

# LCBO

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**GENERAL RFB RESPONDENTS' MEETING  
RFB #2016-010**

**July 6, 2016**



## MEETING OVERVIEW

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- Introductions
- Disclaimer
- Background
- Timeline for Bid Process
- Description of Opportunities
- Allocation of Authorizations by Region
- Overview of Bid Process
  - Key Terms
  - Bid Requirements
  - Franchise Stores
  - Evaluation Process
  - Process for Breaking Ties
- Category B Special Circumstance
- Annual Beer Volume Amount and Surcharge
- Questions about the RFB



## INTRODUCTIONS

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### LCBO

- Ian Loadman  
Senior Director, Corporate Affairs

### EY

- John Barrett  
Partner, Transaction Advisory Services
- Edward Ng  
Associate Partner, Transaction Advisory Services



## DISCLAIMER

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- This presentation provides potential Respondents with a summary of the RFB process and is for information only.
- Potential Respondents are advised to review the information as outlined in the RFB and the Wholesale Supply Agreement.
- Potential Respondents are encouraged to review the regulation governing grocery sales of beer and wine. (Ontario Regulation 232/16)
- As set out in the RFB (Section 2.8), questions concerning the RFB or the Wholesale Supply Agreement may be made in writing only. Questions and answers will be provided to all Respondents on [www.biddingo.com](http://www.biddingo.com). Only responses to question incorporated into an Addendum to the RFB amend or modify the RFB documents.



## BACKGROUND

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- As announced by the Premier on February 18, 2016, grocery Store Operators are invited to submit bids to sell beer and wine (including cider):
  - Up to 70 authorizations for grocery stores available
  - In addition to 60 stores currently authorized to sell beer and cider
  - Competitive allocation process
  
- The AGCO and the LCBO have distinct roles and responsibilities:
  - AGCO is responsible for regulatory oversight of the Program.
  - LCBO is responsible for awarding wholesale supply agreements for beer and wine (a “Wholesale Supply Agreement”) to each Store Operator participating in the Program.
  
- In order to sell beer in a grocery store, a Store Operator must possess both:
  - A Wholesale Supply Agreement with the LCBO
  - An authorization to sell beer and wine from the AGCO



## BACKGROUND

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- The conditions of the authorizations and supply agreements are set out in Ontario Regulation 232/16, including:
  - Eligibility
  - Number of authorizations, allocation among regions, maximum numbers for single group of operators, Category A and B stores
  - Some operating conditions
  - Competitive allocation process
  
- Regulation online on e-laws:
  - <https://www.ontario.ca/laws/regulation/160232>
  - Under the *Liquor Control Act*



## TIMELINE FOR BID PROCESS

<b>RFB Timetable</b>	
<b>Milestone</b>	<b>Date</b>
Issuance of RFB Documents	June 24, 2016
General RFB Respondents' Meeting	July 6, 2016
First round Respondent Questions and RFB Comments/Amendment Requests due	July 8, 2016 no later than 10:00:59 a.m. (Toronto Local Time)
Issuance of Addenda, if any	July 15, 2016
Second round Respondent Questions and RFB Comments/Amendment Requests due	July 22, 2016 no later than 10:00:59 a.m. (Toronto Local Time)
Issuance of Addenda, if any	July 29, 2016
Submission Deadline	<b>August 5, 2016</b> <b>no later than 10:00:59 a.m. (Toronto Local Time)</b>
Expected Execution of Wholesale Supply Agreements by Successful Respondents	Mid October 2016



## DESCRIPTION OF OPPORTUNITIES

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- 70 beer and wine authorizations
  - 35 restricted (for three years)
  - 35 unrestricted (referred to in regulation 232/16 as beer and wine authorizations)
  
- 35 restricted may, for first three years, sell:
  - Beer
  - Cider
  - Wine that is produced using grapes from a single country, and is either:
    - Produced by a small winery (annual sales 200,000 litres or less); or
    - Wine designated as meeting the standards of a statutory appellation of origin system that certifies less than 50 million litres of wine annually and that is produced by a mid-sized winery (annual sales 4.5 million litres or less)
  
- LCBO catalogue will identify products available to grocers under different authorizations





## DESCRIPTION OF OPPORTUNITIES

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- 35 unrestricted may sell:
  - Beer
  - Cider
  - Wine
  
