

*Your*  
LCBO

Strategic Plan 2019 - 2022

LCBO



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## MESSAGE FROM THE PRESIDENT & CEO

I am proud to share with you the LCBO's 2019 - 2022 Strategic Plan, which outlines how we will continue to fulfill our mandate to the people of Ontario and navigate the strategic opportunities ahead.

The LCBO's most recent fiscal year marked the strongest financial results in our history. This speaks directly to our ability to evolve and show leadership in the retail space, while working collaboratively with all of our partners to enhance our customers' experience. We will continue to work hard to embed the customer in every decision that we make.

Our strategic priorities of Excellence in Customer Experience, Operational Efficiency and Employee Experience are unchanged, but you will see a shift in how we will achieve them by adapting to evolving customer expectations, the changing marketplace, and by keeping in step with ever-advancing technology.

Never before have Ontarians had such power to choose when, where and how they want to shop, and we have made choice and access guiding principles of our go-forward plan. We have increased our focus on enhancing our wholesaling capabilities to better serve our B2B customers, and have evolved our home consumer value proposition to be increasingly convenient and integrated across our retail and digital channels. As always, we continue to strive for excellence in our product choice to bring Ontarians the very best assortment from home and the world.

Internally, we are investing in technology and infrastructure to support our constant modernization within human resources, supply chain, information technology and our administrative functions among others, and are driving operational excellence in our business processes. We continue to invest in training and support for our retail teams so that they can continue to share their passion and product knowledge every day.

Our commitment to Ontarians extends beyond convenience and choice. We care about the communities in which we live and work. We are developing a new Social Impact Platform focused on sustainability that strategically aligns to our business.

We will look to leverage our scale and influence to drive and support meaningful change in our business, for our partners, and ultimately for our consumers. A more sustainable Ontario means that we support the health and well-being of people and communities, that we are working towards minimizing our impact on the environment, and that we are constantly striving to improve the sustainability of the alcohol industry at large.

We have evolved to meet the needs of customers to ensure everyone gets the right product from the right place at the right time – whether they shop in our stores, on our app, online, or at the grocery store. With this Strategic Plan as our guide, we will continue to offer a best-in-class experience and uphold our commitment to social responsibility while we focus on customer-driven innovation and on the ever-changing needs of Ontarians.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Soleas", with a period at the end. The signature is fluid and cursive.

George Soleas, President & CEO

## OUR MISSION

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

### 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 vision provides an aspirational sense of where we see ourselves in the future.

### LCBO VISION

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

## OUR BRAND

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



# OUR CORE VALUES

Our core values are part of our DNA. They express what we represent, emphasizing our guiding principles for employee behaviour and organizational decisions and actions. An organization's values are at the heart of its culture. Values are important, lasting, and achievable, and they help determine how we invest our time and resources by guiding our priorities and decisions.



## 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 and 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.

## Sustainability

**Social responsibility is a public trust that we take very seriously.** We are committed to leveraging our scale and influence to take a leading stance on the sustainability of the alcohol industry, driving and supporting meaningful change in our business, for our partners, and ultimately for our consumers and their communities.

## 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.

## ASSESSMENT OF STRATEGIC PROGRESS

*The LCBO measures and evaluates the performance of its strategic plan using key metrics. This allows us to be agile, forward thinking and responsive to a changing environment and to seize new opportunities as they arise.*

### Help Shape a More Sustainable Ontario

	2018/19 Forecast	Y/Y Change
Challenges	10.5 million (Q1-Q3)	+ 0.5%
Refusals	212,398 (Q1-Q3)	+ 0.5%
Total Charitable Fundraising	\$12.2 million	+ 6.6%
Total Number of Local Charities Supported	28	-

### Maximize Returns to the People of Ontario

	2018/19 Forecast	Y/Y Change
Net Sales	\$6.40 billion	+ 3.7%
Net Income	\$2.3 billion	+ 2.5%

### Support for Local Ontario Producers

	2018/19 Forecast	Y/Y Change
VQA Wine	\$165.0 million	+ 2.4%
ICB Wine	\$304.5 million	- 0.6%
Craft Beer	\$156.2 million	+ 22.4%
Craft Cider	\$16.6 million	+ 44.3%
Craft Spirits	\$14.3 million	+ 27.4%

### Excellence in Customer Experience

	2018/19 Forecast	Y/Y Change
Customer Engagement Score	7.3 out of 10	+ 0.3

### Excellence in Operational Efficiency

	2018/19 Forecast	Y/Y Change
Inventory Turns	7.6	+ 0.2
Total Expenses as % of Net Sales	16.1%	+ 0.1%



# OUR MARKETPLACE

## THE ECONOMY

Ontario's economy will continue to grow over the medium-term but at a moderate pace. Leading forecasters expect Ontario's real GDP growth to be 1.8% in 2019 slowing slightly in 2020 and 2021.

Strong consumer spending, favourable labour market conditions and robust provincial housing activity have contributed to healthy growth in recent years. Going forward, employment growth is expected to slow, easing the pace of current household spending growth. However, the low Canadian dollar exchange rate will continue to support export trade activity, and a rebound in wage growth trends will encourage increased domestic tourism and local spending.

Global trade uncertainties, higher interest rates and household debt levels will weigh on consumers' minds and may impact their spending behaviour. These risk factors, along with policies to tackle the existing high provincial budget deficit, have led to a more tempered outlook over the next few years.

