

LCBO

Strategic Plan 2017-2020





LCBO

WINE SPIRITS BEER  
VINS SPIRITUEUX

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## ABOUT US

# Our Brand

*The LCBO is proud of its strong, reputable and complementary brands that promise to inspire, guide and delight our customers.*



# Our Mission

*The LCBO's mission expresses our overarching, endless business goals and philosophies. It identifies why we exist – our reason for being – and what we seek to accomplish.*

Since 2013/14, our mission has been: we make a difference in Ontario by being a best in class, socially responsible, customer focused and profitable retailer of beverage alcohol.

Our market is changing rapidly, and our responsibilities and role as an organization are changing too. Our wholesale business is increasing in size and importance, and we must seek to embrace and succeed in that role. As a result, we believe it is time to update our mission to reflect the increasing importance of our wholesale role. In doing so, we also wanted to ensure that our mandates of corporate social responsibility, maximizing returns to the people of Ontario, and supporting local products were acknowledged and embraced.

We are excited to have developed a new mission which, we believe, achieves these objectives:

### **LCBO MISSION**

We are a best-in-class, customer-first, responsible retailer and wholesaler, supporting our local communities and delivering value to Ontarians.

# Our Vision

*The LCBO's corporate vision provides an aspirational sense of where we see ourselves in the future.*

Since 2013/14, our vision has been: to be the world's BEST beverage alcohol retailer. This approach has driven how we do business, with a desire to be a customer-focused and efficient retailer.

As in our mission, however, our evolving role as wholesaler means that purely defining our success as a retailer excludes an increasingly important part of our business. At the same time, changes to our competitive landscape will require us to more deliberately define what success means to us and how we intend to compete.

In developing our new vision, we focused on a number of core principles:

- **Our customer is our priority:** for us, our customer is our key focus. In an evolving competitive landscape where shoppers have more choice, it is more important than ever for us to delight our customers and win their loyalty.
- **A broader definition of 'customer':** rather than just looking at our retail business, we wanted to ensure that our definitions of *customer* and *success* include our wholesale business as well.
- **A statement that makes Ontarians proud:** we take great pride in being a Crown agency, supporting important government investments and programs. As a public asset, we wanted a vision that would make Ontarians proud.

In both our retail and wholesale channels, our customer experience is paramount, and we know we can delight our customers by:

- Focusing on our extensive product offering;
- Emphasizing and demonstrating our product knowledge and insights; and
- Bringing global experiences to our local market to engage our communities and enhance our trusted brand.

As a result, we have arrived at a vision which symbolizes how we hope to succeed as a business over the coming years:

## **LCBO VISION**

To deliver remarkable experiences as the trusted destination for the world's wines, beers and spirits.

## ABOUT US

# Our Core Values

*At the LCBO, we have identified and adopted a set of core values to articulate how we do business and what we represent as an organization. Our core values make up the foundation of our commonly-held beliefs and promises. More than just words on a wall, these values are our guiding principles for employee behaviour and organizational decisions and actions.*

In fiscal 2016/17, we added Excellence in Innovation as our fourth objective. After careful consideration, we believe that it is best to elevate this objective into our core value of Excellence to:

- Signal its importance;
- Increase organizational awareness; and
- Focus the mindset and efforts of all our employees.

The LCBO strives to foster a culture of innovation and to pursue new opportunities in an evolving environment. Innovation will underpin our three objectives (customer experience, operational efficiency and employee experience), and must be a way of working at the LCBO every day. We encourage new thinking, the testing of new ideas and adopting proven concepts.





## Customer Service

We value our customers and are committed to providing engaging customer service.

**Our people are welcoming, responsible, outgoing, creative and connected; they are the ambassadors of our brand.**

Our people provide the human touch that creates excellence in the customer experience.

## Integrity

**We operate with integrity, transparency and good faith in all of our interactions.**

We listen carefully, and treat one another with respect. We are honest, trustworthy and ethical.

## Excellence

We embrace innovation and learning. We value the ability to anticipate and respond to a changing business environment, to create solutions for new challenges. **We encourage new thinking, the testing of new ideas and adopting proven concepts.** We understand the power of community and draw on the strength of people working together.

## Social Responsibility

**Social responsibility is a public trust that we take very seriously.** We promote responsible retailing and consumption by **informing and educating our customers and stakeholders in the responsible and safe use of the products we sell.** Our social responsibility efforts also encompass product quality and safety, environmental initiatives that produce positive change, support of communities we do business in, and partnerships with worthy causes.

## Health & Safety

**We value the health and safety of our employees, customers, business partners and the communities** in which we operate. **Health and safety is an integral part of our daily workplace.** We are a good neighbour. We look out for each other, adopting and practicing a safety-first mentality.

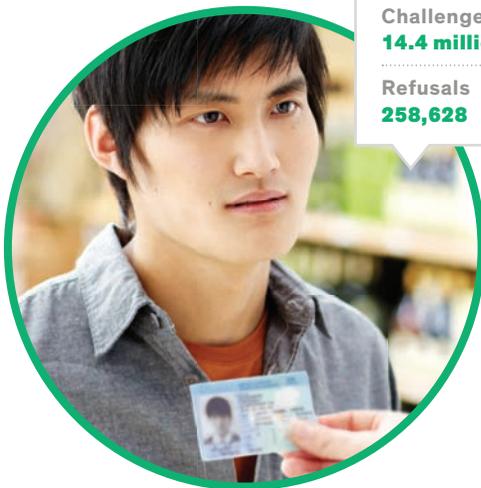
## INTERNAL & EXTERNAL ASSESSMENT

# Assessment of Strategic Progress

### A SUMMARY OF LCBO 2016/17 PERFORMANCE\*

We monitor the progress of our strategic plan through key metrics. By evaluating our performance relative to our mandates and objectives, we can review progress and ensure we are on track.

