Why BC's liquor board gets away with complacency

One of the benefits of being part of a "chain," whether franchised or not, is that the chain can use its market clout to get better prices for products, and in turn, either retain those profits or offer price savings to customers. Pretty basic, isn't it? This business logic exists in almost every retail business except one — the sale of alcohol at retail, at least in B.C., Ontario and other Canadian provinces.

B.C. has almost 700 "private liquor stores," which are mostly small and medium sized businesses licensed to sell liquor at retail, (though in competition with approximately 200 B.C. government liquor stores). As with other provinces, virtually all liquor in B.C. sold at retail must be purchased through the B.C. government's liquor distribution branch (LDB), which acts as the worldwide buyer and distributor for liquor sold in the province.

Close to 40 per cent of all retail liquor sales in B.C. are now generated by sales through private liquor stores. Where the government stores pay their unionized shelf stockers and

TONY WILSON

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cashiers as much as $21 per hour (plus pensions and benefits), private stores are more market driven and pay $11.50 an hour for, in essence, a job that involves stocking shelves and operating cash tills. (It ain't brain surgery, folks)

B.C.'s liquor licensing regime has been described as "Byzantine," and the cost to buy alcohol is outrageous when compared to other countries like the U.S. For example, a bottle of Yellow Tail Shiraz retails at B.C.'s government liquor stores for $12.99. You can buy the same bottle of wine for $10.40 or less in Alberta and $6.50 in California. Why the excessive price difference in B.C.?

Many reasons, but here's the worst. The B.C. LDB is reputed to be the third largest "buying group" for alcohol in the world, behind Ontario's LCBO and Québec's Societe d'Alcools du Quebec. Like its provincial cousins, it is a monopoly.

This might be perfectly acceptable if the LDB actually acted as a "buying group," and negotiated with the liquor suppliers for the best price possible, just like Wal-Mart does. But it doesn't. It doesn't negotiate price based on the volume of product it purchases for resale. It actually tells suppliers of certain products to charge them more, not less.

In B.C., it's because of something called social reference pricing (SRP). The theory is that if the price for alcohol is high, people will drink more responsibly and will buy less. If SRP worked, California (where the price of wine is much lower) would be awash with stupefying levels of alcoholism, and B.C., with some of the highest alcohol pricing in the world, would be a province of teetotalers. But that isn't the case. People still buy alcohol here, despite the pricing.

There is no statute that requires the LDB's general manager to adopt SRP. The legislation in B.C. simply gives the general manager the right to set prices for the sale of alcohol, so SRP is a matter of policy. But unlike other monopolies that are regulated in the public interest (such as electricity generation, telephone and TV) the liquor monopoly enjoyed by the LDB is not subject to a corresponding regulator who acts in the public interest.

So the LDB does whatever it wants, without any other body telling it to act more efficiently, obtain volume discounts or indeed, act more fairly toward the private stores.

As for fairness, perhaps a regulator is required. Many private stores in B.C. have a multitude of complaints against the LDB for what they see as an abuse of the LDB's dominant position.

For example, private stores in a chain can't move inventory around various locations in their chain to deal with demand, but government stores can. The owner of a private store told me he sent his buyer to France to contract to buy 1,000 cases of a particularly unique wine, but the LDB appropriated and redirected the entire shipment for its own government stores mid-transit through a practice known as "cross docking," leaving the private store without the product it originally sourced.

I've been advised by private store owners that they are not permitted to accept money from liquor suppliers to advertise liquor products, yet the same liquor suppliers are encouraged to spend advertis-

See **Liquor** Page 15

Liquor board sells at high retail price to discourage overconsumption

Liquor
Continued From Page 13

ing dollars in the LDB's glossy *Taste* magazine, or not get preferential product placement on B.C. government store shelves.

It's hard to believe that governments really believe in SRP when their glossy magazines and websites feature premium priced wines and cocktail recipes meant to increase, not decrease consumption.

But if the LDB is a big buying group, why not act that way? If you're negotiating for 1,000,000 cases of Vodka, why not pretend you're Wal-Mart and negotiate the best possible price? And if there's any merit to SRP, or you don't think the savings should be passed on to consumers for other policy reasons, then use the millions of dollars in volume rebates and discounts to fund schools, hospitals or other social programs.

Mark Hicken, a Vancouver lawyer and marketing consultant who provides services to the wine industry, agrees. "On most products they sell," he says, "the LDB sets prices by 'working backwards' from the retail price using a fixed formula which then generates the wholesale price which they pay to the producer. On lower priced products which are subject to Social Reference Pricing, the formula often produces a wholesale price which is much higher than the price the manufacturer would have actually sold the product for, creating a windfall for the supplier."

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As a result, the LDB "overpays" millions of dollars at wholesale because they want to sell at an artificially high retail price to discourage overconsumption. Hicken says that producers love this system: "I've heard some of them say that provincial government control boards are their favorite customers because there is no price competition. They actually tell us to charge them more for what we sell. Now what kind of customer does that?"

In 2008/2009, the B.C. LDB purchased over $1.4 billion worth of alcohol at wholesale. One would think that they might have been able to obtain some volume discounts on that level of purchasing.

With growing demand to fund social programs, it may only be a matter of time before governments figure this out, and start using market clout to negotiate better pricing. ■

Vancouver franchise lawyer Tony Wilson practises with Boughton Law Corporation and is an adjunct professor at Simon Fraser University. He is a regular columnist with The Globe and Mail *and is currently writing a book on on-line reputation management.*