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deregulating the sale of alcohol in ontario[[1]](#footnote-1)

Ken Mark wrote this case under the supervision of Professor Neil Bendle solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In the fall of 2016, the Ontario government announced that it would continue to deregulate the sale of alcoholic beverages in the province. Supporters welcomed the announcement, which would allow consumers more choices regarding where they could purchase alcoholic beverages. Detractors suggested that there would be an increase in intoxicated and underage consumers buying alcohol and that the government would see lower dividends from the 654 stores of the Liquor Control Board of Ontario (LCBO).[[2]](#footnote-2) At the time, 60 grocery stores were authorized to sell beer and cider; the target was to have up to 450 grocery stores selling beer and to grant 300 of these stores permission to also sell wine.[[3]](#footnote-3)

As the licence to sell beer, cider, or wine would not be limited to chain grocery stores, independent grocers were thinking of applying for permission to stock beverage alcohol products. These independents faced two challenging questions: Would substituting currently stocked products with beverage alcohol products boost their overall income? What future restrictions would the government place on the sale of beverage alcohol products?

From a policy-maker’s perspective, the question was what impact the general move toward deregulation would have on health care and on tax revenues. Alcohol had been regulated in Ontario for nearly a century, and the government’s efforts to retain control over the distribution of alcohol had led to two effects: it had protected the well-being of its citizens, and it had ensured that the provincial budget was supplemented by the receipts from levying a tax on the product.

The History of Alcohol Regulation in Ontario

Supporters of the temperance movement that started in the 19th century sought to shut down drinking establishments because they believed the consumption of alcohol was the source of issues such as poverty, crime, and domestic abuse. Legislation prohibiting the sale of alcohol in Ontario was enacted in 1916 and repealed in 1921. In 1924, a referendum in Ontario defeated the repeal, and prohibition was re-enforced. Prohibition was ended in 1927 with the creation of the LCBO and Brewers Warehousing Company (later renamed Brewers Retail and doing business as The Beer Store). These two entities were permitted to sell alcohol, which did not need to be consumed on premises, directly to the public. Some cities in Ontario continued to outlaw alcohol for decades after the prohibition law was repealed. (Orillia repealed the law in 1955, and Owen Sound in the1970s.)

The Ontario Market for Beverage Alcohol

The Ontario beverage alcohol market in 2015 was worth $7.5 billion,[[4]](#footnote-4) and the LCBO had $5.2 billion in sales through its 654 LCBO stores, 212 agency stores (franchised locations licensed to sell LCBO products in rural communities), and sales to licensees (restaurants). The outlets selling alcoholic beverages (not including licensees) included LCBO outlets and agencies; beer stores; retail outlets at wineries, breweries, and distilleries; and duty-free stores (see Exhibit 1).

Forty per cent of LCBO sales were from spirits, 27.5 per cent from wine, 22.4 per cent from beer, and 9.7 per cent from the vintages section, which featured high-end wine and spirits. The LCBO employed 9,300 full-time and casual employees and accounted for 137 million in-store transactions in 2015.

Across Canada, each province and territory had its own liquor control board, which managed the sale of alcohol to individuals (see Exhibit 2) and sent surplus funds to respective provincial governments on an annual basis. The LCBO transferred $1.5 billion to the Ontario government in the form of a dividend.

The LCBO also seemed to have a public service mandate, which included its recent Deflate the Elephant campaign. The LCBO noted that this series of advertisements aimed to encourage responsible drinking behaviour:

The “elephant in the room” idiom refers to a difficult or embarrassing issue, obvious to everyone but not discussed. Focus group research found that 81 per cent understood the meaning of the phrase, and 88 per cent found that it aligned well with LCBO’s responsible brand. The $1.4 million Deflate the Elephant campaign, which was first launched in December 2009, has continued to evolve to now focus on how a person can be a generous and responsible host, and help prevent drinking and driving by planning ahead.[[5]](#footnote-5)

After LCBO agency stores, The Beer Store, run by Brewers Retail, was the second main group licensed to sell beverage alcohol to individuals in Ontario. It focused on selling beer and malt beverages, and was jointly owned by three entities: Belgium’s Anheuser-Busch InBev through its Labatt Brewing Company Limited subsidiary (49 per cent), U.S.-based Molson Coors Brewing Company (49 per cent), and Japan’s Sapporo Breweries Limited through its Sleeman Breweries Ltd. subsidiary (2 per cent). The Beer Store was regulated by the Alcohol and Gaming Commission of Ontario and had 448 stores across the province, employing 7,356 people (see Exhibit 3).