## BEVERAGE ALCOHOL SECTOR

The Government of Ontario has announced that it intends to further open the marketplace for the sale of beverage alcohol. The LCBO has a critical role to play in this evolution and is committed to working closely with the government, wholesale customers, and all industry stakeholders to support a smooth and effective transition to the new industry model.

In this rapidly evolving competitive landscape, the LCBO is committed to improving its retail customer experience to earn the trust and loyalty of its customers. With constantly evolving customer expectations, the focus will be on improving digital and retail channels to bring Ontarians the best products from home and the world in a convenient and engaging way. The LCBO will leverage its key strengths, including staff expertise and extensive product selection, to deliver remarkable experiences in the world of wine, beer and spirits in a socially responsible manner.

At the same time, grocery stores are an important customer of the LCBO and an opportunity to cultivate a new partnership for the benefit of Ontarians. The wholesale channel, which in addition to grocery stores also includes restaurants, bars and others, will increase in volume and importance. The LCBO will focus on enhancing its wholesaling practices and capabilities to enhance our position as a trusted and service-oriented partner.



# MANDATES

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



## **HELP SHAPE A MORE SUSTAINABLE ONTARIO**

Contribute to a more sustainable Ontario through our commitment to:

- Improve the well-being of our customers, employees and communities across Ontario;
- Minimize our impact on the environment;
- Improve the sustainability of the industry through leadership and partnerships.



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

To maximize returns to the people of Ontario by generating a total of \$7.3 billion in net income over the next 3 years (2019/20 – 2021/22).



## **SUPPORT OF LOCAL ONTARIO PRODUCTS**

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



## HELP SHAPE A MORE SUSTAINABLE ONTARIO

### A FRESH APPROACH TO SOCIAL RESPONSIBILITY



In 2018 we set out to develop an overarching Social Impact Platform that strategically aligns to our business and brand, and better enables our organization to engage key audiences in its story. We talked to our employees and our leadership, and we looked at what mattered to our customers and to Ontarians. This process led us to unpacking the concept of Sustainability not just with respect to our environment, but to everything the LCBO touches – our people, our planet and our partners.

A more sustainable Ontario means that we prioritize the health and well-being of people and communities, that we are working towards minimizing our impact on the environment, and that we are constantly striving to improve the sustainability of the alcohol industry at large.

Together with our partners, employees and Ontarians we are excited to move forward in this new direction. As we continue to develop the implementation of this strategy, which will include KPIs to measure the success of the platform, we will deliver this spirit of sustainability through the following goals and priorities:

### PILLAR 1 – GOOD PEOPLE

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We're committed to improving the well-being of our customers, employees and communities across Ontario.

#### COMMITMENTS:

- Safe and informed consumption
  - Empower customers to make informed decisions by increasing access to health-related information
  - Prevent alcohol consumption among minors
  - Strengthen alcohol literacy initiatives to discourage over-consumption

- Thriving communities
  - Ensure charitable partnerships help activate or strengthen our commitments
- Engaged employees
  - Advance initiatives that improve employee engagement and well-being
  - Strengthen internal communications of current commitments and campaigns

## **PILLAR 2 – GOOD PLANET**

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We're committed to minimizing our impact on the environment.

### **COMMITMENTS:**

- Sustainable stores
  - Implement electronic systems to replace unnecessary paper usage
  - Increase recycling and reuse of equipment, products and packaging
- Sustainable production and distribution
  - Invest in transportation efficiencies for products and people
  - Offset carbon emissions
- Greener buildings
  - Improve energy efficiency in buildings and equipment

## **PILLAR 3 – PARTNERSHIPS**

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We're committed to improving the sustainability of the industry through leadership and partnerships.

### **COMMITMENTS:**

- Leading sustainability standards
  - Implement sustainable standards that influence both internal and external practices
- Support and recognize sustainable partners
  - Promote sustainable suppliers, partners and products to employees and consumers
  - Participate in national collaboration to share ideas and learnings related to sustainability

## MAXIMIZE RETURNS TO THE PEOPLE OF ONTARIO

The LCBO is a proud contributor to the Government of Ontario. The revenues it generates support key public programs and services for Ontarians, including health care, education and infrastructure, both at a provincial and local level.

The LCBO will grow its sales in a socially responsible way ensuring maximum profitability by further improving operational efficiency and tailoring product assortment and services to its customers. To support growing sales, the LCBO will continue to invest in modernizing its technology and other critical improvements to keep operations running efficiently.

