

BACKGROUND



The Government of Saskatchewan announced that Saskatchewan will move to an expanded private retail system for liquor sales. Under this model, Saskatchewan residents will see more choice, more convenience and more competitive pricing through fewer government liquor stores and more private liquor stores. In addition, all liquor retailers will transition to a more level playing field when it comes to wholesale pricing, hours of operation and selection of product.

In November 2014, Government launched a consultation process regarding the future of liquor retailing in the province. The consultation featured an Options Paper with information respecting the existing liquor retail model and models from other provinces. The Options Paper identified five different options for retailing of alcohol and invited Saskatchewan residents to provide comments on their priorities for the future of liquor retailing.

The consultation process concluded on January 30, 2015, with more than 6,600 people completing the survey and more than 3,000 people posting comments.

Respondents to the survey indicated that increased product selection and cost competitiveness were important considerations in any changes to liquor retailing in the province. Respondents also supported increased private involvement in liquor retailing while, at the same time, supporting a continued mixed model of delivery.

Acknowledging the importance of revenue generated to the province through alcohol, respondents wished to see government maintain its revenues from liquor. Finally, respondents cited product selection, cost competitiveness and increasing the ability of government to reinvest in other priorities as important factors in considering potential changes to liquor retailing in Saskatchewan.

All of these considerations were weighed during the development of the expanded private retail model.

Government will not implement the new expanded private retail model until it has a new mandate from the people of Saskatchewan following the next provincial election in April 2016.

52 New Opportunities

Expansion of the private retail system for liquor sales will include converting 40 government liquor stores to private stores and adding 12 additional private liquor stores in communities where current population and expected growth can support additional retail outlets.

A Request for Proposal (RFP) process will be used to select the operators for the 52 new opportunities. Details of how that process will work will be developed in the coming months. Retail operators and any other interested businesses will be eligible to participate in that process. In addition, affected government liquor store employees will have the ability to participate in and will be given preferential consideration during the competitive RFP process for a new store.

The 40 affected stores are:

Battleford	Outlook
Broadview	Preeceville
Canora	Raymore
Carrot River	Regina (Broad St.)
Davidson	Rosetown
Foam Lake	Rosthern
Gravelbourg	Saskatoon (20 th St. W.)
Gull Lake	Saskatoon (Market Mall)
Hudson Bay	Shaunavon
Indian Head	Shellbrook
Kamsack	St. Walburg
Kelvington	Stoughton
Kindersley	Tisdale
Kipling	Unity
Lanigan	Wadena
Leader	Wakaw
Lloydminster	Waskesiu
Maple Creek	Watson
Melfort	Wilkie
Melville	Wynyard

The successful proponents will have to meet SLGA's requirements to obtain a commercial liquor permit. Some of the requirements include a good character check, fulfilling public notice requirements and obtaining a Ministry of Finance Vendor's Licence.

Results at a glance...

When asked to rate the importance of a number of issues regarding potential changes to liquor retailing in Saskatchewan, positive responses (agree and somewhat agree) were as follows:

61.7% Support a greater role for private liquor retail stores

58.0% Government should focus on investing in other public priorities instead of liquor stores

54.8% Government should ensure it maintains its current level of revenue from liquor

53.2% Government should continue to operate existing liquor stores that meet targets for profit and efficiency

50.8% Current experience when purchasing alcohol meets my expectations as a consumer

50.2% Place a higher priority on the quality of the purchase experience than they do on whether the store is publicly or privately operated

52
New private retail opportunities

40 government stores converted to private

12 new private stores

These locations

These locations

List of 40 Locations

- Battleford
- Broadview
- Canora
- Carrot River
- Davidson
- Foam Lake
- Gravelbourg
- Gull Lake
- Hudson Bay
- Indian Head
- Kamsack
- Kelvington
- Kindersley
- Kipling
- Lanigan
- Leader
- Lloydminster
- Maple Creek
- Melfort
- Melville
- Outlook
- Preeceville
- Raymore
- Regina - Broad St.
- Rosetown
- Rosthern
- Saskatoon - 20th St. W
- Saskatoon Market Mall
- Shaunavon
- Shellbrook
- St. Walburg
- Stoughton
- Tisdale
- Unity
- Wadena
- Wakaw
- Waskesiu
- Watson
- Wilkie
- Wynyard