In Canadian beer sales, Anheuser-Busch InBev was the market leader; it had a 41.5 per cent volume share of the market, with brand names such as Budweiser, Labatt, Beck’s, Stella Artois, Alexander Keith’s, Bass, Kokanee, Lakeport, Lucky, and Oland. Molson Coors Brewing Company had a 26.8 per cent volume share, with brand names such as Molson Canadian, Coors Light, Rickard’s, Carling, Keystone Light, Old Style Pilsner, Black Label, Molson Export, Molson Dry, and Molson M.

The rest of the market, 31.7 per cent, was split among dozens of craft brewers,[[6]](#footnote-6) including a number of publicly traded firms in the alcoholic beverages industry (see Exhibit 4). The Ontario Craft Brewers, an industry association of craft brewers, estimated that its members had a combined $240 million in sales in 2015. By volume, these sales represented a 6 per cent market share of the premium segment in the Ontario beer market. There were over 140 craft brewers and 50 contract brewers in Ontario, employing 1,500 full-time employees.[[7]](#footnote-7) An industry source indicated that “the premium segment was about 25 per cent of total beer volume sold in Ontario, or about two million hectolitres (HL). Of this, craft brewers—those not owned by the majors—accounted for about 0.5 million HL of volume.”

While The Beer Store operated as a not-for-profit entity, research by Anindya Sen, a professor at the University of Waterloo, concluded that it generated substantial “incremental profits” annually, based on the pricing differences between The Beer Store and major grocery stores in Quebec. Sen looked at data on 24-bottle packs and found the following:

Specifically, median estimates imply differences ranging from roughly $9–$11, after adjusting for deposit fees, sales taxes, and commodity taxes. A weighted average of price differences between domestic and imported brands suggests a 17 per cent [difference] in beer prices between the two provinces. In tandem with the likely existence of significant economies of scale, my results indicate that TBS [The Beer Store] experiences significant retail profits, which under some assumptions, may be even larger than $700 million. The implications for government revenue are obvious.[[8]](#footnote-8)

The third main retail group licensed to sell beverage alcohol was Ontario winery retail stores (WRS). There were 500 stores in total, including 208 on-site WRS stores at wineries and 292 off-site stores. These off-site stores were typically separate stores located within grocery stores. The 292 off-site stores were owned by individual wineries and beverage companies: Constellation Brands Inc. owned 164 stores; Andrew Peller Limited owned 104 stores; Colio Winery Estate owned 13 stores; Magnotta Inc. owned eight stores; and Château des Charmes owned two stores.[[9]](#footnote-9)

An example of a WRS store chain was Wine Rack, a retail division of Constellations Brands Canada. Constellation Brands Inc. was a U.S.-based global beverage alcohol firm with over 100 brands in wine, beer, and spirits. The Wine Rack had 164 wine stores in Ontario and sold 150 types of wine, about half of which were Ontario wines.

The rest of the Ontario beverage alcohol market consisted of sales by licensed establishments such as restaurants and bars. There was limited interprovincial trade in beverage alcohol because of a federal law which, until 2012, banned the shipment of alcohol between provinces. In August 2012, Bill C-311 was passed, allowing the provinces more control over their policies for interprovincial alcohol sales. Still, there were significant barriers for individuals wanting to purchase alcohol—wine for example—from other provinces (see Exhibit 5).

The Premier’s Advisory Council on Government Assets

In 2014, W. Edmund (Ed) Clark, the former chief executive officer (CEO) of TD Bank, was named as the chair of the Premier’s Advisory Council on Government Assets by Ontario Premier Kathleen Wynne. With a group of five senior executives, Clark was tasked with providing advice on how to maximize the returns of selected government assets such as the LCBO, Hydro One Limited, and Ontario Power Generation Inc. In April 2015, the council presented its report to the government.

The report envisioned two key changes for alcohol distribution in Ontario. First, wine and beer—both domestic and imported—would be allowed to be sold through selected grocery stores. Up to 450 stores would sell both beer and wine. Of these, 300 stores would be allowed to sell wine, beer, fruit wine, and cider, and 150 beer-only stores would be integrated into grocery stores. There would be a phase-in period over the next 10 years (see Exhibit 6). Second, stand-alone wine stores could now be integrated within grocery stores, share cash register checkpoints, and acquire beer licences to augment their selection of wine with beer brands. In addition, these stores would be able to sell any Ontario wines.

