



News Release

For Immediate Release

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LCBO DOESN'T USE BUYING POWER TO GET LOWEST PRICES FROM SUPPLIERS: AUDITOR GENERAL

(TORONTO) The LCBO is one of the biggest purchasers of alcohol in the world, but its mandate and fixed pricing structure limit its ability to use its massive buying power to negotiate the lowest possible wholesale prices, Auditor General Jim McCarter says in his *2011 Annual Report*.

"The LCBO should assess the feasibility of negotiating as low a price as possible with its suppliers," McCarter said today after release of the Report. "With retail prices still kept at desired levels, this could result in higher profits for the province while still encouraging responsible consumption."

The LCBO, a Crown agency, has a mandate to encourage responsible alcohol consumption while operating as a profitable retailer. Its net income has risen 80% in the last decade, as have the dividends it pays the province. In the 2010/11 fiscal year, it contributed \$1.5 billion to the provincial treasury.

Following are some of the Auditor General's significant findings:

- As with most other Canadian jurisdictions, the LCBO adheres strictly to a fixed pricing structure that bases the wholesale price paid to suppliers on a percentage of the retail price at which it wants to sell a product. The LCBO gives suppliers a price range within which it wants to sell a particular type of product. Suppliers then select a retail price within the LCBO's range and apply a fixed percentage to set their wholesale price. Sometimes, if suppliers submit significantly lower quotes than the LCBO expects, the LCBO will ask them to raise their wholesale price.
- If, instead of using its fixed pricing structure, the LCBO found out the lowest wholesale price the supplier was willing to accept, it could then assess whether that cost could generate increased profits while continuing to meet its retail price objectives. While this would be a significant change from the traditional way of determining the wholesale cost, it might enable the LCBO to take advantage of its buying clout.
- An April 2011 survey indicated that among Canadian provinces, the LCBO had the lowest wine prices and the third-lowest prices for beer and spirits.
- The LCBO could improve some of its processes related to purchasing and monitoring product performance to better demonstrate that these processes are fair and transparent.

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