LCBO

let's get together

Procurement Services
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DATE: JUNE 18, 2019 PAGES: 7

TO: RESPONDENTS

FROM: PROCUREMENT SERVICES

SUBJECT: RFE 2019-001
REQUEST FOR ENTRIES FOR WHOLESALE SUPPLY AGREEMENTS FOR WINE, BEER AND CIDER

ADDENDUM 2

This Addendum forms part of the above-named RFE and is to be read, interpreted, and coordinated with all other parts. The following information supplements and/or supersedes the information contained in the original RFE issued on June 6, 2019 for the above-named project to the extent referenced and shall become part thereof.

1. QUESTIONS AND ANSWERS

Q.1 Is the profit a grocery store can make from a sale to a consumer only the 2 or 3.36% discount rate? How does pricing work?

A.1 As outlined in Section 2.0 of the RFE, for new eligible Store Operators who do not have existing authorizations to sell beer, cider or wine, the discount rates for Category A and B stores will be 2.20% and 3.36%, respectively. Please refer to the Pricing Example below, and to Section 2.0 of the RFE for more details.

Example Pricing (750ml bottle of wine@ $12.05 retail price)	
RETAIL	$12.05
less container deposit	$0.20
Retail - bottle deposit	$11.85
less HST	$1.36
BASIC	$10.49
Grocer Purchase Price @ 2.20%	
BASIC	$10.49
discount @ 2.20%	$0.23
GROCER BASIC PRICE	$10.26
+HST	$1.33
+ container deposit	$0.20
GROCER PRICE	$11.79

Q.2 Can a grocery store order directly from Ontario wineries or other wine agents representing wines from around the world, for products not carried in LCBO stores?

A.2 The LCBO will be the wholesaler of all wine, beer and cider products available to Store Operators. No products may be ordered from any other party besides the LCBO. Please refer to the table in Section2.2 of the RFE “Ordering and Distribution” for more details.

Q.3 When will the results of the lottery be released, and how long does the AGCO application take to be processed?

A.3 As outlined in the timeline in Section 2.5 of the RFE, successful Respondents will be notified by the LCBO and AGCO authorizations will be completed between June 20, 2019 and mid to late August 2019.

Q.4 We already have an “authorization” for Beer + cider (got it in 2015). We would like to apply for “wine” authorization. There was no field in the RFE to ask for the “wine” authorization. Please let us know how to proceed with it.

A.4 The LCBO is conducting a lottery to award the remaining 87 wine, beer and cider authorizations/ Refer to Section 4.2.2 Step 3 for respondents with a historical beer & cider authorization. As outlined in Section3.0 of the RFE, Respondents must complete, sign and submit one copy of Attachment #2 – RFE Submission Form – and must complete and submit Attachment #3 – Entry Form – for reach Region.

Q.5 Are the appendices included in the RFE for reference only, or are they to be completed as part of the response submission (I.e., Appendix A” Form of Wholesale Supply Agreement)?

A.5 The appendices are for reference only. As outlined in Section 3.0 of the RFE, Respondents must complete, sign and submit one copy of Attachment #2 – RFE Submission Form – and must complete and submit Attachment #3 – Entry Form – for reach Region by the deadline.

Q.6 In addition to the information included in section 3.0: Information to be Submitted in Responses (i.e., Attachment #2: RFE Submission Form, Attachment #3: Entry Form for each Region), is any additional information recommended to be included in the response (e.g., company background, plan for stores, etc.)?

A.6 No additional information is required.

Q.7 After stores are selected through the lottery process, are there fees associated with the licenses?

A.7 There are fees associated with grocery store authorizations. Details can be found on the AGCO website at https://www.agco.ca/alcohol/alcohol-licensing-fees.

Q.8. After a store is awarded a license through this lottery process, can the license be transferred to another store location within the same region? If so, what are the stipulations around the transfer process? Does the transfer need to occur before the store is authorized?

