	73%			
Wines (incl. fortified wines)	89% with graduated mark-up for cost portion above \$11.75/L	Mark-up boundaries	Mark-up applied	Product category (Cost per Litre)
		On first \$11.75 cost per litre	89%	\$0 - \$11.75
		On any amount over \$11.75 cost per litre	27%	\$11.76+
Beer	Large Brewers (>350,000 hl)	\$1.08/L		
	Med Brewers (>15,000 <=350,000 hl)	\$0.56/L to \$1.02/L		Subject to annual CPI adjustments
	Sm Brewers (<=15,000 hl)	\$0.55/L		

New wholesale customer types: Customer Type Changes

Manufacturers, Agents & Suppliers



APRIL 1, 2015

Implementation of
new pricing model

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Updated and revised agreements

PRE-APRIL

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and vendor website

Roll-out plan
of Period 1 pricing cycle

Wholesale pricing calculator

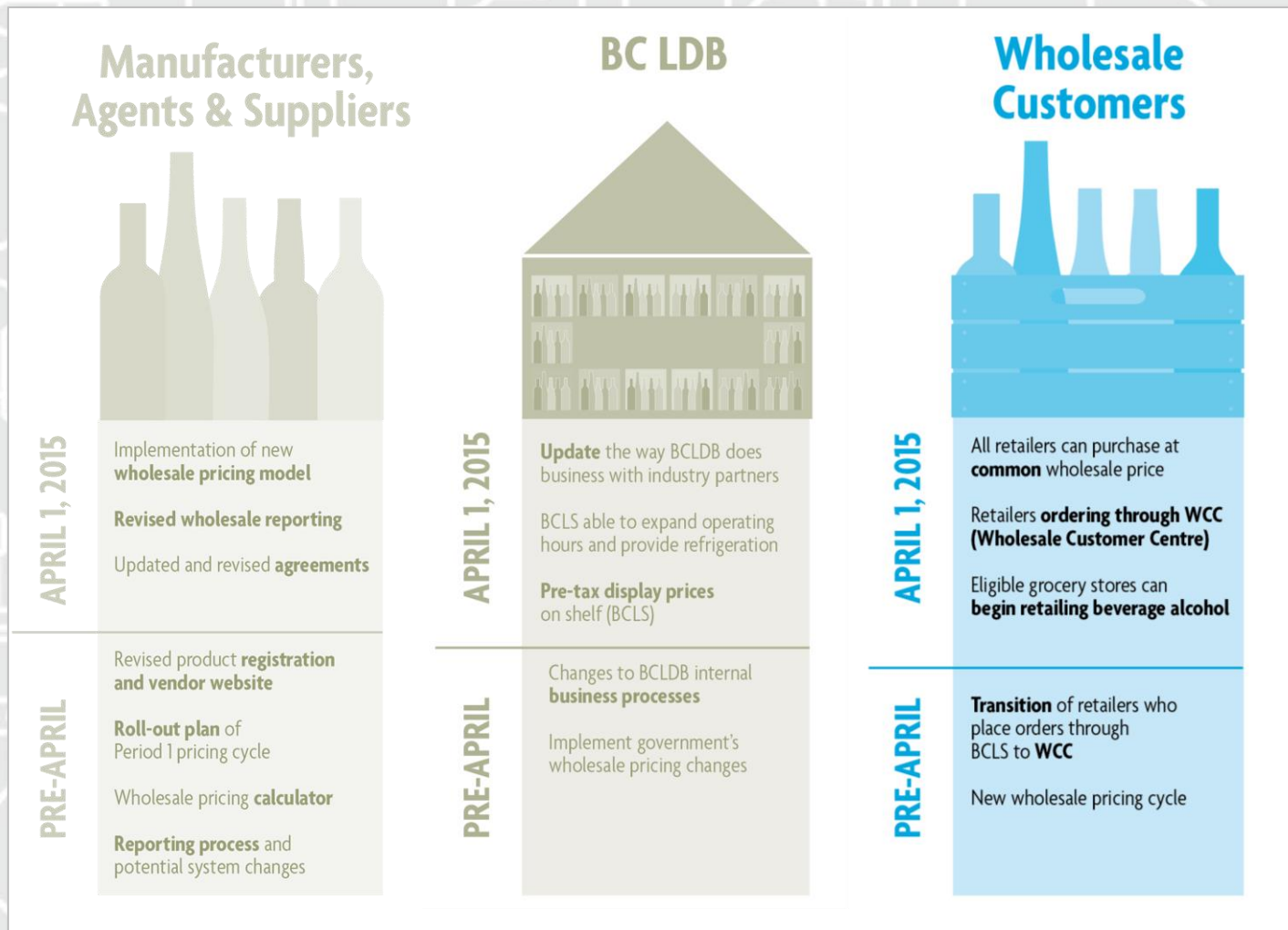
Reporting process and
potential system changes