### SALES PERFORMANCE AND PROFIT TARGETS

Income Statement (\$ 000,000's)						
	2017/18 Actual	2018/19 Forecast	2019/20 Plan	2020/21 Forecast	2021/22 Forecast	Total Rolling 3-Year Plan 2019/20 to 2021/22
<b>Net Sales</b>	6,173	6,399	6,630	6,862	7,102	20,593
<i>Yr/Yr % Increase</i>	5.9%	3.7%	3.6%	3.5%	3.5%	
<b>COGS</b>	3,037	3,150	3,262	3,373	3,494	10,129
<i>Yr/Yr % Increase</i>	5.5%	3.7%	3.6%	3.4%	3.6%	
<b>Gross Margin</b>	3,136	3,250	3,368	3,488	3,608	10,464
<i>Yr/Yr % Increase</i>	6.4%	3.6%	3.6%	3.6%	3.4%	
<i>GM %</i>	50.8%	50.8%	50.8%	50.8%	50.8%	50.8%
<b>Divisional Expenses*</b>	713	752	777	797	822	2,397
<i>Yr/Yr % Increase</i>	3.7%	5.5%	3.4%	2.6%	3.1%	
<i>as % of Net Sales</i>	11.5%	11.7%	11.7%	11.6%	11.6%	11.6%
<b>Other Expenses*</b>	273	278	290	292	295	876
<i>Yr/Yr % Increase</i>	5.0%	1.7%	4.3%	0.7%	1.1%	
<i>as % of Net Sales</i>	4.4%	4.3%	4.4%	4.3%	4.2%	4.3%
<b>Total Expenses</b>	986	1,029	1,067	1,089	1,117	3,273
<i>Yr/Yr % Increase</i>	4.1%	4.4%	3.6%	2.1%	2.6%	
<i>as % of Net Sales</i>	16.0%	16.1%	16.1%	15.9%	15.7%	15.9%
<b>Operating Income</b>	2,150	2,220	2,301	2,399	2,491	7,191
<i>Yr/Yr % Increase</i>	7.5%	3.3%	3.6%	4.3%	3.8%	
<b>Other Income</b>	56	41	38	35	35	108
<i>Yr/Yr % Increase</i>	(83.4%)	(27.2%)	(7.6%)	(6.8%)	0.0%	
<b>Net Income</b>	2,207	2,261	2,339	2,435	2,526	7,300
<i>Yr/Yr % Increase</i>	6.7%	2.5%	3.4%	4.1%	3.7%	
<b>as % of Net Sales</b>	35.7%	35.3%	35.3%	35.5%	35.6%	35.4%
<b>Capital Expenditures</b>	<b>83</b>	<b>75</b>	<b>65</b>	<b>60</b>	<b>80</b>	<b>205</b>

## SALES TARGETS BY CATEGORY

\$ 000,000	2017/18 Actual	2018/19 Forecast	2019/20 Plan	2020/21 Forecast	2021/22 Forecast
<b>Spirits</b>	2,118.0	2,188.4	2,268.9	2,332.5	2,403.5
<i>Yr/Yr % Change</i>	5.4%	3.3%	3.7%	2.8%	3.0%
<b>Wine</b>	1,572.5	1,548.2	1,592.0	1,647.7	1,695.5
<i>Yr/Yr % Change</i>	4.8%	-1.5%	2.8%	3.5%	2.9%
<b>Beer</b>	1,374.5	1,469.8	1,514.2	1,576.2	1,640.6
<i>Yr/Yr % Change</i>	5.8%	6.9%	3.0%	4.1%	4.1%
<b>Vintages</b>	258.3	297.5	320.3	338.4	361.6
<i>Yr/Yr % Change</i>	11.9%	15.2%	7.7%	5.6%	6.9%
<b>Specialty Services, Direct Delivery, Other</b>	581.2	610.6	639.6	662.0	685.2
<i>Yr/Yr % Change</i>	7.9%	5.1%	4.8%	3.5%	3.5%
<b>Total Corporate</b>	6,172.7	6,399.4	6,629.6	6,861.7	7,101.8
<i>Yr/Yr % Change</i>	5.9%	3.7%	3.6%	3.5%	3.5%

## SALES TARGETS BY CHANNEL

\$ 000,000	2017/18 Actual	2018/19 Forecast	2019/20 Plan	2020/21 Forecast	2021/22 Forecast
<b>Retail*</b>	5,173.4	5,285.2	5,433.1	5,586.7	5,732.4
<i>Yr/Yr % Change</i>	4.7%	2.2%	2.8%	2.8%	2.6%
<b>e-Commerce</b>	23.5	36.2	51.1	61.9	75.4
<i>Yr/Yr % Change</i>	62.5%	54.0%	41.2%	21.3%	21.8%
<b>Wholesale**</b>	961.2	1,059.9	1,125.5	1,192.4	1,272.7
<i>Yr/Yr % Change</i>	11.7%	10.3%	6.2%	5.9%	6.7%
<b>Other***</b>	14.6	18.1	19.9	20.6	21.3
<i>Yr/Yr % Change</i>	17.5%	24.3%	9.7%	3.5%	3.5%
<b>Total Corporate</b>	6,172.7	6,399.4	6,629.6	6,861.7	7,101.8
<i>Yr/Yr % Change</i>	5.9%	3.7%	3.6%	3.5%	3.5%

\* Retail channel includes: Home Consumer, Licensee and Agency sales through LCBO retail store network.

\*\* Wholesale channel includes: The Beer Store, Duty-Free, Grocer, Depots, and Specialty Services.

\*\*\* Other channel includes: Winery Direct, Distillery, and Out-of-Province.



## **SUPPORT OF LOCAL ONTARIO PRODUCTS**

The LCBO understands that Ontarians value products from local vintners, craft brewers, craft cideries, and artisanal spirits producers. The LCBO is proud to showcase Ontario's outstanding products, which it elevates through collaborative efforts and enhanced product assortment in-store and online.

### **ONTARIO WINE**

The LCBO supports Ontario-produced wine through a broad set of marketing and merchandising programs.