A third recommendation was for the LCBO to invest in front-line staff training, improve its ability to make data-based decisions, grow its wholesale business, and create an e-commerce offering. The council also recommended that the owners of The Beer Store make a $100 million investment to “improve the customer shopping experience” by 2018. While not referenced in the council’s report, per capita consumption of beer, spirits, wine, and coolers had been declining in Ontario (see Exhibit 7).

Ownership of The Beer Store would be opened to large and small brewers, with voting shares issued according to the proportion of their sales at The Beer Store. There was a further specification against price discrimination: any The Beer Store licensees ordering fewer than 250 cases of beer a year would now pay the same price as paid by individual consumers. At the time, these smaller accounts paid prices higher than consumers buying individual cases.[[10]](#footnote-10)

The council also recommended allowing the LCBO to sell 12-packs of beer, which was an improvement over the current restriction, which allowed them to sell only six-packs and smaller units. However, the council stopped short of recommending that the LCBO be allowed to sell 24-packs of beer, implying that the move would encroach on The Beer Store’s retail territory. In an interview with the Canadian Press, Clark defended this decision, saying, “Going for half the slice of bread gets you farther than trying to go too far. For most consumers, if I can get a 12-pack at the LCBO that does me, but if I’m having a party I don’t mind driving over to The Beer Store.”[[11]](#footnote-11)

Reactions from Stakeholders

Several interested parties indicated their responses to the recommendations:

* Mothers Against Drunk Driving (MADD), a not-for-profit organization, issued a statement indicating it supported the provincial liquor board model, concluding that, “privatizing alcohol sales will increase alcohol-related deaths, injuries, and social problems through increased alcohol availability and consumption.”[[12]](#footnote-12)
* The Ontario Public Service Employees Union, which represented 7,000 employees working for the LCBO, was against deregulation, claiming that, by limiting alcohol sales, “the LCBO has reduced harm from alcohol consumption in a number of ways: by limiting the number of retail outlets selling alcohol; through alcohol pricing policies designed to reduce alcohol consumption, especially among high-risk drinkers; by strong enforcement of the ban on alcohol sales to minors and the intoxicated; and through other policies and procedures.”[[13]](#footnote-13)
* George Soleas, CEO of the LCBO, estimated that the LCBO would lose 20 per cent of its market share to grocers as a result of deregulation.[[14]](#footnote-14)
* The C.D. Howe Institute recommended deregulation, as it would introduce competition into the Ontario alcohol market. Its research suggested that the brewers that owned The Beer Store earned an incremental $450 million to $630 million in additional profits—compared with what would have occurred in a competitive market similar to that in Quebec—because of the premium prices they charged for international beer brands.[[15]](#footnote-15)
* Patrick Gedge, the president and CEO of the Winery & Grower Alliance of Ontario (WGAO) stated, “The WGAO has worked diligently with Mr. Clark and his team to ensure the changes provide growth opportunities for all segments of the Ontario wine industry. Mr. Clark’s recommendations are balanced and provide the opportunity for the Ontario wine and grape industry to grow into the future. We look forward to enhancing consumer access and exposure to Ontario wines through grocers across the province.[[16]](#footnote-16)
* Richard Linley, president of the Wine Council of Ontario, stated, “given the significant economic impact of the grape and wine industry, it was important the government took the time it needed on this issue. Ontario grape growers are optimistic the recommended plan’s promise of improved consumer access and availability to our award-winning Ontario-grown wines will result in real growth for our vineyards and wineries.”[[17]](#footnote-17)

Public Opinion on Deregulation

In response to fears that a “corner store liquor sales model” would be implemented in Ontario, Canada’s national brewers commissioned a survey by Ipsos Reid of 802 adults in Ontario in June 2013. The survey found that 81 per cent of those surveyed were satisfied with Ontario’s current alcohol retailing system, and 64 per cent felt that the province had “just the right number of retail locations.” Respondents were asked whether they thought prices would increase, decrease, or stay the same if convenience stores were allowed to sell beer, wine, and hard liquor. Two-thirds of respondents believed that prices would stay the same or decrease. A majority of males and females (59 per cent and 69 per cent, respectively) believed that there would be increased sales of alcohol to minors if convenience stores were allowed to sell beer, wine, and hard liquor.[[18]](#footnote-18) Another question posed to the panel related to the likelihood of purchasing alcohol at a convenience store if the prices were increased:

If the sale of beer, wine and hard liquor in convenience stores meant the prices you had to pay would increase 15 per cent to 20 per cent compared to current prices, would you be more likely to support or more likely to oppose the sale of beer, wine and hard liquor in convenience stores, or would having to pay higher prices have no impact on you either way?