- At least 50% of wine shelf space (containers on display) must be wine that is produced using grapes from a single country that also meets one of the following conditions:
  - Wine designated as meeting the standards of a statutory appellation of origin system that certifies less than 50 million litres of wine annually; or
  - Produced by a small winery (annual sales 200,000 litres or less); or
  - From a country that produces less than 150 million litres of wine from grapes grown in that country
  
- LCBO catalogue will identify products available to grocers that meet these requirements



## DESCRIPTION OF OPPORTUNITIES

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- Further shelf space requirements
- Alcohol content, package size and other restrictions
- Wine > \$10.95/ 750 ml
- Detailed in Ontario Regulation 232/16
- LCBO catalogue will identify products available to grocers that meet these requirements



# ALLOCATION OF AUTHORIZATIONS BY REGION

	Allocation				Total
	GTA Region	West Region	East Region	North Region	
Beer and Wine Authorizations					
<b>Grocery Store Authorizations:</b>					
Category A or B	21	15	11	5	52
Category B (Reserved)	11	3	4	0	** 18
	32	18	15	5	70
<b>Authorization Type:</b>					
<b>35 Restricted Beer and Wine</b>					
Category A or B	11	7	6	2	26
Category B (Reserved)	6	1	2	0	** 9
	17	8	8	2	35
<b>35 Beer and Wine</b>					
Category A or B	10	8	5	3	26
Category B (Reserved)	5	2	2	0	** 9
	15	10	7	3	35
<b>Regional Concentration Limits</b>					
<i>Limit</i>	40%	40%	40%	40%	
Grocers					
Category A or B	8	6	4	2	20
Category B (Reserved)	4	1	1	0	** 6

\*\* East Region and North Region combined for these authorizations



## OVERALL MAXIMUM NUMBER OF AUTHORIZATIONS FOR RELATED STORES

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- Set out in Ontario Regulation 232/16
- No more than 20 authorizations to a single group of related stores
- No more than 6 reserved authorizations to a single group of Category B stores
  - Count toward total of no more than 20 authorizations to a single group of related stores



## KEY TERMS (OVERVIEW OF BID PROCESS)

Term	10 Years
Bid	Respondents will bid a discount percentage
Purchase Price	Basic price for beer and wine less discount percentage plus HST and container deposit
Retail Price (or Shelf Price)	Set by brewers and wineries
Letter of Credit (or satisfactory arrangements with LCBO for payment on receipt)	\$150,000/authorized store



## BID REQUIREMENTS

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- Respondents must submit:
  - One RFB Submission Form (RFB Attachment 3)
  - Separate Bid Forms (RFB Attachment 4) for each proposed store.
  
- On each bid form, Respondents must indicate:
  - Full legal name
  - Category A or B Store
  - Region of the Proposed Store
  - Preference for restricted or unrestricted Wholesale Supply Agreement
  - Proposed Discount Percentage (PDP)\*
  
- Proposed Discount Percentages must be greater than or equal to 2.00% and less than or equal to 6.99%, to two decimal places.

\*PDP is the discount from basic price applicable to beer and wine purchased from LCBO



## BID REQUIREMENTS

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- Potential Respondents are bidding to be eligible to enter into Wholesale Supply Agreement for one or more stores.
- Regions of store(s) must be identified as part of RFB bid.
- Actual store locations are identified only if bidder is notified that it is successful and eligible to enter into Wholesale Supply Agreement and proceeds to apply for authorization to sell beer and wine from AGCO.



## FRANCHISE STORES

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For stores that are part of a franchise system, only the franchisor can enter the RFB process. (Ontario Regulation 232/16, Section 17(2))

Respondents will be required to confirm status on the RFB Submission Form





## EVALUATION PROCESS

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LCBO will select the bids with the lowest discount percentages, consistent with parameters set out in regulation

### Stage 1

- Completeness check
- Incomplete bids which are not rectified will be disqualified



## EVALUATION PROCESS

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### Stage 2

- Identification of Store Operators and Selected Stores
- Step 1 Confirm bids are within the required discount range
- Step 2 Bids are ranked from lowest proposed discount to the highest
- Step 3 Category B (Reserved) Evaluation
  - a) In each Region, Proposed Stores from a single group of related Category B stores will be eliminated if they exceed the concentration limit in Appendix B; Proposed Stores with the highest Proposed Discount Percentage will be eliminated first
  - b) In each Region, Proposed Category B Stores (as ranked by proposed discount) will be chosen until the total number of Reserved Selected Stores in a Region is reached or a tie causes the LCBO to exceed the total number of Reserved Selected Stores in a particular Region