"Wine Country" boutiques in 20 select LCBO stores have the look and feel of a trip to wine country, and feature an assortment of the best of Ontario including store-exclusive products, niche, and ultra-premium items.

Small winery support, including the Ontario Wine Direct Delivery program, allows smaller Ontario wineries to deliver their products directly to local LCBO stores.

An annual promotion from mid-September to mid-October in all LCBO stores functions as two separate promotions that support both VQA and ICB wines. Promotional activity includes consumer tastings, in-store Ontario wine and food events, a Vintages catalogue featuring VQA wines, a major public VQA wine tasting event, advertising and social media elements and product information on the LCBO's website. In addition to this annual promotion, two secondary display programs are now available every period exclusively for VQA wines.

### **ONTARIO CRAFT BEER**

Ontario craft beer continues to be a leading growth area and the number of local breweries represented at the LCBO continues to expand. It supports these products in-store through prominent placement in-section, special displays, dedicated promotions and an innovative Growler Stop program in two flagship locations in Toronto and Ottawa where customers can purchase an ever-changing assortment of new beers.

Dedicated Ontario Craft Beer sections offer customers new and seasonal releases and the LCBO has hundreds of specially trained "Beer Ambassadors" who share their passion and knowledge with staff and customers alike. We also support the industry with regular educational seminars to promote collaboration.



## ONTARIO CRAFT CIDER

Like craft beer, the Ontario Craft Cider category continues to be one of the fastest growing segments at the LCBO. The assortment is updated frequently and includes new local specialty ciders made with in-season local fruits like pear, peach or cherry. The LCBO also includes locally-produced craft products in cider marketing and merchandising programs. Ongoing collaboration with the Ontario Craft Cider Association has led to new promotional opportunities, such as a cider fair held at its flagship Summerhill store.

## ONTARIO MICRO-DISTILLED SPIRITS

Local micro-distilled spirits is a quickly developing category as an increasing number of distillers enter into the program and consumer demand for locally produced products grows stronger. The LCBO highlights these products through its Ontario Small Distillers Program, which allows small Ontario distillers to direct-deliver approved, locally produced spirits and liqueurs to select LCBO stores. The LCBO also has specially-trained staff “Spirits Advocates” who offer an engaging customer experience by educating customers on taste profiles and products, and provide practical advice on the versatility of spirits. In addition, the LCBO promotes Ontario Small Distillers in-store through specific signage to help customers easily identify these products on shelf.

## ONTARIO PRODUCTS SALES TARGETS

\$ 000,000	2017/18 Actual	2018/19 Forecast	2019/20 Plan	2020/21 Forecast	2021/22 Forecast
<b>Ontario VQA*</b>	161.2	165.0	174.2	183.7	192.8
<i>Yr/Yr % Change</i>	10.6%	2.4%	5.5%	5.5%	4.9%
<b>ICB**</b>	306.2	304.5	310.7	318.4	325.6
<i>Yr/Yr % Change</i>	4.4%	-0.6%	2.0%	2.5%	2.2%
<b>Ontario Craft Beer</b>	127.6	156.2	184.2	210.7	234.9
<i>Yr/Yr % Change</i>	30.7%	22.4%	17.9%	14.4%	11.5%
<b>Ontario Craft Cider</b>	11.5	16.6	22.4	28.8	35.3
<i>Yr/Yr % Change</i>	41.6%	44.3%	35.4%	28.4%	22.7%
<b>Ontario Small Distillers</b>	11.2	14.3	20.7	29.9	42.1
<i>Yr/Yr % Change</i>	78.9%	27.4%	45.1%	44.0%	41.1%

\* VQA: Vintners Quality Alliance

\*\* ICB: International Canadian Blends

# KEY STRATEGIC CHALLENGES AND OPPORTUNITIES FACING THE LCBO

## ECONOMIC FACTORS INFLUENCING THE LCBO

Data from a wide range of sources, including the Canadian banks, the Conference Board and the World Economic Forum in Davos point toward a slowdown in overall economic growth in the years ahead. This anticipated slowdown in GDP growth and employment over the next three years may temper growth for Ontario retail. Consumer confidence may impact sales expectations across all channels, in both volume and dollar value. As well, lower-value product mix in grocers and new private outlets could amplify a channel shift as customers may buy fewer higher-priced Vintages and Spirits products.

The implication for the business is that the LCBO must continue to work hard to provide customer value and keep customers loyal in a time when they may have growing retail options for beer, cider and lower-value wine, and less demand for the premium products for which the LCBO is known. In this climate, convenience and choice emerge as crucial competitive advantages.

## AN EVOLVING MARKETPLACE

As the beverage alcohol market evolves, the LCBO must prepare for an expanded business-to-business (B2B) role.

The LCBO will focus heavily on building up B2B capabilities in the near and long term, and articulating the business-to-consumer (B2C) value proposition more clearly to maintain efficiencies.

The LCBO will act nimbly to adapt both the B2B and B2C channels to optimize financial and operational performance, and continue to deliver an excellent customer experience to its wholesale and consumer channels.

## **CHANGING CUSTOMER EXPECTATIONS**

Continued shifts in customer trends and shopping behaviours will require ongoing evolution at the LCBO. Millennials are now the largest customer segment in Canada (28%), and although they will not outspend Baby Boomers for many more years, they are driving the transformation of retail.