Retail sales (e.g. Bulk and Special Occasion Licenses) will no longer be reported to LDB as Counter/retail

Customer Type Changes:

- **Manufacturer On-Site Stores (MOS)** – A retail store operated by a BC manufacturer on the site of its manufacturing facility where it sells products manufactured onsite to the public. On-site endorsements, except winery lounges, are classified by the LDB as MOS for sales reporting, revenue and tax collection purposes.
- **Grocery (GRC)** – Eligible licensed grocery stores.
- **VQA** – Only used by the BC Wine Institute (BCWI) to report on sales from VQA stores at the wholesale price.

Key upcoming changes: what and when?



Key upcoming changes: what and when?

Wholesale Customers



APRIL 1, 2015

All retailers can purchase at **common** wholesale price

Retailers ordering through WCC (Wholesale Customer Centre)

Eligible grocery stores can begin retailing beverage alcohol

PRE-APRIL

Transition of retailers who place orders through BCLS to WCC

New wholesale pricing cycle

All retailers can purchase at a **common** wholesale price

- All liquor retailers, including BC Liquor Stores, will purchase their product from the BC Liquor Distribution Branch (BCLDB) at a common, wholesale price.
- Eliminates a complex model that offered retailers various discounts and moves to a supplier cost plus product category mark-up model.
- For manufacturers who direct deliver to Private Retailers and Hospitality – the distribution model will not change.

New wholesale pricing cycle:

- **Mar 6** – LDB publishes Period 1 (April 1, 2015) wholesale prices
- **Apr 1** – effective date for LDB wholesale and BCLS retail prices.

More information

- Period 1: Pricing cut-off dates – [click here](#)

BC LIQUOR DISTRIBUTION BRANCH		EXTERNAL - AGENT & SUPPLIER - Cut over for Period 1 Pricing (effective April 1, 2015)		Period 1	
PERIOD 10	PERIOD 11	PERIOD 12	PERIOD 3	Date	ACTIVITIES
JAN S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	FEB S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	MAR S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	JUN S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27	Feb-1	LDB wholesale pricing tools available to suppliers through a wholesale price calculator and retail vendor-specific price list with Period 11 data.
				Feb-13	Timeline for submitting supplier cost changes for Period 1
				Mar-4	LDB publishes Period 1 (April 1, 2015) wholesale prices
				Mar-20	LDB publishes Period 1 (April 1, 2015) hospitality retail prices for vendor-specific SKUs
				Apr-1	Effective date for wholesale and hospitality retail prices.

Roll-out process of Period 1 2015

Manufacturers, agents and suppliers are currently providing their supplier price, which will determine the new wholesale prices (by SKU). Period I wholesale prices will be published March 6, 2015.

PERIOD 10							PERIOD 11							PERIOD 12							Date	ACTIVITIES			
JAN	S	M	T	W	T	F	S	FEB	S	M	T	W	T	F	S	MAR	S	M	T	W	T	F	S	Feb-1	LDB wholesale pricing tools available to suppliers through a wholesale price calculator and initial vendor-specific price list with Period 11 data
					1	2	3		1	2	3	4	5	6	7		1	2	3	4	5	6	7	Feb-13	Deadline for submitting supplier cost changes for Period 1
	4	5	6	7	8	9	10		8	9	10	11	12	13	14		8	9	10	11	12	13	14	Mar-6	LDB publishes Period 1 (April 1, 2015) wholesale prices
	11	12	13	14	15	16	17		15	16	17	18	19	20	21		15	16	17	18	19	20	21	Mar-20	LDB publishes Period 1 (April 1, 2015) hospitality retail prices for vendor-specific SKUs
	18	19	20	21	22	23	24		22	23	24	25	26	27	28		22	23	24	25	26	27	28	Apr-1	Effective date for wholesale and hospitality retail prices.
25	26	27	28	29	30	31								29	30	31									
PERIOD 1							PERIOD 2							PERIOD 3											
APR	S	M	T	W	T	F	S	MAY	S	M	T	W	T	F	S	JUN	S	M	T	W	T	F	S		
				1	2	3	4		3	4	5	6	7	8	9		31								
	5	6	7	8	9	10	11		10	11	12	13	14	15	16		1	2	3	4	5	6			
	12	13	14	15	16	17	18		17	18	19	20	21	22	23		7	8	9	10	11	12	13		
	19	20	21	22	23	24	25		24	25	26	27	28	29	30		14	15	16	17	18	19	20		
26	27	28	29	30	1	2								21	22	23	24	25	26	27					

