



ONTARIO CONVENIENCE STORES ASSOCIATION

Minister Peter Bethlenfalvy
Minister of Finance
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Subject: Beverage Alcohol Reform Ontario

The Ontario Convenience Stores Association (OCSA) representing over 6,000 family run convenience stores including many regional family chains (ie: Rabba Fine Foods, Little Short Stop Stores, Avondale Food Stores, Quickies Convenience Ottawa, Hasty Markets and the Ontario Korean Businessmen's Association (OKBA)). Over 65% of all stores in the province are independents who appreciate all your government has proposed so far as we move to a better beverage alcohol retailing market. We also send along special thanks to the Ford Administration for your dedication to Convenience Week and the support we received from dozens of Ministers and MPP's during the last week of August. The four (4) Children's Hospitals in Ontario will be the main benefactors of your governments Bill recognizing the hard-working C store families and staff.

We understand the issues created by the last government's agreement with The Beer Stores when signing-off on the Master Framework Agreement (MFA) and appreciate the position this agreement has put the Ford Administration in as you plan for the opening of the beverage retailing market.

We have worked alongside your Ministry for the past three (3) years as well as the various stakeholders to support a future agenda and enhance the future business for Ontario craft brewers and wineries and are still committed to this going forward. Our members continue to demonstrate patience while watching bars/restaurants, delivery services and others benefit from relaxation of some of the rules for selling beverage alcohol to consumers. One area we would like to discuss and ask for you guidance is the entire LCBO Agency model as follows:

LCBO Agency Model

While we appreciate the expansion to more locations located in rural and remote communities, there are inherited flaws with the present model that restrict family run outlets from supporting a business due to a few factors.

We have tried to have a dialogue with the LCBO on how we could work together to enhance the future of this business model and to date we have had little to no success. As a government agency, we would expect the common courtesy of a business discussion as we represent the economic interests of these retailers. (As an example, Convenience Stores sell 80% of all lottery tickets for the OLG and Ontario government to the tune of \$3 billion while having a strong business relationship with senior management at the OLG working together on bettering the business, engaging consumers, and developing a stronger business platform for all parties.)

The Beer Store

Just recently The Beer Store announced a new delivery cost of \$250 per delivery (July 2021) or in many cases weekly to the 400 LCBO Agency Stores that potentially will cost all small businesses an additional \$13,000 a year in profits or the entire independent rural community stores almost \$5 million in hard-earned profits. This change, or new charges, are not recoupable under the present retail pricing model that Agency Stores must follow. Add in the LCBO also charges the same outlets 2.5% delivery costs on the entire order with no cap, again taking away from the operating costs of a small business with no options for the families. An interesting question is why we need two (2) deliveries for beverage alcohol to the same small sites and why no discussion or consultation as to continued downloading of corporate profits on small businesses.

LCBO Agency Stores work on very thin margins when selling beverage alcohol. The average margin is 9.8% -- that leaves little room for these stores to thrive, invest or improve. Credit card fees (more and more customers are paying with debit & with credit cards) eat away 2.5%-3.5% of this margin, and when stores add in labour costs, rent sharing costs, refrigeration costs, and delivery fees from two groups, you can appreciate there is little room for any type of profit to operate a convenience store in a remote community. Expanding beverage alcohol through the agency/convenience model was to benefit these family stores, but as you can see this has been diminished by the two category groups that benefit from our members.

We would appreciate your Ministry review with us and the hard-working Agency Store owners at new ways for this retailing concept to grow, improve and help the families as we lay out some ideas below.

We are asking that your Ministry consider this proposal as the template to move further into an open market as part of the PC platform while we patiently await the entire review of way Ontarians can access their beverage alcohol in the future as we catch up to all other jurisdiction's.

Recommendation:

One area that the Ministry of Finance could quickly consider is the retail sales costs of all beer and liquor products sold in our Agency Stores while respecting the minimum prices set out by the LCBO.

The option of charging a higher price and allowing the Agency Stores to earn a higher profit is the easiest solution. Keep in mind that bars, restaurants and even delivery companies can charge higher retail prices on these same products to recoup operational costs such as delivery costs. We also know that people shop in the convenience stores for quick and local services with the understanding that they will pay a higher margin for the convenience and location.

1) The government doesn't have to fight with large brewers about reducing their profits or not allowing them to pass along delivery costs.

2) Customers know that C stores charge more than grocery stores or mass market retailers.

3) Set a maximum amount the agency can charge to control the amount the customers will have to pay. We suggest this be a 10% above the retail the beer stores post. The 10% + the 9.8 % Agency Stores make now is equal to the average margin C stores make on selling beer in Quebec and the USA. i.e., 20%

Hopefully there are internal discussions with MPPs and Cabinet on this issue and we can find a solution that allows our members to make a decent living without everyone downloading all their costs on the rural retail retailers.

There is a need for a complete review of the LCBO Agency Store model, and this is a great opportunity for your Ministry to request as there are other areas our members have concerns with but are not comfortable with speaking out but more than willing to work with the government on a better business model going forward.

Sincerely,

Dave Bryans
CEO Ontario Convenience Stores association (OCSA)
.cc MPP Michael Parsa
MPP Will Bourma
MPP Stan Cho