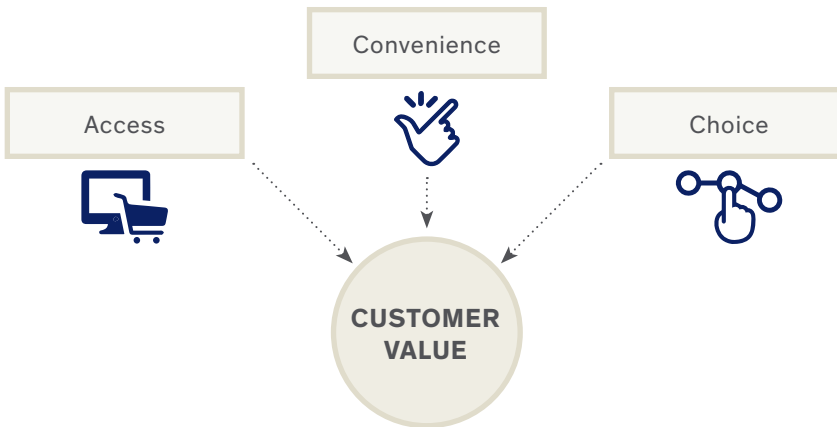
Millennial customers are less brand loyal than previous generations, but they value meaningful experiences, uniqueness and social status, and will favour brands that deliver more than just products. In order to serve this increasingly critical customer group, the LCBO must cater to them through a more relevant product mix and with events and digital assets that educate and encourage their appreciation of a wide range of beverage alcohol.

Lastly, both Millennials and GenX consumers are tech-savvy and expect shopping experiences to be seamless across digital and physical channels – in both B2C and B2B. Convenience is also paramount: seamless, digital-enabled and fast are the new standard.

## LOOKING TO THE FUTURE

*Putting this three-year plan in context*

In direct response to the LCBO’s identified challenges and opportunities, the focus for the three-year strategy ahead is on increasing value to Ontarians through improving access, convenience and choice.



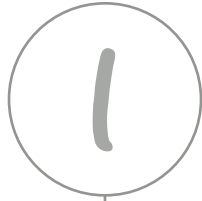
The LCBO is committed to supporting the provincial government’s aim to broaden options for Ontarians when shopping for beverage alcohol. The LCBO will do this by focusing its efforts on improving the experience for primary and secondary customers through both the wholesale and retail channels:

WHOLESALE (B2B)	RETAIL (B2C)
<p><b>Support Expansion of Private Outlets</b></p> <p>Support any expansion of the sale of beer, wine and cider by more private outlets in our capacity as wholesaler.</p>	<p><b>Enhance LCBO’s Integrated Customer Experience</b></p> <p>Continue modernizing the LCBO’s digital and physical channels for quicker and effortless access to its world-class assortment.</p>

The LCBO will continue its focused pursuit of excellent customer experience, operational efficiencies and commitment to employee experience as outlined in its three strategic priorities.

# STRATEGIC PRIORITIES

*Areas of focus to achieve our vision*



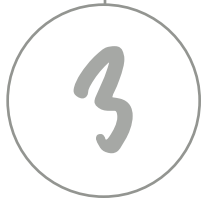
## **OBJECTIVE 1: EXCELLENCE IN CUSTOMER EXPERIENCE**

Amplify a customer-first offering by increasing access, convenience and choice for Ontarians, and delivering exceptional service and product selection in-store and online.



## **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**

Continue transforming the organization towards a customer-centric, collaborative workplace that is empowered to achieve exceptional results.

# STRATEGIC PRIORITIES

Each of the strategic priorities include specific initiatives that define how the LCBO will bring the strategies to life across its entire business, including its customer value proposition in both B2B and B2C channels, its internal processes, its support services including operational and administrative functions, and its talent and organization.

	<b>B2B</b>	<b>B2C</b>	
1 CUSTOMER EXPERIENCE	<b>Value-Added Wholesale Services</b>	<b>Engaging Integrated Customer Experience</b>	Customer Value Proposition
	<b>Optimized Assortment</b>	<b>World-Class Product Assortment</b>	
2 OPERATIONAL EFFICIENCY	<b>Smooth And Seamless Processes</b>		Process
	<b>Effective Support Services</b>		Foundation
3 EMPLOYEE EXPERIENCE	<b>Talent And Organization</b>		



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

Amplify a customer-first offering by increasing access, convenience and choice for Ontarians, and delivering exceptional service and product selection in-store and online.

### **KEY PERFORMANCE INDICATORS**

Increase Retail Customer Engagement from 7.0 in 2017/2018 to 7.4 by 2021/22.

Target B2C Retail sales of \$5.3B across in 2021/22.

Target E-Commerce sales of \$75.4M in 2021/22.

Target B2B sales of \$1.7B By 2021/22 across all channels.