### CORPORATE SOCIAL RESPONSIBILITY\*\*



Challenges  
**14.4 million** ▼ **0.8%** Y/Y decrease

Refusals  
**258,628** ▼ **25.2%** Y/Y decrease

Total Fundraising  
**\$13.3 million**  
▲ **22.0%** Y/Y increase



# of Customer Product Quality  
Complaints Requiring Investigation

**216 complaints** ▲ **35.8%** Y/Y increase

Average Investigated Customer  
Complaint Response Time

**6.4 days** ▼ **6.9 days** Y/Y decrease



% Reduction in Same-  
Store Electricity Use  
▼ **1%** Y/Y decrease

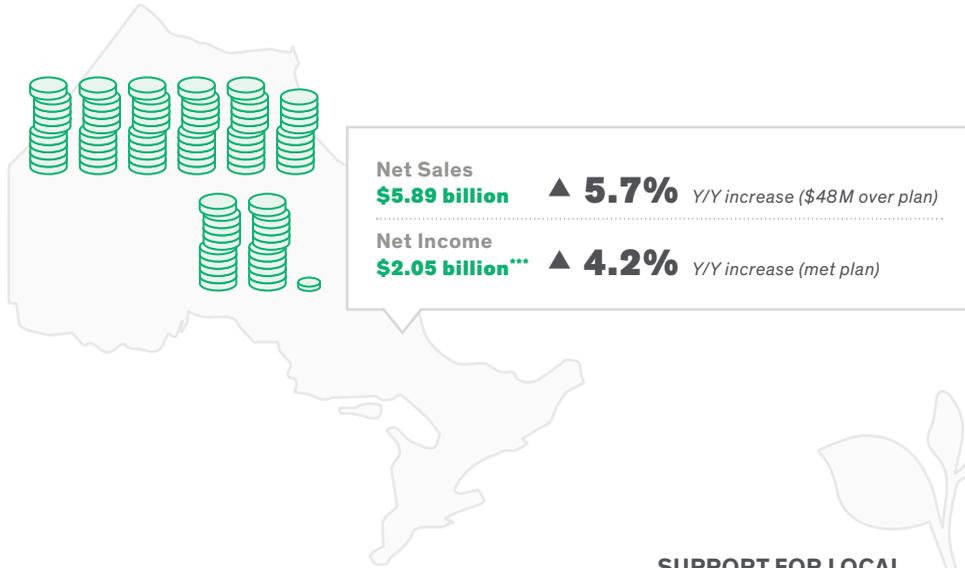
\* Fiscal results forecasted based on LCBO year-to-date performance to Period 12 unless otherwise stated.

\*\* Fiscal 2016/17 results.

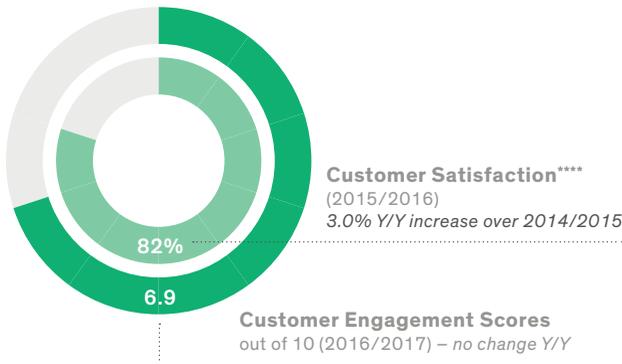
\*\*\* Excludes Extraordinary Gain – HO Sale.

\*\*\*\* 2015/16 results. The Customer Satisfaction survey will be replaced by the more robust Customer Engagement Study going forward.

## MAXIMIZE RETURNS TO THE PEOPLE OF ONTARIO



## EXCELLENCE IN CUSTOMER EXPERIENCE



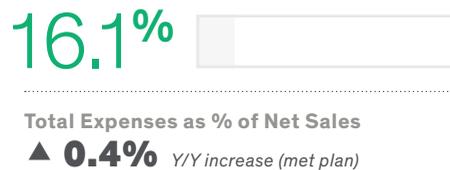
## SUPPORT FOR LOCAL ONTARIO PRODUCERS

NET SALES	
<b>VQA Wine</b> <sup>1</sup> \$148.6 million	▲ <b>7.3%</b> <i>Y/Y increase</i>
<b>ICB Wine</b> <sup>2</sup> \$293.4 million	▲ <b>6.5%</b> <i>Y/Y increase</i>
<b>Craft Beer</b> \$98.4 million	▲ <b>38.0%</b> <i>Y/Y increase</i>
<b>Craft Cider</b> \$7.3 million	▲ <b>43.3%</b> <i>Y/Y increase</i>
<b>Craft Spirits</b> \$6.2 million	▲ <b>60.5%</b> <i>Y/Y increase</i>

<sup>1</sup> VQA: Vintners Quality Alliance

<sup>2</sup> ICB: International-Canadian Blends

## EXCELLENCE IN OPERATIONAL EFFICIENCY



† Excludes all product not flowing through LCBO Supply Chain and Retail network.

# Our Marketplace

### **THE ECONOMY**

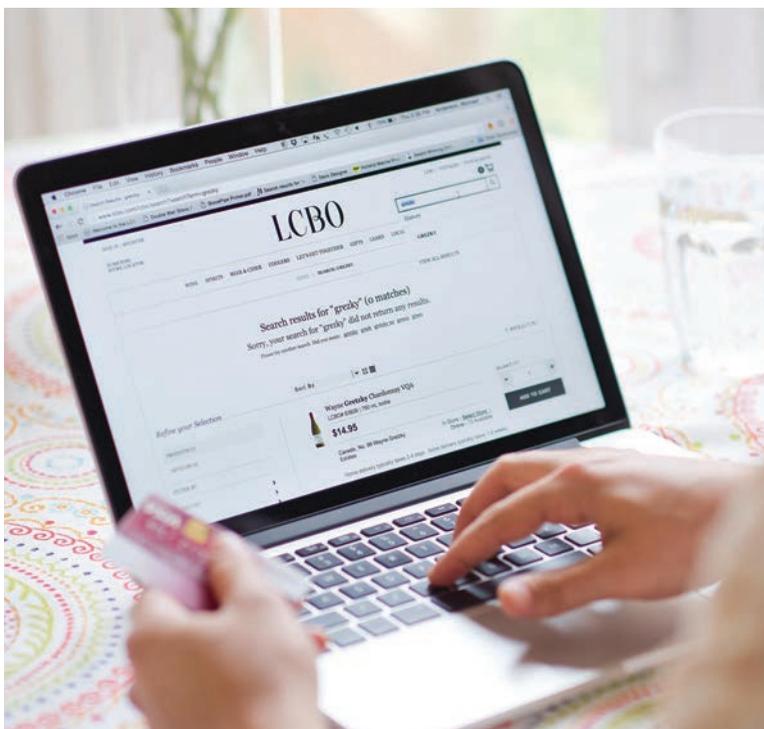
Although Ontario's economic growth is expected to moderate slightly in 2017, prevailing favourable conditions and steady consumer confidence are expected to provide a supportive foundation for consumer spending. Ontario retail sales are forecast to grow, albeit at a slower rate than in 2016, and this is a good indication that beverage alcohol sales should be solid over the medium term.