In response, 67 per cent of those surveyed indicated they were “more likely to oppose” the sale of beer, wine, and hard liquor in convenience stores; 30 per cent indicated it would “have no impact either way”; and 4 per cent indicated they were “more likely to support” the initiative.[[19]](#footnote-19)

Deregulation begins

The first phase of deregulation saw a pilot project to allow the LCBO to sell 12-packs of beer (but not 24-packs) at 10 selected stores starting in August 2015. Previously, the LCBO had been limited to selling six-packs of beer.[[20]](#footnote-20) The Beer Store remained the only retail location from which consumers could buy 24-packs of beer.

On December 15, 2015, 58 Ontario grocery stores began selling six-packs of beer. The province stipulated that at least 20 per cent of shelf space had to be reserved for Ontario craft beer. Some retailers such as Loblaw Companies Limited went even further, committing 50 per cent of shelf space to craft brews.[[21]](#footnote-21)

On September 2, 2016, the first 70 grocery stores were selected to sell wine in Ontario. They would start selling wine on October 28, 2016. Charles Sousa, Ontario Minister of Finance, stated:

While offering consumers more convenience and choice, Ontario maintains a strong commitment to social responsibility. By law, these grocers will have to abide by the requirements for the safe sale of alcohol overseen by the Alcohol and Gaming Commission of Ontario (AGCO), including designated sales areas and standard hours of sale, limitations on package sizes and alcohol content, and staffing and social responsibility training requirements. Ontario is also developing a comprehensive alcohol policy to promote the responsible sale and use of alcohol.[[22]](#footnote-22)

After decades of what had seemed like a monopoly on the retail sales of wine and spirits, the deregulation of beverage alcohol sales in Ontario had begun.

Exhibit 1: Number of Outlets Selling Alcoholic Beverages in Ontario, 2011–2015



Note: LCBO = Liquor Control Board of Ontario

Source: Liquor Control Board of Ontario, “Number of Outlets,” *Annual Report 2014–15: Let’s Get Together*, 26, June 25, 2015, accessed February 15, 2017, www.lcbo.com/content/dam/lcbo/corporate-pages/about/pdf/LCBO\_AR14-15-english.pdf.

Exhibit 2: sales of alcoholic beverages, by province and territory, 2014–2015



Notes: \*Alberta privatized its liquor stores in 1993; in 2014–2015, total liquor sales were $2.54 billion; \*\*In Newfoundland and Labrador, convenience stores sold beer; there were an estimated 674 convenience stores in the province; \*\*\*Nunavut had no retail liquor stores; purchases were made by application to the Nunavut Liquor Commission.

Source: Compiled by case author based on “Quick Facts—Liquor,” Alberta Gaming and Liquor Commission, December 2016, accessed February 15, 2017, www.aglc.ca/pdf/quickfacts/quickfacts\_liquor.pdf; “Private Liquor Store Locations in BC,” Government of British Columbia, February 1, 2017, https://catalogue.data.gov.bc.ca/dataset/private-liquor-store-locations-in-bc; Manitoba Liquor and Lotteries Corporation, *2014/2015 Annual Report: Making an Impact*, September 22, 2015, www.mbll.ca/sites/mbll\_corporate\_2/files/pamphlets/

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Exhibit 3: Ontario Beer Consumption Statistics, 2010–2015



Source: Beer Canada, “Ontario: Canadian and Imported Beer Sales in Hectolitres,” 2015 Industry Trends, 11, July 2016, accessed October 25, 2016, www.beercanada.com/sites/default/files/2015\_industry\_trends\_final.pdf.

Exhibit 4: Publicly traded Alcohol Beverage Firms, Quarterly Financial Information in 2016



Note: P/E Ratio = price-to-earnings ratio, or the ratio of a company’s equity market capitalization to its net earnings; market capitalization is at January 17, 2017, and is in millions of U.S. dollars.

Source: Compiled by case author based on Google Finance and “Alcoholic Beverages Industry Profitability,” CSIMarket.com, accessed January 17, 2017, http://csimarket.com/Industry/Industry\_Profitability.php?ind=501.