# STRATEGIC PRIORITIES

## SUPPORTING STRATEGIC INITIATIVES

CHANNEL	FOCUS AREA	SUPPORTING INITIATIVES (2019/20 through 2021/22)
B2B	VALUE-ADDED WHOLESALE SERVICES	<ul style="list-style-type: none"> <li>• <b>Ensure efficient fulfillment:</b> Introduce new warehousing and distribution strategies to improve order fulfillment for the B2B channel as well as to improve order fulfillment to our store network.</li> <li>• <b>Frictionless end-to-end transactions:</b> Deliver a consistent, holistic and frictionless ordering experience and transaction execution to wholesale customers.</li> <li>• <b>Dedicated account management:</b> Optimize the sales potential of our B2B customers, deliver best value to all stakeholders, and implement an organizational design that will support the needs of this evolving channel.</li> </ul>
	OPTIMIZED ASSORTMENT FOR GROCERY AND PRIVATE OUTLETS	<ul style="list-style-type: none"> <li>• <b>Expert-led assortment planning program:</b> Enhance capability and capacity to provide expert-led assortment planning to B2B customers.</li> </ul>
B2C	ENGAGING INTEGRATED CUSTOMER EXPERIENCE	<ul style="list-style-type: none"> <li>• <b>Approachable and knowledgeable in-store service:</b> Showcase expert knowledge, passion and drive to deliver an excellent customer experience in stores.</li> <li>• <b>Seamless and convenient digital access:</b> Unify commerce across the full customer experience to make it seamless and easy for customers to shop in-store, online and via mobile.</li> </ul>
	ENGAGING INTEGRATED CUSTOMER EXPERIENCE	<ul style="list-style-type: none"> <li>• <b>Right store formats, right locations:</b> Develop a clear network strategy to right-size new growth and/or relocations in all markets to support relevant localized product assortment.</li> <li>• <b>Inviting, easy-to-shop stores:</b> Create store clusters that align assortment, marketing and service to the local demographics. Focus on simplifying the store experience to drive better execution and customer satisfaction.</li> <li>• <b>Inspiring gifting and celebration destination:</b> Grow sales and margin by celebrating occasions and driving gift business.</li> <li>• <b>Trusted source for product education and appreciation:</b> Successfully differentiate the LCBO as an exciting and innovative destination of choice for product information, advice and expertise.</li> <li>• <b>Rewarding personalized experience:</b> Launch a unique LCBO loyalty offering that delivers a personalized, relevant experience and grows the LCBO's financial and emotional relationship with both customers and suppliers.</li> </ul>
	WORLD-CLASS PRODUCT ASSORTMENT	<ul style="list-style-type: none"> <li>• <b>Best assortment of core and unique products:</b> Deliver a deep &amp; broad product assortment across the business that stays relevant to evolving customer desires.</li> <li>• <b>Relevant, localized in-store assortment:</b> Leverage local customer data, to centrally allocate a full assortment tailored to each market.</li> </ul>



## OBJECTIVE 2: EXCELLENCE IN OPERATIONAL EFFICIENCY

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

### KEY PERFORMANCE INDICATORS

Target Inventory Turns of 7.7 in 2021/22.

Target Total Expenses as a % of Net Sales of 15.7% in 2021/22.

Target Enterprise-wide Fill Rate of 92% in 2021/22.

Achieve a Retail In-Stock Position of 95% in 2021/22.

### SUPPORTING STRATEGIC INITIATIVES

FOCUS AREA	SUPPORTING INITIATIVES (2019/20 through 2021/22)
<b>SMOOTH AND SEAMLESS PROCESSES</b>	<ul style="list-style-type: none"> <li>• <b>Industry-standard on-time and fill rate performance:</b> Enhance sales and customer experience by ensuring vendors fulfill orders and deliver them on time and enabling the organization to manage vendor performance. Improve turns and effectively manage demand by implementing a Forecasting and Replenishment system with a centralized push system for all business units (retail, E-commerce and wholesale).</li> <li>• <b>Product quality and integrity assurance:</b> Implement process improvements that support the mandate to ensure all beverage alcohol products offered for sale by the LCBO are authentic, safe for consumption, of sound quality and compliant with regulations.</li> <li>• <b>Stellar store standards and service:</b> Provide memorable experiences to customers while ensuring a safe working environment within our stores. Create loyalty and make LCBO the destination choice for beverage alcohol by consistently exceeding expectations for standards and service. Internally, seek out efficiencies in delivery and inventory management.</li> </ul>
<b>EFFECTIVE SUPPORT SERVICES</b>	<ul style="list-style-type: none"> <li>• <b>Flexible and efficient supply chain:</b> Provide an optimized and reliable fulfillment and transportation network, delivering improved efficiencies along with improved service, supply chain flexibility, and reduced risk.</li> <li>• <b>Strong stakeholder relationships:</b> Strengthen engagement and relationships across all of our stakeholder groups (government, employees, trade, customers) to ensure we position ourselves as a proactive partner in the evolution of our marketplace in Ontario.</li> </ul>