12 New Private Stores

- Saskatoon
- Regina
- Prince Albert
- Moose Jaw
- Yorkton
- Emerald Park/White City
- Pilot Butte
- Dalmeny
- Osler
- Hague
- Aberdeen
- Bienfait



Interested Can Apply

RFP PROCESS

Going forward, additional opportunities will be determined using population criteria.

In the immediate future, SLGA has identified 12 communities that are currently underserved with respect to full service liquor retail. These communities are:

Saskatoon	Regina	Prince Albert	Moose Jaw
Yorkton	Emerald Park/White City	Aberdeen	Pilot Butte
Dalmeny	Osler	Hague	Bienfait

An Efficient Government Store Model

The government liquor stores that are identified for conversion were evaluated on factors such as operating efficiency (salaries, benefits, rent, cost of inventory, head office and warehouse costs as a percentage of sales), capital investment required (significant store maintenance, repairs or upgrades). Calculation of operating expenses and associated costs was based on a three year average.

The closures will impact approximately 102 FTEs (196 employees) from the 40 liquor stores as well as 10-15 FTEs in head office, in areas that are impacted by changes to retail operations. The stores will be closed once the new retailers are operating to ensure ongoing service in the community.

A table detailing numbers of affected store employees, locations, total sales and capital costs can be found on page 10 of this background document.

A Level Playing Field

FROM THIS



Currently, liquor is retailed by government liquor stores, full-line private stores, rural franchise stores and off-sale outlets. Within these groups, there are many different rules including different discounts, restrictions on the type of products they can sell, restrictions on what beer products can be refrigerated and differences in how products can be priced. These differences have prevented retailers from operating in a competitive environment and have impacted customer choice, convenience and competitive pricing.

The new expanded private retail model creates a level playing field for all liquor retailers.

Once changes are implemented, all liquor retailers, including the remaining government liquor stores, will operate under a single retail store permit.

TO THIS



- One permit for all retailers
- Same wholesale price for all retailers
- Same operating hours for all retailers
- Can sell any type of chilled product
- Can sell to public and commercial permittees

**More choice. More convenience.
More competitive pricing.**

Retailers will be able to operate standalone stores or stores that are integrated into an existing store (like a grocery store) as long as there is a separate entrance from the outside and from within, and all retail liquor transactions remain separate from the parent business. In communities with a population of less than 2,000, liquor retail sales can occur directly within an existing business (consistent with the existing franchise model), as those communities may not be able to support a standalone or semi-standalone location.

Benefits of a Level Playing Field

	RETAILERS UNDER CURRENT SYSTEM				FUTURE
	SLGA Stores	Franchises	Off-sales	Private Stores	All retailers
Can operate within maximum hours of 9:30 a.m. to 3 a.m.	X	X	✓	X	✓
Can sell any type of chilled product	X	X	✓	✓	✓
Can adjust business model to meet customer needs	X	X	X	X	✓
Operate under the same terms and guidelines as other alcohol retailers	X	X	X	X	✓
Uniform wholesale price	X	X	X	X	✓
Can use flexible retail pricing strategies	X	X	✓	✓	✓

Another important change will see commercial permittees like restaurants, sports facilities and convention centres able to purchase products from any liquor retailer, rather than exclusively having to purchase from SLGA stores and franchises. This new choice will provide these commercial permittees with the opportunity to work with their preferred retailer regarding product prices.

