

Managing Growth Pressures

March 22, 2007

AGLC accepts recommendations to strengthen province's liquor distribution system

Liquor Supply Chain Review recommendations will ensure Albertans receive high standards of liquor service

Edmonton...A report recommending better management of the liquor supply chain with increased monitoring and a more active role by the Alberta Gaming & Liquor Commission (AGLC) has been accepted in full by the AGLC Board. Work will begin immediately on the recommendations to improve services to the province's liquor industry.

The Liquor Supply Chain Review report was commissioned by the AGLC Board and prepared by an independent third party, PricewaterhouseCoopers (PwC). A key report recommendation is a formalized performance contract with Connect Logistics Services (CLS), the provincial agent for liquor warehousing and distribution in Alberta.

"I'm pleased to see the AGLC Board has taken quick action to ensure stability in the province's liquor supply chain," said Minister Fred Lindsay, Solicitor General and Minister for Public Security. "The report's recommendations will be used to ensure that we have the right system in place to continue providing Albertans with the liquor service they have come to expect."

The report acknowledges Alberta's privatized liquor distribution model has worked well, meeting the original policy objectives established in 1993 when the system was privatized. Under Alberta's privatized model, the liquor retail system has prospered while liquor prices have remained relatively stable and consumer choice has increased from 3,300 products in 1993 to more than 13,000 in 2007.

Immediate actions recommended in the report by PwC include the following.

- The AGLC must take a more active role in managing elements of the industry, particularly the liquor supply chain to ensure that service levels and stakeholder confidence are returned to the industry.
- CLS will be retained as the sole warehouse and distributor of liquor in the province at this time, but with a formal contract and measurable performance targets. This formal 'service provider' relationship will be negotiated with CLS and will include performance indicators for on-time delivery, shipment accuracy and customer service.
- AGLC will work with CLS to develop a new, more detailed, rate structure to better reflect the relative costs of ordering, handling and storing different types of products.
- CLS current rates will remain unchanged until the introduction of the new rate structure.

- All stakeholders including agents and suppliers are required to provide volume and timing forecasts for 2007 and 2008 to CLS to ensure proper forward planning is in place in order to reduce bottlenecks in the liquor supply chain.

The report also recommends the AGLC evaluate various options to improve the existing warehousing and distribution model. This evaluation would consider the benefits and costs of alternate warehousing and distribution solutions, and help ensure a long-term strategy is adopted so the province's privatized model of liquor distribution and warehousing is based on industry best practices and continues to meet the needs of Albertans.

The Liquor Supply Chain Review Report is available on-line at [Liquor Supply Chain Review](#). Copies are also available by contacting AGLC Communications at (780) 447-8740.

Strengthening the province's liquor supply chain meets one of the key actions of Premier Ed Stelmach's plan to manage growth pressures. Other priorities for government are to govern with integrity and transparency, build a stronger Alberta, improve Albertans' quality of life and provide safe and secure communities.

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Attachments – see backgrounder on the Liquor Supply Chain Review

Media enquiries may be directed to:

Lynn Hutchings-Mah
Alberta Gaming and Liquor Commission,
Communications
(780) 447-8741
Dial 310-0000 for toll-free access outside Edmonton

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Alberta's Liquor Supply Chain Review

Background

The Board of the Alberta Gaming & Liquor Commission (AGLC) ordered a review of Alberta's Liquor Supply Chain in October 2006. The review followed mounting service concerns over delivery times to retailers and was a comprehensive look at Alberta's privatized system for receiving, warehousing, ordering and distributing wine, spirits and imported beer.

The AGLC hired an independent, third-party consultant (PricewaterhouseCoopers) to conduct the review. All agents, suppliers and retailers that order from CLS were invited to provide input to the review. The report was completed in late February and delivered to the AGLC Board on March 1.

The report acknowledges there is no quick and easy fix to the challenges faced by Alberta's liquor supply chain. The market has changed as Alberta's economy has boomed and a growing population with more disposable income means more consumer demand for liquor products.

Sales in the province increased during the first nine months of the 2006-2007 fiscal year to almost \$1476 million compared to \$1305 million from the same period during the 2005-2006 fiscal year, an increase of almost 13 per cent. Inventory has increased from 1.8 million cases in November 2005 to 2.4 million cases in November 2006. At the same time, CLS was faced with the same tight labour market as many other Alberta employers and the difficulty of attracting and retaining workers.

Short-Term Recommendations

Recommendations from the review are divided into short, medium and long-term actions. This strategy is designed to ensure continuity of the system while a long term plan is developed to address the changing needs of the liquor industry in Alberta. The AGLC Board accepted all of the report's recommendations and the AGLC will begin acting on the recommendations immediately.

A key short-term recommendation is to retain CLS as the sole warehouse operator and distributor of spirits, wine, and imported beer in the province, but with a formalized 'service provider' contract. The contract between AGLC and CLS will have formal performance measures including on-time delivery, shipment accuracy and customer service to liquor retailers.

The immediate establishment of a second warehouse was not recommended by the report, due to concerns about adding additional players before a long-term strategy is developed. However, the report recommends the AGLC evaluate various options to provide warehousing and distribution services as part of its long-term strategy.

Long-Term Recommendations

The short-term recommendations are designed to ensure continuity of service while a long-term strategy is developed. This development phase is outlined under the medium-term recommendations with AGLC examining various options for liquor warehousing and distribution, and preparing recommendations for the future of the liquor supply chain for the Board's consideration.

The four options outlined by the consultant are as follows.

1. Expanding the supply network so it is larger than the expected peak volume anticipated for a number of years. This type of excess capacity existed when the system was privatized in 1993 and worked well for more than a decade.
2. Having the AGLC step back in as the regulator either directly, through a third party or through the warehouse operator and dictate the priorities at peak times.
3. Adjust the principles of privatization to enable the suppliers to take control of the supply chain and manage it, also called 'supplier push'.
4. Adjust the principles of privatization to enable retailers to take control of the supply chain and manage it, also called 'retailer pull'.

The AGLC may also consider other options for providing warehousing and distribution services.

There are also a variety of policy and other factors that must be considered in evaluating liquor warehousing and distribution options including:

- compliance with Federal requirements;
- maintaining social responsibility;
- ensuring a diversity of products;
- ensuring service and price competitiveness for Albertans;
- supporting employment and enterprise in the retail sector; and,
- securing the revenue flow to the Province of Alberta.

The Liquor Supply Chain Review Report is available on-line at [Liquor Supply Chain Review](#). Copies are also available by contacting AGLC Communications at (780) 447-8740.

For More Information, please contact:

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