Exhibit 5: Canada’s Provincial and territorial Wine Shipping Laws

|  |  |  |  |
| --- | --- | --- | --- |
| **Province/ Territory** | **Domestic Wine** | **International Wine** | |
|  | Does the province allow for direct-to-consumer wine imports from out-of-province wineries? | Quantity limit in excess of the duty-free entitlement for international imports (litres) | Mark-ups and fees |
| British Columbia | Yes—Provincial law allows shipments of 100% Canadian wine only. All other wines are subject to a 9-litre quantity limit and only in-person importation is allowed. | 45.45 | 85%; minimum mark-up $0.244/litre; maximum mark-up $17.00/litre |
| Alberta | TBD—Provincial law states this is permissible as long as it is a quantity for personal use, although it also states imports are “subject to the policies of the Board.” The Alberta GLC states imports must be personally carried over the provincial border. | 9.10 | $0.10/oz. |
| Saskatchewan | No | 9.10 | $0.86/oz. |
| Manitoba | Yes | None | $0.12/oz. |
| Ontario | TBD—Ontario laws are silent on the issue of interprovincial importation of wine, but an LCBO policy statement says “only in-person transport is allowed” and only up to one case. | 45.00 | 39.6% |
| Quebec | No—Provincial law allows for in-person transport over the provincial border but restricts the shipping of wine not purchased from a liquor board within Quebec. | 9.00 | 66%; $0.89/litre |
| Prince Edward Island | TBD—Provincial law states this is permissible as long as it is a quantity for personal use, although it also states imports are subject to the policies of the provincial liquor board. The PEI Liquor Board states imports must be personally carried over the border. | 9.09 | $0.10/oz. |
| New Brunswick | No—Provincial law states imports for consumers are allowed only through other liquor boards; the quantity for shipment and in-person transport is limited to one bottle of wine. | 45.00 | 70% |
| Nova Scotia | No—The government suggested that it would copy British Columbia’s approach, but the necessary regulations and legislation have not yet been introduced. | 9.09 | $0.10/oz. |
| Newfoundland and Labrador | No—Provincial law states wine can be brought across the border only in person, and the quantity is limited to 1.14 litres per person. | 9.09 | $0.35/oz. |
| Yukon, Northwest Territories, Nunavut | No—Federal legislation grants territorial governments autonomy regarding the issue. | All liquor importations larger than the duty-free entitlement are referred to territorial authorities. | |

Note: TBD = to be determined; GLC = Gaming and Liquor Commission; oz. = ounce (1 ounce = 28 millilitres); LCBO = Liquor Control Board of Ontario.

Source: Adapted from Mark Hicken, “Shipping Laws on Wine within Canada,” Winelaw.ca, accessed February 28, 2016, [www.winelaw.ca/cms/index.php/legal-info-for-the-industry/23-shipping-border-import-laws/26-shipping-laws-on-wine-within-canada](http://www.winelaw.ca/cms/index.php/legal-info-for-the-industry/23-shipping-border-import-laws/26-shipping-laws-on-wine-within-canada).

Exhibit 6: the ontario government’s Proposal for the sale of Alcoholic Beverages in Grocery Stores

* Beer in grocery stores—450 stores:
* Universal wine and beer—150 stores: beer and wine stores integrated into grocery stores, selling imported and domestic wine
* Winery retail stores in grocery—150 stores: beer and Ontario wine stores operated as a store-in-store model, with a shared check out feature, selling beer and Ontario wine
* Beer-only stores—150 stores: beer-only licences fully integrated into grocery stores
* Sample timeline for the universal wine and beer stores (150 stores):
* 2016—35 unrestricted wine and beer licences and 35 restricted wine and beer licences allocated
* 2019—35 restricted wine and beer licences to be converted to unrestricted licences; another 40 restricted wine and beer licences to be allocated
* 2022—40 restricted wine and beer licences to be converted to unrestricted licences; another 40 restricted wine and beer licences to be allocated
* 2025—40 restricted wine and beer licences to be converted to unrestricted licences

Source: Adapted from Government of Ontario, *Striking the Right Balance: Modernizing Wine and Spirits Retailing and Distribution in Ontario*, 8, February 18, 2016, accessed October 25, 2016, www.ontario.ca/page/striking-right-balance-modernizing-wine-and-spirits-retailing-and-distribution-ontario.

Exhibit 7: Canadian Liquor Consumption Statistics, by province and territory—based on legal drinking age, 2010­–2015



Note: N.W.T. = Northwest Territories

Source: Beer Canada, “Per Capita Consumption of Beer, Spirits, Wine and Coolers,” *2015 Industry Trends*, 46, July 2016, accessed October 25, 2016, www.beercanada.com/sites/default/files/2015\_industry\_trends\_final.pdf.

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of the Government of Ontario or any of its employees. [↑](#footnote-ref-1)
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