# STRATEGIC PRIORITIES

FOCUS AREA	SUPPORTING INITIATIVES (2019/20 through 2021/22)
<b>EFFECTIVE SUPPORT SERVICES</b>	<ul style="list-style-type: none"><li>• <b>Optimal IT systems and infrastructure:</b> Contribute a substantially renewed IT delivery and operating environment based on industry-standard best practices running up-to-date SaaS and cloud-deployed solutions covering all key business &amp; IT capabilities.</li><li>• <b>Leading-practice financial processes and controls:</b> Develop future state, enhanced General Ledger and financial reporting and data to replace existing applications at end of life.</li><li>• <b>Effective Legal, Corporate Affairs and Governance:</b> Provide strategic and operational support on LCBO's business, regulatory and external relationship requirements. Provide policy and legal analysis in order to meet the corporate objectives for the LCBO. Act as trusted strategic advisors protecting the organization's brand and reputation.</li><li>• <b>Future-focused strategic planning and program management:</b> Implement a collaborative, integrated strategic planning process that enables the translation of ambitious strategy into action, driving accountability throughout the organization. Implement major innovation initiatives as proof points of strategy, and embed closed-loop strategic and program management competencies throughout the organization.</li><li>• <b>Intelligent master data management:</b> Implement a robust master data management (MDM) program that partners business and technology stakeholders with a focus on data, processes and governance. Bring together key data domains to create one view of the customer, to drive decision-making that best satisfies their needs.</li><li>• <b>Leadership in sustainability and social responsibility:</b> Develop and implement a CSR strategy to ensure LCBO's brand essence is integrated holistically into the business. This includes enabling the public, employees and stakeholders to recognize and support LCBO's balanced mandate.</li></ul>



## OBJECTIVE 3: EXCELLENCE IN EMPLOYEE EXPERIENCE

Continue transforming the organization towards a customer-centric, collaborative workplace that is empowered to achieve exceptional results.

### KEY PERFORMANCE INDICATORS

Target 50% positive movement of managers and senior leaders identified as “Ready Now” or “Ready in up to 2 years” by 2021/2022.

Reduce the WSIB severity rate (days lost per 100 employees) for current claims from 22.1 in calendar year 2018 to 20.6 by October 2021.

Reduce paid sick time days lost per 100 employees from 874.4 in calendar year 2018 to 787 days by October 2021.

### SUPPORTING STRATEGIC INITIATIVES

FOCUS AREA	SUPPORTING INITIATIVES (2019/20 through 2021/22)
<b>TALENT AND ORGANIZATION</b>	<ul style="list-style-type: none"><li>• <b>Investment in talent management and employee experience:</b> Ensure high calibre of talent in key roles to deliver on the business strategy. Drive adoption of organizational change, minimizing business interruption. Implement Workday and a new HR operating model to support the business. Work towards faster return of injured and ill employees to the workforce.</li><li>• <b>Sustainable and competitive labour and compensation:</b> Implement a sustainable and competitive labour and compensation model. Develop a robust Labour Relations centre providing a high level of expertise to the business and ensuring cost-effective resolutions.</li></ul>

## COMMUNICATIONS PLAN

The LCBO is committed to timely, effective and transparent communications with all stakeholders including our customers, employees, the media, our industry and charity partners, as well as the provincial government.

The ways in which we share information about LCBO's goals and what we are doing to achieve them is critical to our success, and is how we maintain our strong corporate brand and deliver value to the people of Ontario.

LCBO divisions collaborate on integrated communications plans to support business priorities, generate awareness, drive sales, and improve employee productivity, engagement and retention. A multi-channel approach is considered when rolling out all plans, including: paid and earned media, digital, app, and online communications, social media and influencer relations, and corporate publications. Marketing campaigns in support of our products and social responsibility efforts happen year-round, however LCBO's annual fall campaign in support of Ontario products and annual Holiday product and charitable-giving campaigns receive increased promotion.

### **All LCBO communications plans are designed to:**

- Help drive the LCBO's vision and future direction through strategic communications, with a strong consistent voice and brand identity.
- Improve the experience of external audiences across their interactions with the LCBO to support successful delivery of our strategy.
- Keep LCBO employees well-informed and ensure that their feedback is heard, through reinvigorated, best-in class internal communications.

Ever-advancing technology and its impact on the accessibility of news and information will continue to influence LCBO communications, as we transform the way we communicate to adapt to the speed of news, constantly-connected consumers and the communications expectations of our employees. Utilizing new communications channels, platforms and tools, with a continued shift to digital communications and a focus on consistently demonstrating ROI, will enable more effective audience engagement.

The LCBO ensures that the Government of Ontario is regularly updated on matters impacting the LCBO including business activities, impacts of external events, regulatory and legislative issues, and public policy matters.

## FULL-TIME EQUIVALENT EMPLOYEES (FTES)

	FY2020 Plan	FY2019 Plan	Change
Retail	5,569	5,694	(125)
Supply Chain	993	999	(6)
Administration & Other	830	817	13
<b>Total FTEs</b>	<b>7,392</b>	<b>7,510</b>	<b>(118)</b>

## ENTERPRISE RISK MANAGEMENT

The LCBO is committed to managing risk in support of achieving its business and operating objectives and goals in accordance with Enterprise Risk Management (ERM) best practices and standards. We are dedicated to maturing the ERM program.

### The primary objectives of the ERM program are:

- To establish a culture where risk management is linked to strategy setting and considered in all business decision-making.
- To create value from our assets and other business opportunities.
- To provide a consistent and systematic approach to risk management which identifies, assesses, manages and monitors major risks effectively.
- To anticipate and respond to changing social, environmental and legislative conditions.



## APPENDIX

Throughout the process of building the LCBO's strategic plan, all enterprise risks identified and evaluated by the ERM program were reviewed carefully. The mitigating strategies to address those risks recommended by the ERM program have been incorporated into the 3-year strategic plan across all three strategic priorities and supporting initiatives, as follows:

### **EXCELLENCE IN CUSTOMER EXPERIENCE**

There are a number of economic, marketplace and customer-related challenges that pose risk to the LCBO's ability to continually deliver a strong customer value proposition across both its wholesale and consumer channels.