Further details on the level playing field are as follows:

Level Playing Field	Current System
<p>Product Exclusivity Agreements: Any retailer will have the opportunity to enter into an agreement with suppliers designating their products as exclusive to a particular retailer (for example, Co-op beer can be designated as exclusive to Co-op retailers).</p>	<p>No change.</p>
<p>Chilled Product: All retailers will have the ability to sell chilled or frozen product.</p>	<p>SLGA Stores & Franchises: Can only chill premium beer in package sizes of 15 units or less and/or 4 or 6 pack refreshment products priced at a minimum of \$10.99 and \$13.49, respectively (price point indicates premium product.)</p> <p>Private Stores & Off-Sales: Currently are able to chill any product.</p>
<p>Mainstream Beer: All retailers will have equal access to any beer products available for distribution, including access to mainstream beer.</p>	<p>Franchises: of 190 franchises, only 84 are allowed to sell mainstream beer (ex: Molson Canadian, Budweiser, Coors Light). The rest can only sell premium beer (ex: Heineken, Corona, Moosehead).</p>
<p>Open Pricing: All retailers will be able to set their own prices provided they meet social reference pricing (SRP).</p>	<p>Private Stores: Can open price (subject to SRP).</p> <p>Off-Sales: Can open price (subject to SRP).</p> <p>SLGA Stores & Franchises: Consistent pricing throughout the province except on special order products obtained by franchises which can be open priced.</p>
<p>Displayed Retail Price: Retailers will be allowed to display retail prices as the amount either before or after taxes and deposit.</p>	<p>SLGA stores display the final retail price of alcohol including taxes and deposit. Franchises and private stores, as required by SLGA, display the final retail price of alcohol including taxes and deposit.</p> <p>Off-Sales: Currently allowed to determine how to display retail price.</p>
<p>Limited Time Offers (LTOs): All retailers will be able to negotiate LTOs directly with their suppliers at their discretion.</p>	<p>Currently SLGA negotiates LTOs with the suppliers for its stores and the franchises.</p> <p>Off-Sales: Currently have no opportunity to negotiate their own LTOs.</p> <p>Private Stores: Negotiate their own LTOs.</p>

Level Playing Field	Current System
<p>Wholesale Price: A common wholesale price will replace the existing discount structure where retailers receive varying discounts applied to the price of the product.</p>	<p>Private Stores: 16% discount on all product.</p> <p>Off-Sales: Volume-based discount on beer purchased through private distributors (ranging from 10.25% to 13.52%). No discount on any product purchased through SLGA.</p> <p>Franchises: 15.3% discount on products purchased from SLGA and 8.2% on privately distributed beer.</p>
<p>Single Permit: all liquor retailers, including SLGA stores, will operate under a single permit type, resulting in consistent operational parameters for all retailers.</p> <p>The three business models will be:</p> <ol style="list-style-type: none"> 1. Standalone stores; or 2. Semi-standalone stores, where liquor stores are integrated into an existing business (like a grocery store) as long as there is a separate entrance from the outside and from within and all retail liquor transactions remain separate from the parent business; or 3. In communities with a population of less than 2,000, liquor retail sales can occur directly within an existing business, as those communities may not be able to support a standalone or semi-standalone location. 	<p>Private stores and franchises: operate under contracts with SLGA.</p> <p>Off-sales: operate pursuant to an endorsement on the main permit attached to the business (e.g., tavern or restaurant).</p> <p>SLGA stores: Operate pursuant to SLGA’s authority in <i>The Alcohol and Gaming Regulation Act, 1997</i> and operational policies.</p>
<p>Hours of Operation: All retailers will be allowed to establish their hours of operation any time between 8:00 a.m. and 3 a.m.</p>	<p>Private Stores: May operate any day between 8 a.m. and 10 p.m.</p> <p>Off-Sales: Can be open any day from 9:30 a.m. to 3 a.m., but must be open at least six hours each day for five days a week.</p> <p>Franchises: May operate between 8 a.m. and 10 p.m.</p> <p>SLGA: typically open 9:30 a.m. to 9 p.m. Monday through Saturday and noon to 5 p.m. on Sunday in urban centres and 10 a.m. to 6 p.m. Monday to Saturday in rural centres. Closed most statutory holidays.</p>
<p>Product Availability: Retailers will be free to offer the product assortment and develop the product selection that best meets the needs of their customers (sourced through the SLGA warehouse or an authorized distributor.) This will eliminate the existing requirement for a minimum number of SKUs (stock keeping units) to be carried by certain stores.</p>	<p>Private Stores: Minimum of 1,400 SKUs must be carried.</p> <p>Franchises: Minimum of 100 SKUs must be carried.</p>