### **BEVERAGE ALCOHOL SECTOR**

Ontario's beverage alcohol marketplace is shifting faster than ever before. The provincial government is expanding the sale of beer and cider in up to 450 grocery stores across the province, and up to 300 of these stores will also sell wine. By the summer of 2017, over 200 of these stores are expected to be operational.

In this evolving competitive landscape, we must work harder than ever to improve our retail customer experience to win the trust and loyalty of our customers for our share of the beverage alcohol market. With changing customer preferences, we will further evolve our network and offering to delight our customers. We will leverage our key strengths, including our staff expertise and product selection, and continue to advance our online and digital offering to deliver a best-in-class beverage alcohol shopping experience in a socially responsible manner.

At the same time, we must recognize that grocery stores represent an important customer of the LCBO and an opportunity for a new partnership to benefit Ontarians. Grocery stores enter into a wholesale agreement with the LCBO to purchase beer and wine for resale to the public. As a result, our wholesale channel, which includes grocery stores, restaurants and bars and others, will increase in volume and importance. We will continue to enhance our wholesaling practices and capabilities to further develop as a trusted and service-oriented partner.



# Mandates

*Areas to fulfill as a best-in-class retailer and wholesaler*



## **CORPORATE SOCIAL RESPONSIBILITY**

To be a socially responsible, transparent organization, recognized by Ontarians for our actions that support:

- Responsible retailing and moderate consumption of alcohol;
- Product quality and safety;
- Environmental sustainability;
- Community involvement and fundraising.

## **MAXIMIZE RETURNS TO THE PEOPLE OF ONTARIO**

To maximize returns to the people of Ontario by generating a total of \$6.6 billion in net income over the next 3 years (2017/18 – 2019/20).

## **SUPPORT OF LOCAL ONTARIO PRODUCTS**

To provide ongoing support to grow the sales of local Ontario products.



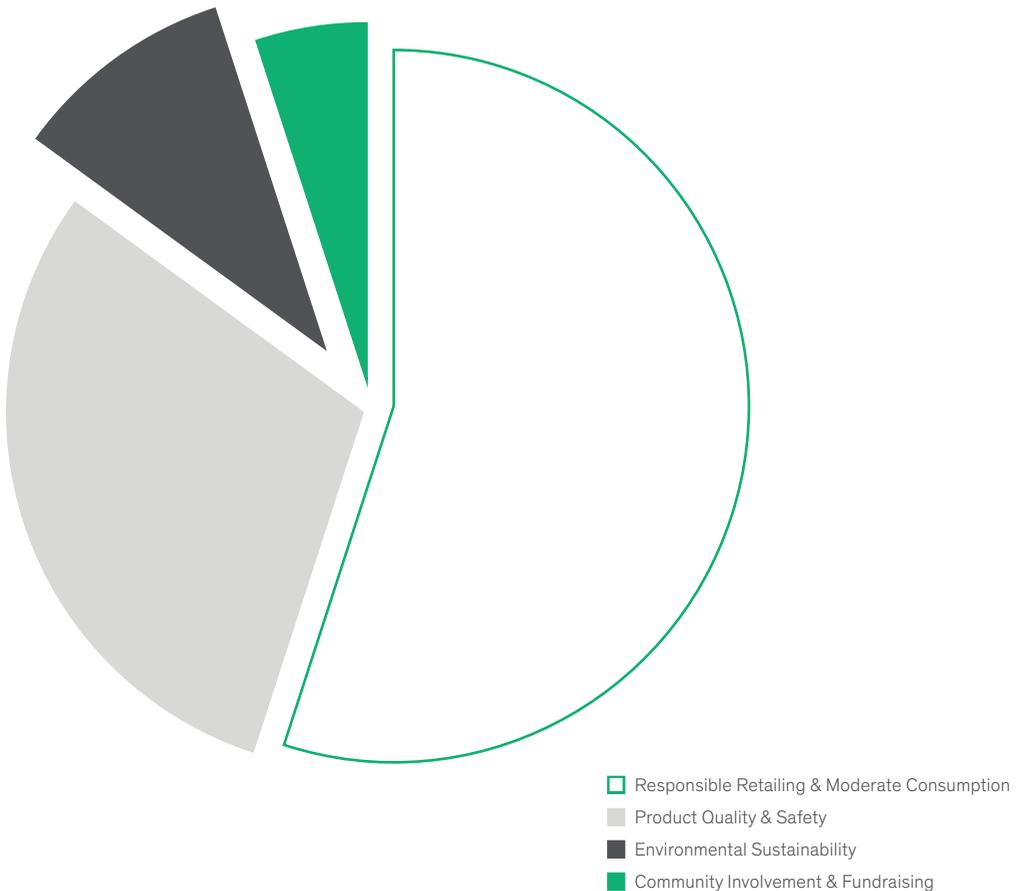
## MANDATES

# Corporate Social Responsibility

### OUR CORPORATE SR MANDATE

*The LCBO works continuously to make a positive difference across its four CSR pillars. We evolve, integrate, evaluate and report our corporate social responsibility strategies in a transparent manner, raising awareness and support, and encouraging desired behaviour from our communities and partners.*

### CORPORATE SR KEY PERFORMANCE INDICATOR WEIGHTING



**PILLAR 1**  
**RESPONSIBLE RETAILING & MODERATE CONSUMPTION**

There are three strategies under this pillar:

**1 Culture: The Way We Live It**

Mobilize the LCBO's scale and influence by creating a Coalition of Care that unites our employees, trade partners, suppliers, licensees, other liquor boards, the public and the Ontario government.

