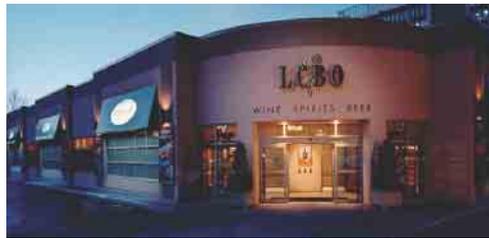


supply chain

STRONGER LINKS



The Chain

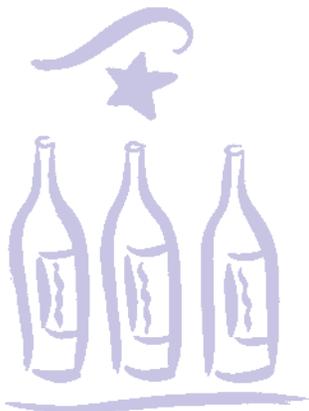
Since the origins of Ontario's liquor laws, social norms have changed along with consumption patterns. Work places have changed, too, as have the variety and sources of beverages the LCBO sells. All of these patterns are important, but so are the people: our customers, our staff and our suppliers. All of these people are integral to keeping the LCBO's retail operations successful.

Linked History

In the mid-90s the LCBO began looking at ways to increase service and revenue and provide better opportunities for staff. We began by renovating stores and re-examining the way we displayed products. The consumer response to the renovations and display changes couldn't have been better: sales increased substantially. But these front-end successes strained our ability to bring the right products to the right place at the right time for our customers and we had to take steps to meet the demand.

STRENGTH IN NUMBERS:

It's not just talk - it's fact: Over 6,000 employees help sell our beverages through front-line service and behind-the-scenes operations. Our suppliers keep us stocked with almost 4,000 general list products from 66 countries. And our customers dictate what and how much we'll sell.



A, B, C AND D STORES:

Although there will be clear benefits for the C- and D-level stores, the Store Services Project has a stronger focus on the A- and B-level stores. The reason is simple: C and D stores tend to be in more concentrated communities and therefore have more concentrated knowledge of their customers. A and B stores, on the other hand, have the unique challenge of shifting customer bases. All stores will benefit, though, from the electronic tools introduced as part of the recommendations.



SHELF LIFE:

“With Door-to-Floor, the product is all out there on the shelf for the customer ... I would rather spend my day on the floor with the customer than in the back-room pulling stock.”

Coreen Benson, Customer Service Representative, Store 587 Whitby

We examined our stocking, ordering, inventory and sales processes, plus the other work behind those jobs. Then, between 2000 and 2001, a test group of six stores had further work done. Staff took part in training to improve their knowledge of retail best practices and customer service skills. Product lines were analyzed, display space re-planned, and deliveries changed so that an average of 80 per cent was moved directly from the truck to the display shelf. This program was called “Door-to-Floor”.

The results were powerful:

- Retail staff spent 23 per cent less time lifting and loading and had 40 per cent more time available to assist customers;
- This drove sales growth in the test stores up by 12.6 per cent compared to 11.5 per cent for the six control stores – a 1.1 per cent gain or a \$500,000 annual increase for the six stores;
- Customer surveys showed they found it easier to shop; after low-selling products were removed, stores were neater, less cluttered and appeared to have a greater selection;
- Inventory turnover was significantly higher – 16.10 turns versus 14.74 in six control group stores.

The Supply Chain project continues to build on these early results.

A TOAST TO STRONGER BONDS

Change can be hard, but it can also open up opportunities. For our retail staff, the Supply Chain project means more time for customer service and less material handling. For our merchandising staff, it means more time to analyze what and how many products to buy, and better tools for making those decisions. For our suppliers, it means more information sharing, greater predictability of volume and better planning. And of course, our increases in sales mean our suppliers' sales increase, too.