A.8. Successful respondents from the lottery (RFE) are permitted to transfer a selected store to another store within the same region. Notification of the transfer must be communicated to the LCBO prior to applying to the AGCO for authorization.

Q.9 Do proposed stores need to be currently operating to be considered in the lottery process? If not, do they need to be open by a certain date?

A.9 As outlined in Section 2.0 of the RFE, selected stores must be issued an AGCO authorization no later than August 31, 2019. Refer to Ontario Regulation 232/16 for operational timelines.

Q.10 Please confirm that proposed store locations must be at least 5 km away from LCBO agency stores, per Regulation 232/16, Section 30.

A.10 Yes.

Q.11 Please confirm if past Wholesale Supply Agreements will be superseded by the Wholesale Supply Agreement included in this RFE. Per section 24.11 (c) i. what is the process for discussion if the parties are not aligned on the new Wholesale Supply Agreement and how it will supersede the existing Wholesale Supply Agreement for those retailers that currently have licenses?

A.11 See section 2.3 of the RFE. Section 24.11(c) of the WSA pertains only in the scenario in which a respondent to the RFE remains subject to a 2015 WSA as a result of not winning any authorizations pursuant to any RFBs between the original RFB in 2015 and this RFE.

Q.12 What are the thresholds of average monthly sales for each Letter of Credit amount ($150,000 vs $450,000), per the RFE Document, Section 19.1?

A.12 Currently, there are no established thresholds. The LCBO reserves the right to increase the required amount of a Letter of Credit at the LCBO's reasonable discretion.

Q.13 Reference to franchisees appear to have been removed from the new Wholesale Supply Agreement compared to the existing Wholesale Supply Agreement; please confirm if there have been any changes to the franchisee submission process into the lottery.

A.13 Only the corporate store form of Wholesale Supply Agreement has been provided. Tri-partite forms of agreement (LCBO-Franchisor-Franchisee) will be provided to successful respondents as required.

Q.14 Please confirm that we can apply on behalf of the franchisees, as in previous bidding processes.

A.14 As outlined in Section 3.3 of Attachment #2 RFE Submission Form in the RFE, Franchisor's submit responses.

Q.15 What would the average margin rate be for a large grocer new entrant? For new market entrants who win a lottery, the margin rates are calculated based on the average margin for that category of license (for our members, 'large grocery' is the category - so a new market entrant would get the average of all licenses belonging to large grocers) For example, if ‘Seb's Shoppe’ had three previous licensed locations, with margin rates of 3%, 4%, and 5%, and ‘Karl's Kiosk’ had two licenses with margins of 6% and 7%, when/if ‘Diane's Depot’ wins the lottery and enters the market, her stores would receive a margin rate of 5%. If we could better understand what the margin rate is, that would further allow our membership to decide if now's the time to join into the market.

A.15 As outlined in Section 2.0 of the RFE, for new eligible Store Operators who do not have existing authorizations to sell beer, cider or wine, the discount rates for Category A and B stores will be 2.20% and 3.36%, respectively. Please refer to Section 2.0 of the RFE for more details.

Q.16 If I currently have a beer only license, and my margin is 5%---and I am successful in the lottery--thereby winning beer, wine and cider, will my margin stay the same? In my original briefing, I believe what I was told was that if I am an independent, and I am successful in the lottery, and am not currently selling beer, wine or cider, my margin is an average of the margins in Class B. But if I have a license, does my margin stay the same for expanding into wine and cider?

A.16 Yes, as outlined in Section 2.0 of the RFE, for Store Operators with existing authorizations the discount rate will be the mean of the existing discount rates under such Store Operators existing Wholesale Supply Agreement with the LCBO. Please refer to Section 2.0 of the RFE for more details. In the case of a single owner Store Operator, the mean of the existing discount rates is the single owner Store Operator's discount rate.

Q.17 If I currently have a restricted beer, wine and cider license, and I am successful in the lottery, am I correct that license can then change to an unrestricted license?