**2 Front-line Staff: The Way We Do It**

Ensure social responsibility at our point-of-sale remains a clear point of difference by providing LCBO front-line staff with the tools they need to be empowered, supported and valued, and share these tools, where possible, with other beverage alcohol partners.

**3 Customers: The Way To Enjoy It**

Market our products in a way that grows the business responsibly, while encouraging a culture of moderation.

**METRIC/KPI**

- **Annual Totals – Challenges and Refusals**

**PILLAR 2**  
**PRODUCT QUALITY & SAFETY**

At the LCBO, we ensure all products are authentic, safe for consumption and compliant with federal, provincial and LCBO standards for composition, quality, and packaging and labelling.

**METRIC/KPI**

- **Number of customer product quality complaints requiring investigation**
- **Average investigated customer product quality complaint response time**

**PILLAR 3**  
**ENVIRONMENTAL SUSTAINABILITY**

We continue to take proactive steps to promote environmental sustainability in all our locations, and through partnerships and leadership of environmental initiatives that produce positive change.

Over the next three years, we will continue to lessen our environmental footprint and reduce operating costs through waste reduction, energy efficiency and other sustainability initiatives.

**METRIC/KPI**

- **1% reduction in same-store electricity use per year**

**PILLAR 4**  
**COMMUNITY INVOLVEMENT & FUNDRAISING**

We take great pride in supporting our communities and in our ability to partner with our customers and business partners to support and raise funds for worthy causes.

**METRIC/KPI**

- **Total fundraising**



## MANDATES

# Maximize Returns to the People of Ontario

### OUR FINANCIAL CONTRIBUTION MANDATE

*The LCBO will continue to maximize returns to our owner, the Government of Ontario. Revenues generated through the LCBO support key public programs and services for Ontarians, including health care, education and infrastructure as well as communities in Ontario. We will grow our sales and ensure maximum profitability by further improving operational efficiency and tailoring product assortment and services to our customers. We will continue to invest in technology and other capital improvements to keep operations running efficiently and to support growing sales.*

### SALES PERFORMANCE AND PROFIT TARGETS

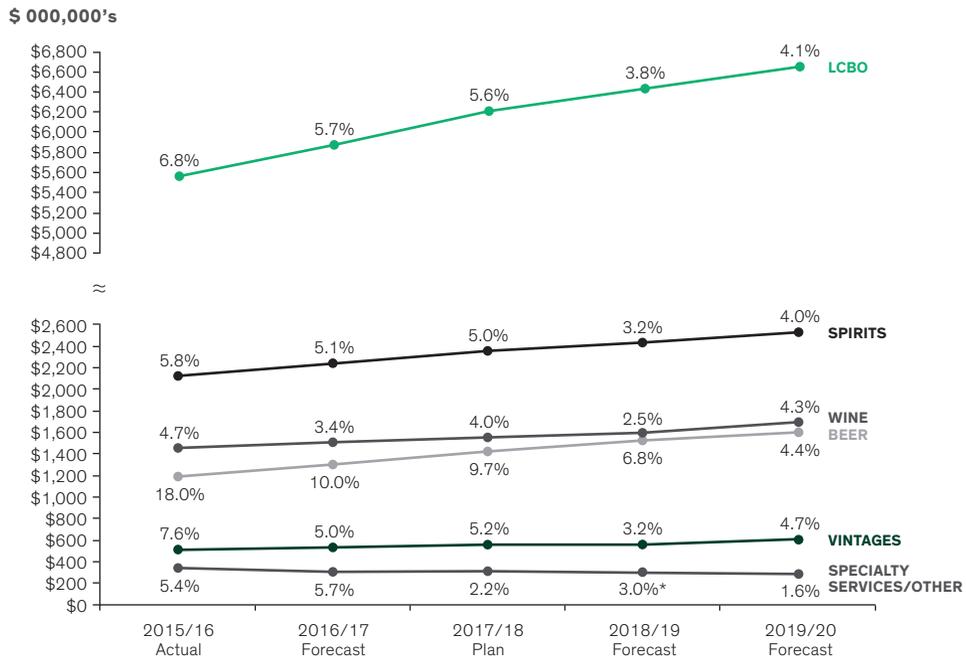
Income Statement						
\$ 000,000's	2015/16 Actual	2016/17 Forecast	2017/18 Plan	2018/19 Forecast	2019/20 Forecast	Total Rolling 3-Year Plan 2017/18 to 2019/20
<b>Net Sales</b>	\$5,569	\$5,888	\$6,220	\$6,458*	\$6,723	\$19,400
<i>Yr/Yr % Increase</i>	6.8%	5.7%	5.6%	3.8%	4.1%	
<b>COGS</b>	\$2,785	\$2,944	\$3,110	\$3,235	\$3,364	\$9,708
<i>Yr/Yr % Increase</i>	7.5%	5.7%	5.6%	4.0%	4.0%	
<b>Gross Margin</b>	\$2,785	\$2,944	\$3,110	\$3,223	\$3,359	\$9,692
<i>Yr/Yr % Increase</i>	6.1%	5.7%	5.6%	3.6%	4.2%	
<i>GM %</i>	50.0%	50.0%	50.0%	49.9%	50.0%	50.0%
<b>Operating Expenses</b>	\$720	\$780	\$833	\$880	\$933	\$2,646
<i>Yr/Yr % Increase</i>	5.1%	8.4%	6.7%	5.7%	6.0%	
<i>as % of Net Sales</i>	12.9%	13.3%	13.4%	13.6%	13.9%	13.6%
<b>Other Expenses</b>	\$152	\$168	\$181	\$186	\$194	\$561
<i>Yr/Yr % Increase</i>	(0.2%)	10.4%	7.7%	2.7%	4.1%	
<i>as % of Net Sales</i>	2.7%	2.9%	2.9%	2.9%	2.9%	2.9%
<b>Total Expenses</b>	\$872	\$949	\$1,014	\$1,066	\$1,127	\$3,207
<i>Yr/Yr % Increase</i>	4.1%	8.8%	6.9%	5.2%	5.7%	
<i>as % of Net Sales</i>	15.7%	16.1%	16.3%	16.5%	16.8%	16.5%
<b>Operating Income</b>	\$1,912	\$1,995	\$2,096	\$2,156	\$2,232	\$6,484
<i>Yr/Yr % Increase</i>	7.1%	4.3%	5.0%	2.9%	3.5%	
<b>Other Income</b>	\$55	\$326	\$41	\$43	\$43	\$127
<i>Yr/Yr % Increase</i>	70.2%	488.9%	(87.4%)	3.9%	1.4%	
<b>Net Income</b>	\$1,968	\$2,321	\$2,137	\$2,199	\$2,276	
<b>Normalized Net Income**</b>	\$1,968	\$2,050	\$2,137	\$2,199	\$2,276	\$6,612
<i>Yr/Yr % Increase</i>	8.2%	4.2%	4.3%	2.9%	3.5%	
<b>as % of Net Sales</b>	35.3%	39.4%	34.4%	34.1%	33.9%	34.1%
<b>Capital Expenditures</b>	<b>\$76</b>	<b>\$83</b>	<b>\$85</b>	<b>\$85</b>	<b>\$85</b>	<b>\$255</b>