This brochure is only the start. We're going to put more detailed information on our corporate intranet and in videos, plus, we're initiating newsletters, more training and trade business planning sessions.

LOW LOAD DAYS:

"My staff now spend a lot less time in the basement on load days, and the smaller loads are easier on everyone. It's also going to make our year-end inventory count easier."

*Kelly Hennigar, Manager,
Store 310 London.*

CLEAN AND CLEAR:

"It's an opportunity to clean house, promote products that do sell, and will make it less labour intensive for staff handling stock."

Bob French, District 7 Manager



THE SUPPLY CHAIN PROGRAM WILL:

- Improve customer service;
- Free up staff to spend more time helping customers;
- Increase sales;
- Provide better product selections tailored to customer needs;
- Provide more staff training;
- Create closer links with suppliers;
- Reduce material handling time;
- Reduce back room inventory;
- Increase inventory turns;
- Maintain or improve service levels;
- Optimize delivery schedules;
- Improve accuracy of forecasting.



LINKING SUPPLIERS, STAFF AND CUSTOMERS

“Chain”, as in “Supply Chain”, suggests something that ends in two places. But in fact, bringing beverages from suppliers to consumers involves a lot of links that connect to each other and which loop in complex ways. Here’s a simple example:

Products are sold by suppliers to the LCBO; The LCBO staff get the products to the shelves; Consumers buy the products, which provides feedback to the LCBO; LCBO staff order more product, which provides feedback to the supplier.

And just like those links in the chain, our plans of action have overlapping parts and built-in feedback.

1. World Class Store Service

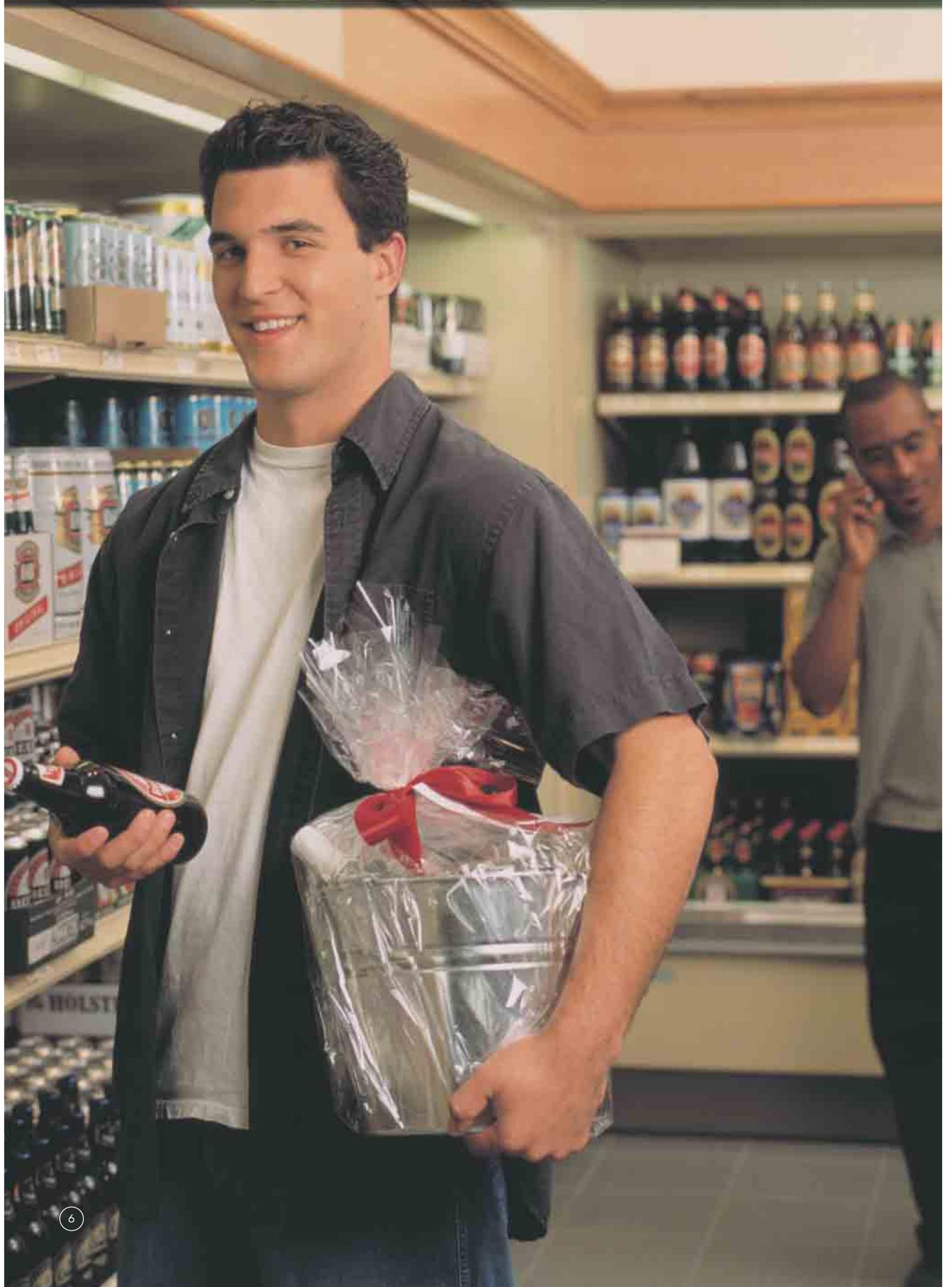
We want to offer the highest-quality customer service through enthusiastic, courteous and knowledgeable staff. Staff and managers in each store will train in customer service/ selling and Door-to-Floor. They’ll also participate in Supply Chain “Big Picture” and Assortment Planning workshops.