A.17 Yes, as outlined in Section 2.0 of the RFE, for Store Operators with existing authorizations the discount rate will be the mean of the existing discount rates under such Store Operators existing Wholesale Supply Agreement with the LCBO. Please refer to Section 2.0 of the RFE for more details. In the case of a single owner Store Operator, the mean of the existing discount rates is the single owner Store Operator's discount rate.

Q.18a How do we apply for a wine license (same biddingo process)?

A.18a The LCBO is conducting a lottery to award the remaining 87 wine, beer and cider authorizations. Refer to Section 4.0 for information on the lottery process. As outlined in Section 3.0 of the RFE, Respondents must complete, sign and submit one copy of Attachment #2 - RFE Submission Form - and must complete and submit Attachment #3 - Entry Form - for each Region by the deadline.

Q.18b Our margin on retail-do they change. Running at the margins that we run beer and cider are very poor. I don't know if we would be interested in doing wine at the same rate.

A.18b As outlined in Section 2.0 of the RFE, for Store Operators with existing authorizations the discount rate will be the mean of the existing discount rates under such Store Operators' existing Wholesale Supply Agreement with the LCBO. Please refer to Section 2.0 of the RFE for more details.

Q.18c What else changes for us? Returns for wine, damages, theft, etc.

A.18c Respondents should carefully review Appendix A - Wholesale Supply Agreement - as some terms and conditions have been changed. Respondents should review the Policies and Procedures Manual for Authorized Store Operators at www.lcbogroceryoperations@lcbo.com as it is amended from time to time

Q.19 I already have a beer and cider license at a set margin. As I understand this current round of bidding, the new margin will be based on an average margin in our zone. If I were to submit a bid in this current round and the margin turns out to be less than my current margin under my current contract, am I able to decline the new license without penalty?

A.20 Successful Respondents can decline entering into a Wholesale Supply Agreement with the LCBO for any selected store that is awarded a wine, beer and cider authorization. However, as outline in Section 2.0 of the RFE, for Store Operators with existing authorizations, the discount rate will be the mean of the existing discount rates under such Store Operators' existing Wholesale Supply Agreement with the LCBO. For new case of a single owner Store Operator, the mean of the existing discount rates is the single owner Store Operator's discount rate.

Q.21a Is this bidding only for new application? Or do we still need to join the bidding to adding an authorization of selling the wine?

A.21a This RFE is to award wine, beer and cider authorizations. The LCBO will conduct a lottery to award the remaining 87 authorizations. Refer to Section 4.2.2 Step 3 for respondents with a historical beer & cider authorization.

Q.21b If we do, we need to set our own bidding price to enter it?

A.21b No, respondents do not submit bids. As outlined in Section 2.0 of the RFE, for Store Operators with existing authorizations the discount rate will be the mean of the existing discount rates under such Store Operators' existing Wholesale Supply Agreement with the LCBO.

Q.21 c And if we do not able to get the license from this bidding, are we losing our current license?

A.21c Existing store operators who have been issued authorizations to sell beer and cider and who have entered into wholesale supply agreements with the LCBO are not at risk of losing current authorizations if they are unsuccessful through this RFE.

Q.21d Or is there different way to doing it since we already have a liquor license? Please let me know the proper way to submit liquor license for wine selling authorization in grocery store.

A.21d As outlined in Section 3.0 of the RFE, Respondents must complete, sign and submit one copy of Attachment #2 - RFE Submission Form - and must complete and submit Attachment #3 - Entry Form - for each Region by the deadline.

Q.22 What is different about this LCBO process to award wine, beer and cider authorizations?

A.22 In the past, the LCBO has invited interested grocers to participate in four (4) competitive allocation processes to bid for the right to enter into a wholesale supply agreement for the right to purchase wine, beer and cider to resale to the public. The Province has directed the LCBO to expand the Grocery Program by carrying out a new selection process for the remaining authorizations. The LCBO is conducting a lottery to award the remaining 87 wine, beer and cider authorizations. Refer to Section 1.0 of the RFE for more details.