\* IFRS 15 will result in an accounting change for Winery Direct sales as of fiscal 2018/2019 and in subsequent years, reducing total sales by approximately \$70M per year while having no impact on recorded margin. For comparability purposes, this IFRS adjustment is not reflected in the numbers above.

\*\* Excludes Extraordinary Gain – HO Sale (\$272M for 2016/17).

## SALES TARGETS

		Sales				
\$ 000,000's		2015/16 Actual	2016/17 Forecast	2017/18 Plan	2018/19 Forecast	2019/20 Forecast
<b>Spirits</b>		\$2,131	\$2,239	\$2,351	\$2,425	\$2,521
	Yr/Yr % Change	5.8%	5.1%	5.0%	3.2%	4.0%
<b>Wine</b>		\$1,451	\$1,500	\$1,560	\$1,598	\$1,667
	Yr/Yr % Change	4.7%	3.4%	4.0%	2.5%	4.3%
<b>Beer</b>		\$1,181	\$1,299	\$1,425	\$1,522	\$1,589
	Yr/Yr % Change	18.0%	10.0%	9.7%	6.8%	4.4%
<b>Vintages</b>		\$511	\$538	\$566	\$584	\$612
	Yr/Yr % Change	7.6%	5.0%	5.2%	3.2%	4.7%
<b>Specialty Services, Direct Delivery, Other</b>		\$295	\$311	\$318	\$328*	\$333
	Yr/Yr % Change	5.4%	5.7%	2.2%	3.0%	1.6%
<b>Total Corporate</b>		\$5,569	\$5,888	\$6,220	\$6,458	\$6,723
	Yr/Yr % Change	6.8%	5.7%	5.6%	3.8%	4.1%



## MANDATES

# Support of Local Ontario Products

### OUR LOCAL ONTARIO MANDATE

*The LCBO is proud to showcase Ontario's first-rate local products, which we will continue to elevate through collaborative efforts. As shown through our sales growth, customers are embracing products from Ontario's vintners, craft brewers, craft cideries, and artisanal spirits producers.*

The LCBO has a comprehensive set of marketing and merchandising programs to support Ontario wine. Ontario wines are located at the entrance of most stores and are displayed on higher quality wood fixtures to set them apart from wines of other regions. We have more than 330 WOW (World of Ontario Wines) leaders, expert staff trained in wines from across Ontario. We also feature 20 *Our Wine Country Ontario Boutiques*, stores-within-a-store featuring a remarkable assortment of the best Ontario wines available.

Ontario craft beer is supported in our stores through prominent in-store positioning. Our Ontario Craft Beer sections offer customers ongoing new and seasonal releases (customized to trade areas) and, across our network, our expert staff are trained through our Beer Ambassador program. In addition to this, we now have two *Growler Stops* in Ontario. These enhance the craft beer and local sensation by offering a chance to sample a changing selection of craft beers on tap and to bring home a growler. The first Stop was launched at our Summerhill location in Toronto and our second one opened in summer 2016 in Ottawa at our Landsdowne Park location.

The Ontario Craft Cider category continues to be one of the fastest growing in the LCBO. Spring 2017 will bring, in addition to apple ciders, new specialty ciders made with in-season local fruits like pear, peach or cherry. The LCBO will also include locally produced craft products in cider marketing and merchandising programs.

We also recognize the importance of local micro-distilled spirits. Customers are increasingly interested in this segment and we hold promotional programs directly focused on local artisanal spirits producers. To further this strategy, we have specialized staff trained through our Spirits Advocate program who deliver an engaging customer experience by helping to take the mystery out of the bottle. Advocates provide information on taste profiles and practical advice about serving, mixing and the versatility of spirits.

To support the growth of Ontario's great products and augment customer service, we intend to expand our number of staff with expertise in local products.

## SALES TARGETS

\$ 000,000's	Sales				
	2015/16 Actual	2016/17 Forecast	2017/18 Plan	2018/19 Forecast	2019/20 Forecast
<b>Ontario VQA Wine<sup>1</sup></b>	\$138.5	\$148.6	\$171.5	\$187.7	\$199.9
<i>Yr/Yr % Change</i>	7.3%	7.3%	15.4%	9.4%	6.5%
<b>ICB Wine<sup>2</sup></b>	\$275.6	\$293.4	\$304.9	\$315.8	\$328.2
<i>Yr/Yr % Change</i>	8.5%	6.5%	3.9%	3.6%	3.9%
<b>Ontario Craft Beer</b>	\$71.4	\$98.4	\$131.0	\$146.8	\$166.5
<i>Yr/Yr % Change</i>	40.0%	38.0%	33.0%	12.1%	13.4%
<b>Ontario Craft Cider</b>	\$5.1	\$7.3	\$10.4	\$14.7	\$20.7
<i>Yr/Yr % Change</i>	54.1%	43.3%	42.6%	41.1%	40.3%
<b>Ontario Craft Spirits</b>	\$3.9	\$6.2	\$9.1	\$12.5	\$16.5
<i>Yr/Yr % Change</i>	68.5%	60.5%	46.9%	37.1%	32.4%

<sup>1</sup> VQA: Vintners Quality Alliance

<sup>2</sup> ICB: International-Canadian Blends



# Looking to the Future

*Putting this three-year plan in context*

As a result of the broader changes to Ontario's beverage alcohol sector, we must ask ourselves some fundamental questions about where and how we hope to compete and succeed in our new marketplace. These questions include:

- How should we adjust our organizational emphasis across our retail and wholesale businesses?
- On what dimensions should we focus in our various sales channels?
- What will the desired customer journey and experience for beverage alcohol customers be in the future? How might this vary across segments?