Under Door-to-Floor, an average of 80 per cent of all product delivered will go directly to the shelf. Web-based ordering will make forecasting more accurate. Store staff will use planograms – diagrams of store-specific shelf-stocking plans – which will help make more effective use of each store’s shelf space. With the new localized assortments, it will be easier for customers to find what they’re looking for and to be enticed to try new products.



VODKA





2. Category Management

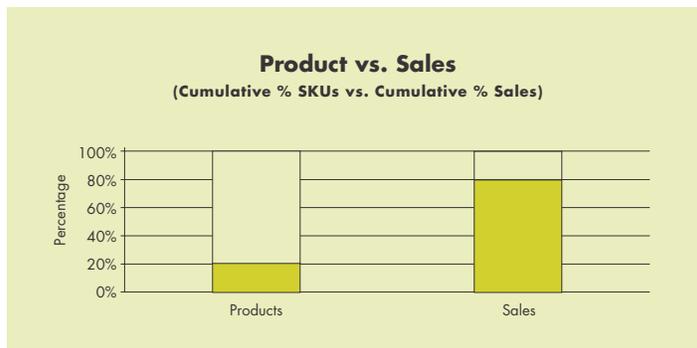
We want to give our customers the best possible mix of beverages to satisfy their tastes and tempt them to try something new. At the corporate level, this means adopting new planning methods in the ways we select products, manage their stay on our shelves, and – if they no longer satisfy – remove them. It also means engaging in regular collaborative planning meetings with our suppliers.

At the store level, the category management changes translate into local assortments that combine a core of top-selling products with local selections. For example, stores in Toronto’s diverse neighbourhoods will enjoy the same general selection as other stores, but may also stock brands that are culture-specific. Another example is that stores in cottage country or near universities may carry a slightly different stock than those closer to urban residential areas.

SHARED GOALS:

“It’s great to see the Divisions all working toward the same goal, and everybody is so supportive.”

Bob French, District Manager, District 7



Twenty per cent of the LCBO's products generate 80 per cent of sales.



SHOW AND TELL:

“The information sharing tool has helped streamline the exchange of information between ourselves and the Board. It has great information, and I have found it very useful.”