Level Playing Field	Current System
Bundling and Reward Programs: Retailers will have flexibility to design their market mix including package bundling and bulk discounts. Social reference pricing continues to apply. Retailers will also be able to offer reward or loyalty programs such as Air Miles.	Bundling of beverage alcohol, subject to SRP, has only recently been permitted by SLGA. Private Store: can currently offer reward programs.
Supplier Inducements: Retailers will be allowed to negotiate for incentives/inducements from suppliers provided these inducements do not require the exclusion of any competitor's products.	Currently, with the exception of sports stadiums, theatres, concert premises or convention centres, permittees and retailers cannot accept any significant financial assistance (inducements) from a supplier.

Revenue to Government

The Government of Saskatchewan derives its revenue from liquor sales through the mark-up applied to alcohol products received from suppliers and the Liquor Consumption Tax (LCT) applied on alcohol sold in Saskatchewan.

A mark-up is collected on all alcohol, regardless of whether the products are retailed through a government store or a private retailer. In the case of wine and spirits, the mark-up is a percentage applied to the wholesale price from the supplier. In the case of beer, the mark-up is a fixed rate applied per litre.

Under the new system, a common *wholesale* price will replace any existing discounts and will allow private stores, franchises, government stores and off-sales an equal opportunity to compete in the market by having the ability to source product at the same price. Retailers will then add their own retail markup to determine the price they sell to their customers.

The new wholesale mark-up is designed to collect approximately the same amount of revenue from each product category as exists today. Even though 40 government liquor stores are being converted to private stores, government revenues would remain constant if the new retail store sales volumes in product categories are consistent to what they are currently.

The new wholesale mark-up structure will have four categories, based primarily on alcohol content:

	Products Included	Wholesale Markup	Applicable to
Category 1	<ul style="list-style-type: none"> Beer (<=6.5%) 	1.495/L	National-bottles/cans
Category 2	<ul style="list-style-type: none"> Beer (>6.5%) Spirits, Wine & Refreshments (<=7.0%) 	83%	ALL
Category 3	<ul style="list-style-type: none"> Spirits, Wine & Refreshments (>7.0% to <=14.5%) 	94% 53%	On the first \$12.50/L Any amount over \$12.50/L
Category 4	<ul style="list-style-type: none"> Spirits, Wine & Refreshments (>14.5%) 	125% 83% 56%	On the first \$25.00/L On the next \$12.50/L Any amount over \$37.50/L

Note: Reduced mark-up rates that apply to cottage wineries, microdistilleries, microbreweries and brew pubs are under review and have not been included in the table.

Implementation

No changes will be implemented until after the provincial election scheduled for April 4, 2016. After the election, amendments are required to legislation and regulations with regards to permits, etc. It is anticipated that those changes will be made in spring 2016 with implementation occurring in late spring/early summer.