This plan is intended to set us on a path toward improved customer-centricity and to begin to identify sources of competitive advantage for our business. At the same time, recognizing that our broader – and longer-term – strategic discussions are still ongoing, this plan is intended to be a transitional document until that work is completed.



# Strategic Priorities

*Areas of focus to achieve our vision*



## **OBJECTIVE 1 EXCELLENCE IN CUSTOMER EXPERIENCE**

To create a customer comes first culture throughout the organization and consistently delight our customers.



## **OBJECTIVE 2 EXCELLENCE IN OPERATIONAL EFFICIENCY**

Constantly strive to increase efficiency by focusing on ways to simplify and streamline business practices.



## **OBJECTIVE 3 EXCELLENCE IN EMPLOYEE EXPERIENCE**

To develop a dynamic, collaborative and diverse LCBO where our people thrive, partnerships prevail and performance excels.



— ○ **CAPABILITIES:** ○ —  
*Insights-Driven Culture*



## STRATEGIC PRIORITIES

# Excellence in Customer Experience

### OBJECTIVE 1

*To create a customer comes first culture throughout the organization and consistently delight our customers.*

**Increase Customer Engagement from 6.9 to 7.1 by 2019/20.**

**Investigate approaches to evaluate customer experience compared to alternative retail channels and across retail and wholesale.**

### SITUATION ANALYSIS

When we think of our customers, we think of all of our customers – both retail and wholesale. We will provide first-rate service and enhance customer experience, convenience and choice for Ontarians by focusing on the following core areas:

#### Service and empowerment

Our customer engagement surveys indicate that customers want to learn more about the products we sell. We are committed to investing in our people, ensuring that our store employees are well-trained and have the right resources to provide the information customers want. This mindset is essential for us to meet our goal of delivering a knowledgeable and helpful shopping experience.

At the same time, our wholesale channel will increase in volume and importance. We are determined to approach these customers with the same attitude, delivering excellent service and making it easy for them to do business with us.

#### Frictionless customer experience

Our customer engagement surveys reveal that shopping, both in stores and online, should be easy, convenient and enjoyable. We also know that customers expect shopping channels to complement one another, providing an integrated experience.

Because of this, we continue to invest in our online and digital capabilities, ensuring that customers can interact with us where and how they prefer to. With the launch of the LCBO's new e-commerce platform, everyone in Ontario now has access to almost 5,000 products – similar to that of one of our flagship stores – with up to 8,000 over the course of 2017. We will continue to enhance our e-commerce offering to delight our customers, pursuing a customer experience that is frictionless and complements our stores.

## Personalized customer experience

It's imperative that retailers have access to advanced analytics capabilities to help them determine key customer insights, spot growth opportunities and ultimately define the best investments for their customers and organizations.

The LCBO will continue to build its skillset when it comes to understanding our customers so we can meet and exceed their expectations, using analysis and insights to improve decision-making. These approaches will help us better tailor our product offering, marketing, and store design and enable better decisions across the organization.

PRIORITY STRATEGIES	KEY INITIATIVES
<p><b>Establish an omni-channel experience that is highly personalized and delivers on customers' terms</b></p> <p><i>Customer outcome: We provide an engaging and integrated shopping experience that encourages education and browsing in a fun and entertaining environment.</i></p>	<ul style="list-style-type: none"> <li>• Develop a strategy for our network of the future that addresses our changing landscape and customers and establishes a holistic view of our customer experience</li> <li>• Enhance our e-commerce business and establish a global marketplace for our customers</li> <li>• Review long-term loyalty strategy</li> </ul>
<p><b>Continue to enhance and emphasize our knowledgeable and helpful service experience for both retail and wholesale customers</b></p> <p><i>Customer outcome: We consistently deliver an approachable, knowledgeable and helpful service experience for our customers across shopping channels.</i></p>	<ul style="list-style-type: none"> <li>• Continue to implement our "Customer First" approach and invest in and build the skillset and profile of our in-store experts</li> <li>• Establish a customer-centric approach to serving our wholesale customers, including by leveraging technology to support onboarding and ongoing integration</li> </ul>
<p><b>Demonstrate and tailor our strong product assortment across our channels and partners</b></p> <p><i>Customer outcome: For both retail and wholesale customers, we provide the right product to the right channel at the right time, in stock.</i></p>	<ul style="list-style-type: none"> <li>• Tailor our assortment across channels to delight our diverse customers</li> <li>• Differentiate the LCBO through a focus on high rotation products, Spirits, Vintages, Craft Beer and retail theatre</li> <li>• Centralize product assortment decisions to ensure that the right products reach the right stores at the right time</li> </ul>
CAPABILITIES	KEY INITIATIVES
<p><b>Establish an insights-driven culture and organizational access to high quality data</b></p> <p><i>Customer outcome: We empower customers to make confident purchasing and entertaining decisions.</i></p>	<ul style="list-style-type: none"> <li>• Enhance our customer analytics capability by connecting all data sources regarding customer needs and behaviours</li> </ul>



## STRATEGIC PRIORITIES

# Excellence in Operational Efficiency

### OBJECTIVE 2

*Constantly strive to increase efficiency by focusing on ways to simplify and streamline business practices.*

**Target inventory turns of 7.6 in 2019/20.**

**Target total expenses as % of net sales of 16.8% in 2019/20.**

### SITUATION ANALYSIS

The LCBO is committed to delivering processes, services and activities efficiently and effectively. This means making the best use of time and other resources to maximize our profitability.

It also means balancing operationally efficient activities with meeting our customers' needs. We will be making new and meaningful investments in our operations, technology, and people that will enhance our customer service and experience for years to come. We will carefully manage costs while delivering these investments. Our ultimate goal is to continuously improve how we operate, grow the business responsibly and exceed our partners' expectations.