Key dates for Retailers

Please note: Quarter I 2015/16 (Period 1-3) key pricing cycle dates are published [here](#)



Wholesale pricing model for Retailers

Direct Delivery by Private Distributors

- Manufacturers that currently direct deliver to wholesale customers will continue being able to do so
- Each SKU will have a common wholesale price for all Retailers.

Hospitality customers

- Hospitality customers will continue to purchase product from BC Liquor Stores, agents of the LDB (Direct Distributors) and the Wholesale Customer Centre (where applicable) at the LDB established retail price, plus GST.

Key upcoming changes: what and when?



Retailers ordering through WCC (Wholesale Customer Centre)

- System transition results in BCLS only possessing BCLS retail prices
- As of **April 1, 2015**, Licensee Retail Stores (LRS) and Rural Agency Stores (RAS) to be serviced by the Wholesale Customer Centre located in Vancouver
- Purchases through BCLS will only be available for BCLS retail price
- Wholesale customers must transition to the WCC by March 15, 2015 to avoid service disruption
- The LDB has notified relevant LRS and RAS customers of this change
 - RAS Guideline changes have also been recently communicated

More information

- Communications to impacted retailers – January 15, 2015
- Transition period – January 15 to March 15, 2015
- Effective dates – April 1, 2015

Transition of wholesale customers to the WCC

As part of the new wholesale pricing model LRS and RAS customers will transition from placing regular orders through BC Liquor Stores to the Wholesale Customer Centre (WCC)

On **April 1, 2015**:

- Retailers will **not** be able to purchase product **from BC Liquor Stores** at a discounted or wholesale price. The wholesale price is available only from the WCC.
- Retailers must directly purchase privately distributed **beer** from the brewery or distributor. Privately distributed domestic wine will not be impacted.
- Should wholesale customers choose to purchase products from a BC Liquor Store, products will be available at the retail price.

To avoid service disruption retailers must transition to the WCC by March 15.

Key upcoming changes: what and when?

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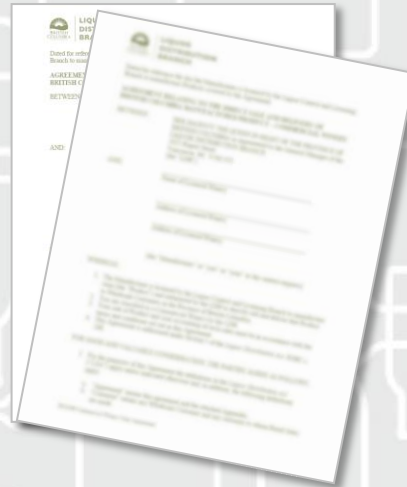
- Grocery stores are allowed to sell liquor through the store-within-a-store and a 100% BC wine-on-shelf model.
- Eligible, grocery stores need to have approximately 70% of their sales coming from food products and must be a minimum of 10,000 square feet.
- Opportunity to co-brand with liquor stores
- The grocery model will not apply to general merchandise stores or "big box" stores, nor to convenience stores.
- Introducing liquor in grocery stores will be gradually phased in.
- Effective – April 1, 2015

Key upcoming changes: what and when?

Updated Terms and Conditions for RAS

- Being amended to reflect:
 - The updated guidelines;
 - The new and updated business processes

When: Effective **April 1, 2015**, with revised Terms and Conditions anticipated to be issued by early March 2015.



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<http://www.bcldb.com/doing-business-ldb>

LDBChanges@bcldb.com