*Gordon Coutts, Ontario Sales Manager,
Maxxium Canada*

3. Inventory Management

We want to be more effective in the ways we manage our ordering, distribution and storage of our inventory. And we want our inventory levels to more closely reflect customer demand. Improvements to our forecasting and ordering tools will help us get a more accurate picture of our needs, while other tools will help us track the flow through our system.

We’ll also be able to share more information with our suppliers. Through the Information Sharing Project, suppliers can monitor their own inventory levels and track the movement of merchandise from the point of order to the point of sale. The benefits to the LCBO and our Trade partners will be similar: more accurate and predictable lead times, fewer stock-outs and more satisfied customers.

4. Logistics Network

We want to be more proactive about moving product. Improvements throughout the chain in product selection, clearance, forecasting and ordering practices will free up capacity in our warehouses. Logistics management and staff will continue to work to improve productivity and efficiencies at all warehouse locations. New automated systems will support Supply Chain initiatives. Warehouse deliveries will be increased for A and B stores.





WHAT'S NEXT?

Here's what we've accomplished:

Store Service Pilot: Six A- and B-level stores implemented all the suggested Supply Chain changes. We compared them to six control stores that had similar qualities but which did not make any changes. With the positive results, we made the decision to roll out the changes. This began in 2001 and 39 Western Region stores are now on board.

Our next steps:

Approximately 30 more stores in the Ottawa area will begin in the fall of 2002. By 2004, approximately 300 stores will be converted. The remaining stores will benefit from some of the ideas introduced, including tools such as the web-based Store Assortment Report (SAR) which will help with assortment planning.

At the same time, we will begin putting the recommendations from a review of our category and inventory management processes into practice. These include improvements in the way products are introduced and cleared from the LCBO's selections, and the way our inventory is forecasted, ordered and delivered. And while we expect our own sales and processes to improve, our Trade partners will also enjoy closer collaboration in planning and forecasting.

COMPARISON CRITERIA - KEY PERFORMANCE INDICATORS (KPI):

- Product Handling and Customer Service Time;
- Inventory and Inventory Turns;
- Service Levels;
- Sales;
- Dollars per Transaction;
- Door-to-Floor Achieved.





GLOSSARY

Assortment:

The selection of product brands available in a store.

Average Net Sales Per Transaction:

The average amount of sales generated by a purchase.

Contribution Code:

A code given to brands that are grouped together, based on the velocity of sales that they generate.

Core:

A group of corporate, top-selling products that a store carries as part of its assortment.

Delist:

See "Discontinue"

Demographics:

The characteristics of a group of customers, as defined by social and economic factors including household income, language spoken or education level.

Discontinue:

The preferred term for "delist", is the process of removing those products from a store's assortment that contribute least to the store's gross margin sales.

Diversion List:

An electronic file which is used to identify stock to be diverted.

Door-to-Floor:

The process of moving products directly from the receiving door to the sales floor. In general, this will reduce back-room storage, reduce lifting and increase availability of desirable stock.

Door-to-Floor Flash Report:

The weekly reports sent to Supply Chain stores to tell them how they are performing against several Key Performance Indicators. These reports also show how the store has done compared to the regional and district numbers.

Face Up:

Moving a product from the back of the shelf so it is easier to reach and be seen

Inventory Turn:

The turnover, or sale, of average total store stock. Inventory Turn is a calculation of how rapidly products are sold and how well inventory is managed. Higher numbers mean that products are being sold and replenished quickly and that a relatively low amount of stock is unsold.

KPI (Key Performance Indicators):

The criteria used to identify and measure the success of the Supply Chain initiatives.