We have a deep understanding of core business processes and their impact on desired results. This, combined with a focus on strong cross-functional collaboration and communication, is essential to the LCBO's continued success.

By applying analytics, research and comprehensive business cases and testing, we will be able to identify the best new opportunities and innovations that are aligned with operational efficiency considerations, pursuing and implementing those that balance the customer with efficiency.

PRIORITY STRATEGIES	KEY INITIATIVES
<p><b>Optimize supply chain through collaborative planning and execution with internal and external partners</b></p>	<ul style="list-style-type: none"> <li>• Optimize cost effectiveness and service levels through integrated warehouse and inventory management</li> </ul>
<p><b>Leverage technology and re-engineer processes to maximize operational efficiency</b></p>	<ul style="list-style-type: none"> <li>• Improve/modify processes, including by integrating order management and merchandise financial planning across business lines</li> <li>• Enhance retail store efficiencies</li> <li>• Establish approaches to make testing and adoption easier</li> </ul>
<p><b>Align divisional practices and key performance indicators with organization-wide priorities</b></p>	<ul style="list-style-type: none"> <li>• Enhance strategic planning process to incorporate bold aspiration and adaptability to meet the changing market</li> <li>• Develop a process to improve concrete guidance and accountability for employees</li> </ul>
CAPABILITIES	KEY INITIATIVES
<p><b>Establish an insights-driven culture and organizational access to high quality data</b></p>	<ul style="list-style-type: none"> <li>• Enable organization-wide access to high quality data by establishing appropriate governance and integrating data sources</li> </ul>



## STRATEGIC PRIORITIES

# Excellence in Employee Experience

### OBJECTIVE 3

*To develop a dynamic, collaborative and diverse LCBO where our people thrive, partnerships prevail and performance excels.*

**Target to conduct bi-annual senior team reporting and review of divisional and corporate engagement action plans.**

**Target of two (2) organizational employee pulse surveys. A best practice benchmark will be established.**

**By the end of 2019/20, reduce the number of total recordable health and safety claims by more than one-third, compared to the 2016/17 base fiscal year.**

### SITUATION ANALYSIS

The LCBO has a lot to offer as an employer. We have a leading, world-class brand; an increasingly adventurous mindset where new innovations and empowered teams are producing great work; a robust professional development approach; a great work-life balance; and experience in a fun and evolving industry.

With changing customer preferences and an evolving competitive landscape, we must ensure we have an effective organizational structure that allows the LCBO to be agile and respond to our customers. We are designing a modern, flexible workplace where employees are engaged, empowered and set up for success.

In this new environment, talent management is critical to our future success and transformation. We must employ progressive talent acquisition strategies and promote our strong employer brand to attract top talent to the organization. At the same time, we must continue our internal focus on talent, identifying and developing our future leaders and successors.

The LCBO has placed a priority on creating an excellent employee experience. We know that the level of employee engagement is directly correlated to the success of the organization. We have undertaken a number of initiatives to improve engagement including enhanced employee learning and career development as well as improved performance management and feedback. We believe hearing directly from employees is critical to an excellent employee experience, and we are moving to more frequent and targeted employee surveys to better respond to our employees' feedback. We are confident that we will make the LCBO an even greater place to work.

PRIORITY STRATEGIES	KEY INITIATIVES
<b>Develop an integrated approach to talent management</b>	<ul style="list-style-type: none"> <li>• Implement a progressive, organization-wide approach to talent and performance management and succession planning</li> <li>• Enhance the talent acquisition strategy and our employer brand</li> </ul>
<b>Lead organizational and cultural transformation</b>	<ul style="list-style-type: none"> <li>• Develop and implement an organizational operating model that supports the LCBO's transition to a customer-centric wholesaler, omni-channel retailer</li> <li>• Lead workforce preparedness for the new, more competitive marketplace through the development of key capabilities and cultural transformation</li> </ul>
<b>Develop a sustainable and competitive labour and compensation model</b>	<ul style="list-style-type: none"> <li>• Champion an interest-based, collaborative labour relations renewal with a focus on preparing for the changing market reality</li> <li>• Review the organization's rewards compensation strategy to support the talent needed to succeed in a more competitive environment</li> </ul>
CAPABILITIES	KEY INITIATIVES
<b>Establish an insights-driven culture and organizational access to high quality data</b>	<ul style="list-style-type: none"> <li>• Deliver operational efficiencies and facilitate data-informed decision-making through an HR management system and self-service opportunities for employees/managers</li> </ul>



## APPENDIX

# LCBO Three-Year Financial Plan

Income Statement						
\$ 000,000's	2015/16 Actual	2016/17 Forecast	2017/18 Plan	2018/19 Forecast	2019/20 Forecast	Total Rolling 3-Year Plan 2017/18 to 2019/20
<b>Net Sales</b>	\$5,569	\$5,888	\$6,220	\$6,458*	\$6,723	\$19,400
<i>Yr/Yr % Increase</i>	6.8%	5.7%	5.6%	3.8%	4.1%	
<b>COGS</b>	\$2,785	\$2,944	\$3,110	\$3,235	\$3,364	\$9,708
<i>Yr/Yr % Increase</i>	7.5%	5.7%	5.6%	4.0%	4.0%	
<b>Gross Margin</b>	\$2,785	\$2,944	\$3,110	\$3,223	\$3,359	\$9,692
<i>Yr/Yr % Increase</i>	6.1%	5.7%	5.6%	3.6%	4.2%	
<i>GM %</i>	50.0%	50.0%	50.0%	49.9%	50.0%	50.0%
<b>Operating Expenses</b>	\$720	\$780	\$833	\$880	\$933	\$2,646
<i>Yr/Yr % Increase</i>	5.1%	8.4%	6.7%	5.7%	6.0%	
<i>as % of Net Sales</i>	12.9%	13.3%	13.4%	13.6%	13.9%	13.6%
<b>Other Expenses</b>	\$152	\$168	\$181	\$186	\$194	\$561
<i>Yr/Yr % Increase</i>	(0.2%)	10.4%	7.7%	2.7%	4.1%	
<i>as % of Net Sales</i>	2.7%	2.9%	2.9%	2.9%	2.9%	2.9%
<b>Total Expenses</b>	\$872	\$949	\$1,014	\$1,066	\$1,127	\$3,207
<i>Yr/Yr % Increase</i>	4.1%	8.8%	6.9%	5.2%	5.7%	
<i>as % of Net Sales</i>	15.7%	16.1%	16.3%	16.5%	16.8%	16.5%
<b>Operating Income</b>	\$1,912	\$1,995	\$2,096	\$2,156	\$2,232	\$6,484
<i>Yr/Yr % Increase</i>	7.1%	4.3%	5.0%	2.9%	3.5%	
<b>Other Income</b>	\$55	\$326	\$41	\$43	\$43	\$127
<i>Yr/Yr % Increase</i>	70.2%	488.9%	(87.4%)	3.9%	1.4%	
<b>Net Income</b>	\$1,968	\$2,321	\$2,137	\$2,199	\$2,276	
<b>Normalized Net Income**</b>	\$1,968	\$2,050	\$2,137	\$2,199	\$2,276	\$6,612
<i>Yr/Yr % Increase</i>	8.2%	4.2%	4.3%	2.9%	3.5%	
<b>as % of Net Sales</b>	35.3%	39.4%	34.4%	34.1%	33.9%	34.1%
<b>Capital Expenditures</b>	<b>\$76</b>	<b>\$83</b>	<b>\$85</b>	<b>\$85</b>	<b>\$85</b>	<b>\$255</b>