Within the wholesale business, the LCBO is pursuing a number of initiatives intended to proactively adapt to expected shifts in the marketplace and improve our ability to expand our wholesale business with agility, including:

- Improving IT systems and operational capabilities;
- Driving efficiencies in order fulfillment, with a keen focus on achieving or exceeding industry-standard service levels;
- Improving B2B customer experience through enhanced account management, seamless transaction processing and collaborative relationships.

Within the consumer business, the LCBO is especially focused on mitigating risks due to increasing competition from existing and new retail competitors, softening consumer-spending growth, and shifting expectations from customers, through the following initiatives:

- Increasing integration between online and retail channels to make the LCBO a more convenient, accessible and engaging place to shop;
- Continuing to enhance product assortment with products from Ontario and around the world to provide Ontarians with more choice;
- Investing in technology-enabled frontline staff tools and training programs including product expertise, customer service, and responsible retailing;
- Introducing new content through our online and print communications to help Ontarians learn about the LCBO's products and how they can responsibly enjoy them;
- Optimizing the retail store network to ensure stores are the right size, the right format and in the right locations.

## **EXCELLENCE IN OPERATIONAL EFFICIENCY**

As with any large retail and wholesaling business, the LCBO faces a number of ongoing challenges and risks that are a product of the complexity of its operations. These include such risks as enabling IT systems, privacy compliance, IT security, employee engagement, reliance on third-party partners, and product quality and safety controls. Some of the key initiatives within the Strategic Plan to address these operational risks are:

- Upgrading IT systems to support more efficient processes across the supply chain;
- Investing in staff training in a wide range of processes including safety and skills enhancement;
- Implementing best practices and enabling technology throughout our organization;

## **EXCELLENCE IN EMPLOYEE ENGAGEMENT**

Critical to the LCBO's success is its people. As the LCBO continues its multi-year cultural and organizational transformation, it must continually strive to ensure that any risks related to employee health and safety, employee engagement, and quality of talent are proactively mitigated. Some of the key initiatives underway in this respect include:

- Transforming the Human Resources function to establish centres of expertise and one-window access to HR that better supports the business and improves the employee experience;
- Investing in modernizing IT systems to enable more streamlined processes, robust data records, and better overall human capital management;
- Improving the agility and effectiveness of the talent acquisition process to increase the LCBO's ability to recruit the right talent in an increasingly competitive market;
- Reviewing and updating the LCBO's total compensation and rewards strategy to better attract and retain the best talent.

## INITIATIVES WITH THIRD PARTIES

### MAJOR STAKEHOLDERS

As a major retailer and wholesaler, the LCBO has deep and longstanding relationships with a wide range of external stakeholders within Ontario and abroad. By actively engaging with them, the LCBO helps support the evolution of Ontario's beverage alcohol marketplace, and contributes to the mutual success of all stakeholders.

### INDUSTRY ASSOCIATIONS

The LCBO is an active collaborator with major beverage alcohol industry associations in Ontario and beyond, including Drinks Ontario, Spirits Canada, the Ontario Craft Brewers Association, the Canadian Vintners Association, Vintners Quality Assurance Ontario (VQAO), Winery & Grower Alliance of Ontario, and many others. The LCBO maintains strong relationships with trade and industry groups to support the ongoing health of the beverage alcohol industry, including advancing local Ontario products.

### CHARITABLE PARTNERSHIPS

As part of its commitment to sustainability, the LCBO conducts fundraising efforts that raise millions of dollars for a large number of charities, including many that focus on supporting the health and well-being of Ontarians.

The LCBO's Major Charity Partners for 2019 are:

- **MADD Canada** – reinforcing our commitment to moderate consumption via a new standalone campaign
- **Women's College Hospital Foundation** – newly added as part of our Pride Toronto partnership
- **United Way** – continuing to act as a major annual donor through a two-part dedicated campaign
- Ontario Children's Hospital foundations through our annual holiday campaign, including **Sick Kids**, **Children's Hospital of Eastern Ontario (CHEO)**, **McMaster Children's Hospital** and the **Children's Health Foundation**



## KEY PROJECT DELIVERY PARTNERS

Several of the LCBO's major strategic initiatives require significant capital, technological and/or process improvements. The LCBO has contracted the following third parties to support the successful execution of its strategic projects:

- **Price Waterhouse Coopers LLP (PwC Canada)** is supporting the implementation of a new Human Capital Management system, including the integration of Workday software within the LCBO that will enable a new HR operating model to better serve the needs of the business.
- **Microsoft Canada Inc.** is supporting the implementation of Office 365, as part of the LCBO's ongoing upgrade of its end-user computing tools. It is also supporting some components of the migration of the LCBO's Data Centre away from 55 Lakeshore.
- **Compugen Inc.** is providing Apple hardware and related software as part of the LCBO's in-store device modernization initiative, which will provide our store staff with enhanced-capability tools and resources to serve our customers more efficiently and effectively. Compugen is also implementing the Commvault enterprise data backup solution, which is foundational work for the LCBO's ongoing compliance with regulations and data retention best practices, as well as an enabling project for the data centre migration.
- **Blackhawk Network (Canada) Ltd.** and **InComm Canada Prepaid Inc.** are providing services related to the sale of LCBO gift card by third-party retailers, assuring convenient access for LCBO customers through a wide range of locations across the province.





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