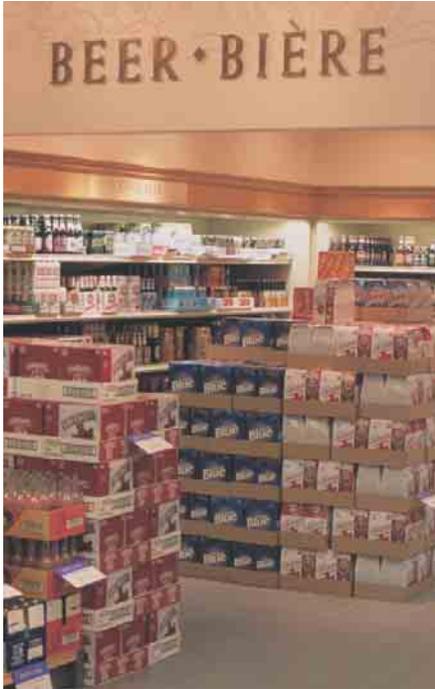
Local (Discretionary):

A group of non-core products, chosen by the store, that best reflect local customer preferences.

One-in-One-out Guideline:

A guideline that helps determine which product to discontinue, in order to make room for another product being added to the store's assortment.





GLOSSARY *continued*

Optimum SKU Count:

A target for the optimum number of SKUs in a category or set/sub-set that a store can carry, given the amount of merchandising space available in that store. This target helps determine the level of core and amount of local products that the store can accommodate.

Planogram:

See “Store-Specific Planogram”.

Planoguide:

A guide that shows where products are to be placed on the store shelf. Planoguides group products by set and subset, and show how they should be placed according to the store’s gross margin ranking of each item within a subset.

Product Facings:

The number of rows from the front to the back of the shelf of a product/size.

SAR (Store Assortment Reporting):

A software tool that ranks the products carried in the store by category, based on gross margin contribution. It can be used to identify poor performers, new product releases and to show trends.

Service Level:

A measure of product availability in a store. It is expressed as a percentage of all products that were in stock every day during the measured period.

Set:

A sub-group of products within a product category, (i.e., Vodka is a set from the Spirits category) - see also “Sub-Set.”

SDG:

A software tool designed by Stirling Douglas. This forecasting, tracking and ordering program is used at the warehouse level to order product corporately, and at the store level for store-specific orders. It is also known in the stores as “Web-Based Ordering” and is used to generate SOQs (Suggested Order Quantities) based on the average rate of sales by SKU.

Shrinkage:

Unplanned reduced stock levels due to theft, breakages or defective stock.

SKU (Stock Keeping Unit):

A “Stock Keeping Unit” (SKU) refers to a product brand and size representation. This might also be referred to as a product listing.

SOS (Store Order System):

A software tool that consists of two components. These are the Web-Based Ordering system that is used in the stores and a replenishment portion that uses business rules and policies to generate Suggested Order Quantities (SOQs).

SOQ (Suggested Order Quantities):

A measurement that suggests how much product to order, based on forecasted replenishment requirements, on-hand quantities and quantities on order for that product.



GLOSSARY *continued*

Store Services Pilot:

Between September 2000 and May 2001, six stores in Ontario made all the recommended changes. Results were compared to six unchanged stores.

Store Services Rollout:

The rollout of the Supply Chain changes to approximately 300 A and B stores.

Store-Specific Planogram:

A store-specific diagram showing where each product in a store's assortment is placed on the shelf, and the number of facings that it should have. Specifically, it shows where products should be placed in order to improve profitability, efficiency, and to provide a positive shopping experience for the customer.

Sub-Set:

A further segmentation of products within a set, based on specific criteria. The criteria may differ from one product category to another (i.e., Australian Red Wine). See also "Set."

Web-Based Ordering:

See SDG.

Week Ending Inventory:

The most recent four-week ending inventories are provided to give the manager a snap shot of the impact of his/her ordering practices on inventory investment (at cost, excluding Vintages, Private Stock, Non Liquor and Minis) levels.

SUPPLY CHAIN UPDATES

Questions about the content of this brochure should be addressed to:

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