\* IFRS 15 will result in an accounting change for Winery Direct sales as of fiscal 2018/2019 and in subsequent years, reducing total sales by approximately \$70M per year while having no impact on recorded margin. For comparability purposes, this IFRS adjustment is not reflected in the numbers above.

\*\* Excludes Extraordinary Gain – HO Sale (\$272M for 2016/17).

# Communications Plan

*The LCBO is committed to timely, effective and transparent internal and external communications with key stakeholders including the public, our customers, the media, the beverage alcohol industry and social responsibility groups, as well as the government and our employees. Clear communication is critical to the LCBO fulfilling its mandates of corporate social responsibility, maximizing returns to the people of Ontario and supporting local products.*

On an annual basis, the LCBO develops a communications plan to support organizational priorities. The plan addresses a number of internal and external communications initiatives and utilizes diverse and accessible communications channels and tools including:

- Paid and earned media;
- Digital/online communications;
- Corporate publications;
- Social media;
- Issues management; and
- Media relations.

The LCBO also ensures that our shareholder, the Government of Ontario, is regularly updated and apprised of matters impacting the LCBO including business activities, regulatory and legislative issues and public policy matters.

As the LCBO embarks on a transformational chapter of its history, internal and external communications will be critical to provide our stakeholders and partners with regular updates on our progress and to generate awareness and engagement with our employees. During this period of change, the LCBO will continue to communicate our adherence to our core values, mandates and objectives. Utilizing new communications channels, platforms and tools, particularly in the digital realm, will help us accomplish our communications goals and further augment our reach.

# Enterprise Risk Management

*Our Enterprise Risk Management (ERM) efforts align to our strategic plan and business operations. The LCBO uses processes to mitigate risks throughout the organization. We are dedicated to maturing the ERM program and optimizing our ability to meet all of the organization's objectives.*



The LCBO ERM program consists of a risk framework, an ERM assessment process, continuous monitoring of key risks and semi-annual reporting to the Audit Committee of the Board of Directors. We identified and ranked 17 risks that could negatively impact the LCBO's performance. Senior management is responsible for developing and implementing risk mitigation strategies for these enterprise risks.

**LCBO's top three risks are:**

- 1 Government policy and legislative change**
- 2 Competition and customer engagement**
- 3 Labour-related risk**

**GOVERNMENT POLICY AND LEGISLATIVE CHANGE**

Because the LCBO is a public agency and operates in a regulated industry, we are affected by changes in legislation and regulation, interprovincial and international trade agreements, and public service directives and standards. These factors all impact our operations. As a result, significant shifts in policy or legislation may put our business at risk.

To mitigate this challenge, the LCBO provides input and advises government on the potential impact of any proposed policy changes on our financial performance and operations. We also adopt an agile, flexible and cooperative culture so that we can respond quickly to changes in our environment. All the while, we remain focused on providing excellence in socially responsible retailing, customer experience and operational efficiency.

## **COMPETITION AND CUSTOMER ENGAGEMENT**

The LCBO faces increased competition due to the government's decision to allow up to 450 grocery stores to sell some combination of beer, cider, and wine. Grocery stores have a competitive advantage as they are able to provide a one-stop shopping experience for customers who want to buy food and beverage alcohol at the same time. This evolving competitive marketplace may mean that our retail stores could lose customers.

To mitigate these challenges, the LCBO will focus on achieving high retail customer engagement, particularly in the emotional engagement areas (brand equity) and emphasizing our own points of difference through, for example, our product expertise and exclusives and our e-commerce offering. Identifying strategies and implementing initiatives to strengthen LCBO brand drivers and keep customers shopping in our stores will lead us on the right path. We will also focus on our role as a wholesaler to provide a seamless customer experience to grocery stores so that we are well equipped to solidify our position in the future.

## **LABOUR-RELATED RISK**

The Ontario Public Service Employees Union (Liquor Board Employees Division) represents more than 7,000 LCBO employees for collective bargaining and labour-management relations. The efficiency and performance of the LCBO directly correlates to the quality of this relationship, the extent of employee engagement and the conditions established through collective bargaining. This risk is particularly heightened due to the recent introduction of a single wage grid for retail staff and the collective bargaining that is underway.

To mitigate these challenges, the LCBO focuses on positive employee relations, ongoing dialogue on matters of common interest and targeted initiatives aimed at a collaborative labour environment. Provincial and local labour-management meetings relating to labour and employee relations and health and safety, support a regular dialogue with the Union. Corporate and divisional employee engagement strategies are focused on making the LCBO a great place to work.

**The LCBO will continue to manage our risks and we are committed to the continuous advancement of the ERM process to protect and support the achievement of LCBO objectives. The LCBO incorporates effective risk management programs into our strategic planning process to mitigate risks and leverage opportunities that could impede LCBO's ability to meet its objectives.**

LCBO

*let's get together*