Q.23 Is there any limit to the number of proposed store ballots? (i.e., in the GTA, there are 24 authorizations available; are we able to submit applications for more than 24 stores, even though there are only 24 authorizations available)?

A.23 Yes, respondents may submit more proposed stores than allocated for a category within a geographical region so as long as the proposed stores meet the criteria presented in Section 3.0 of the RFE.

Q.24 Should a store be selected, can the authorization be transferred to another eligible location within the same region before they start selling wine, beer and cider in the store that was originally selected?

A.24 Yes the authorization can be transferred.

Q.25 Can we submit a response for a store with a beer, cider authorization, and, if successful, transfer the beer, cider authorization to an eligible store within the same region?

A.25 Yes. Refer to Section 4.2.2 Step 3 in the RFE.

Q.26 If a retailer is successful in winning a wine, beer and cider authorization, how long will they have to start selling product?

A.26 As outlined in Section 2.0 of the RFE, selected stores must be issued an AGCO authorization no later than August 31, 2019. Refer to Ontario Regulation 232/16 for operational timelines.

Q.27 How many total authorizations (Beer & Cider authorization; restricted wine, beer and cider authorization; wine, beer and cider authorization; wine boutique) is each Category A retailer eligible for in each region?

A.27 Refer to Ontario Regulation 232/19 for concentration limits by store category and geographical region.

Q.28 What are the consequences of declining an authorization?

A.28 There are no consequences for declining an authorization.

Q.29 Are these wine licenses restricted in any way? Please clarify. Would like to understand if these are the most unrestricted version on a wine license.

A.29 The authorizations awarded as a result of this RFE are beer and wine as defined in Ontario Regulation 232/16. These are the most unrestricted version of a beer and wine authorization as they currently exist. Refer to Section 2.0 of the RFE for additional details.

Q.30 Is the new LCBO wholesale agreement attached to the RFE any different than the previous wholesales agreement we entered into for our current 62 licenses? If so, please identify the changes.

A.30 As outlined in Section 2.3 of the RFE, Respondents should carefully review Appendix A - Wholesale Supply Agreement - as some terms and conditions have been changed.

Q.31 When do these new licensed stores need to be open by? We need to understand the timelines on opening them?

A.31 As outlined in Section 2.0 of the RFE, selected stores must be issued an AGCO authorization no later than August 31, 2019. Refer to Ontario Regulation 232/16 for operational timelines.

Q.32 When will we get the results of the lottery? We need to understand timelines, as having to get the wholesale paperwork back to the AGCO in 5 days is a tight turnaround as there is due diligence required for each store. Please clarify the date we will receive the lottery results.

A.32 As outlined in the timeline in Section 2.5 of the RFE, successful Respondents will be notified by the LCBO and AGCO authorizations will be completed between June 20, 2019 and mid to late August 2019.

Q.33 If we win a license for a current store we have a beer/cider license for and we decide to transfer this existing license to a new store, does it need to be in the same region, or can we move it to a different region?

A.33 Yes it can be transferred. However, there are restrictions as outlined in Ontario Regulation 232/16.

Q.34 If we win a license for a current store we have a beer/cider license in, can we decide to switch the new beer/wine/cider license over to a different store we have in the same region who has a current beer/cider license?

A.34 Yes.

Q.35 If we win a license for a current store we have a beer/cider license for, how long do we have to decide if we want to transfer the existing beer/cider license to a different store or hand it back?

A.35 Timelines will be communicated to successful respondents by the LCBO in the notification letter.

Q.36 Can these new licenses be operated in the licensed space at the front of our store by a third party? Is this even an option?

A.36 No.

Q.37 When calculating whether worldwide revenue exceeds 1 billion Canadian Dollars for the purposes of determining whether a respondent is a Category A or Category B grocery store, revenue earned outside of Canada will need to be converted into Canadian Dollars. The exchange rate as of which date should be used to perform this conversion?

A.37 Please use the exchange rate as of June 6, 2019, the date of RFE issuance.

George Boulougouris
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