## EVALUATION PROCESS

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- Step 4 Remaining Proposed Stores (Category A or B)
  - a) Category B stores not selected in Step 3 are returned to the pool of Proposed Stores
  - b) In each Region, Proposed Stores from a single group of related Category A or B stores will be eliminated if they exceed the concentration limit in Appendix B; Proposed Stores with the highest Proposed Discount Percentage will be eliminated first
  - c) In each Region, Proposed Stores (as ranked by proposed discount) will be chosen until the total number of Selected Stores in a Region is reached or a tie causes the LCBO to exceed the total number of Selected Stores in a particular Region



## EVALUATION PROCESS

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- Step 5 Assignment of Unrestricted and Restricted Stores for Category B (Reserved) Stores
  - a) If no Store Selection ties are identified or if ties are identified, once they are resolved, Unrestricted or Restricted store preferences among Category B Reserved Selected Stores in each region are assigned according to the preference indicated, by their Proposed Discount Percentage until
  - b) Either the maximum number of Unrestricted or Restricted Category B Reserved Stores is reached (in which case the remaining stores are assigned the category whose maximum was not reached) or a tie causes LCBO to exceed the maximum number of unrestricted or restricted Category B Reserved Stores



## EVALUATION PROCESS

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- Step 6 Assignment of Unrestricted and Restricted Stores for Category A or B Stores
  - a) If no Store Selection ties are identified or if ties are identified, once they are resolved, Unrestricted or Restricted store preferences among Category A or B Selected Stores in each region are assigned according to the preference indicated, by their Proposed Discount Percentage until
  - b) Either the maximum number of Unrestricted or Restricted Category A or B Stores is reached (in which case the remaining stores are assigned the category whose maximum was not reached) or a tie causes LCBO to exceed the maximum number of unrestricted or restricted Category A or B Stores



## STORE SELECTION TIE RESOLUTION PROCESS

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- Secondary bid process if Respondents tied with same Proposed Discount Percentage
- Second bid must be equal or lower than initial bid
- Respondents may also submit a one time payment as part of secondary bid if, and only if, submitting a secondary bid of 2.00%
- Remaining ties resolved through Random Selection process witnessed by Fairness Commissioner



## UNRESTRICTED AND RESTRICTED STORE ASSIGNMENT TIE RESOLUTION PROCESS

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- Secondary bid process if Respondents tied with same Proposed Discount Percentage (or Proposed Discount Percentage and one time payment, if one was made during a Store Selection Tie Resolution) for assignment of Unrestricted and Restricted Stores
- Respondents may also submit a one time payment
- Remaining ties resolved through Random Selection process witnessed by Fairness Commissioner.



## CATEGORY B STORE SPECIAL CIRCUMSTANCE

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- Applies to Category B Store Operator that
  - Is authorized to sell beer and cider, and
  - Participates successfully in RFB 2016-010; and
  - As a result, is eligible for more authorizations than the Operator has stores in a given region
  
- Operator will be allowed to terminate beer Authorization and Wholesale Supply Agreement without penalty and be issued a new beer and wine Authorization and Wholesale Supply Agreement
  
- If involved in a Tie Resolution Process in RFB 2015-010 and is involved in a Tie Resolution Process in RFB 2016-010 may apply the one time payment from last year's RFB to either Tie Resolution Process this year
  
- May increase the one time payment above the amount applied from RFB 2015-010 if the Operator wishes to do so
  
- Tie Resolution Package will ask Category B respondents whether they fall under this special circumstance





## ANNUAL BEER VOLUME AMOUNT AND SURCHARGE

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- RFB (pp. 9-11) and Wholesale Supply Agreement (Exhibit 1 – Beer; Section 3)
- Beer surcharge applies if total sales of all operating stores exceed the Annual Volume Amount set out in RFB and Wholesale Supply Agreement.
- Payable by a grocery Store Operator if its total store(s) sales exceed their stores' share of the Annual Volume Amount.
- Surcharge is currently \$5.08/ hectolitre indexed to Ontario Consumer Price Index (CPI).



## QUESTIONS ABOUT THE RFB

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All questions about the RFB (including the Wholesale Supply Agreement) must be submitted in writing as indicated in Section 2.8 in the RFB.

### Contact Person

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Supervisor

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