Table: 40 Stores Overall Operating Ratio

Store Location	Total Sales (000's) **	Operating Expenses (000's) *	Overall Operating Ratio	Owned/Leased (Building Age)	FTEs (Employees)
Battleford	\$ 1,889	\$ 298	15.8%	Lease	2.4 (5)
Broadview	\$ 848	\$ 170	20.1%	Owned (1958)	1.5 (2)
Canora	\$ 1,886	\$ 269	14.3%	Owned (1980)	2.4 (4)
Carrot River	\$ 862	\$ 165	19.2%	Lease	1.6 (2)
Davidson	\$ 961	\$ 182	19.0%	Owned (1960)	1.6 (3)
Foam Lake	\$ 963	\$ 192	19.9%	Owned (1981)	1.7 (3)
Gravelbourg	\$ 1,429	\$ 232	16.2%	Owned (2003)	2.3 (3)
Gull Lake	\$ 799	\$ 155	19.4%	Owned (1978)	1.4 (2)
Hudson Bay	\$ 1,321	\$ 217	16.4%	Owned (1977)	1.9 (6)
Indian Head	\$ 1,712	\$ 301	17.6%	Lease	2.2 (5)
Kamsack	\$ 1,911	\$ 271	14.2%	Owned (1980)	2.6 (4)
Kelvington	\$ 1,123	\$ 207	18.4%	Owned (1977)	2.0 (3)
Kindersley	\$ 4,868	\$ 689	14.2%	Owned Building (2005) /Leased Land	5.6 (11)
Kipling	\$ 1,164	\$ 218	18.8%	Owned (1953)	1.9 (4)
Lanigan	\$ 993	\$ 189	19.0%	Lease	1.8 (4)
Leader	\$ 768	\$ 165	21.5%	Owned (1979)	1.6 (2)
Lloydminster	\$ 1,728	\$ 277	16.0%	Owned (1979)	2.2 (6)
Maple Creek	\$ 1,771	\$ 271	15.3%	Owned (1980)	2.6 (4)
Melfort ***	\$ 5,306	\$ 800	15.1%	Lease	5.8 (11)
Melville	\$ 2,719	\$ 394	14.5%	Owned (1979)	2.8 (7)
Outlook	\$ 1,715	\$ 293	17.1%	Lease	2.1 (4)
Preeceville	\$ 1,187	\$ 190	16.0%	Owned (1980)	1.5 (2)
Raymore	\$ 1,095	\$ 187	17.0%	Lease	1.3 (5)
Regina – Broad St.	\$ 4,039	\$ 669	16.6%	Owned (1982)	5.2 (10)
Rosetown	\$ 1,963	\$ 291	14.8%	Owned (1981)	2.7 (5)
Rosthern	\$ 1,366	\$ 225	16.5%	Lease	1.8 (3)
Saskatoon – 20 th Street	\$ 2,325	\$ 520	22.4%	Lease	4.8 (7)
Saskatoon – Market Mall	\$ 10,888	\$ 1,147	11.9%	Lease	10 (20)
Shaunavon	\$ 1,611	\$ 248	15.4%	Owned (1980)	2.2 (5)
Shellbrook	\$ 1,645	\$ 246	15.0%	Owned (1982)	2.0 (4)
St. Walburg	\$ 1,417	\$ 244	17.2%	Owned (1978)	2.2 (4)
Stoughton	\$ 959	\$ 183	19.1%	Lease	1.6 (2)
Tisdale	\$ 2,636	\$ 409	15.5%	Owned (1978)	3.4 (8)
Unity	\$ 1,623	\$ 246	15.2%	Owned (1979)	2.3 (3)
Wadena	\$ 1,492	\$ 263	17.6%	Owned (1981)	2.1 (5)
Wakaw	\$ 1,180	\$ 195	16.5%	Owned (1980)	1.7 (3)
Waskesiu (Seasonal)	\$ 1,206	\$ 245	20.3%	Lease	1.5 (4)
Watson	\$ 1,158	\$ 204	17.6%	Owned (1981)	1.9 (4)
Wilkie	\$ 873	\$ 182	20.9%	Owned (1979)	1.5 (3)
Wynyard	\$ 1,564	\$ 240	15.4%	Owned (1980)	2.1 (4)
Total	\$76,963	\$12,089			101.8 (196)

* Note: Operating expenses include expenses directly related to running retail locations (salaries/benefits, rent, utilities, snow removal, etc), associated head office costs, inventory costs as well as future capital requirements.

** Note: Sales and operating expenses were calculated on a three year average (2013-2015).

*** Note: Melfort store will be converted once the lease term expires in 2019.

