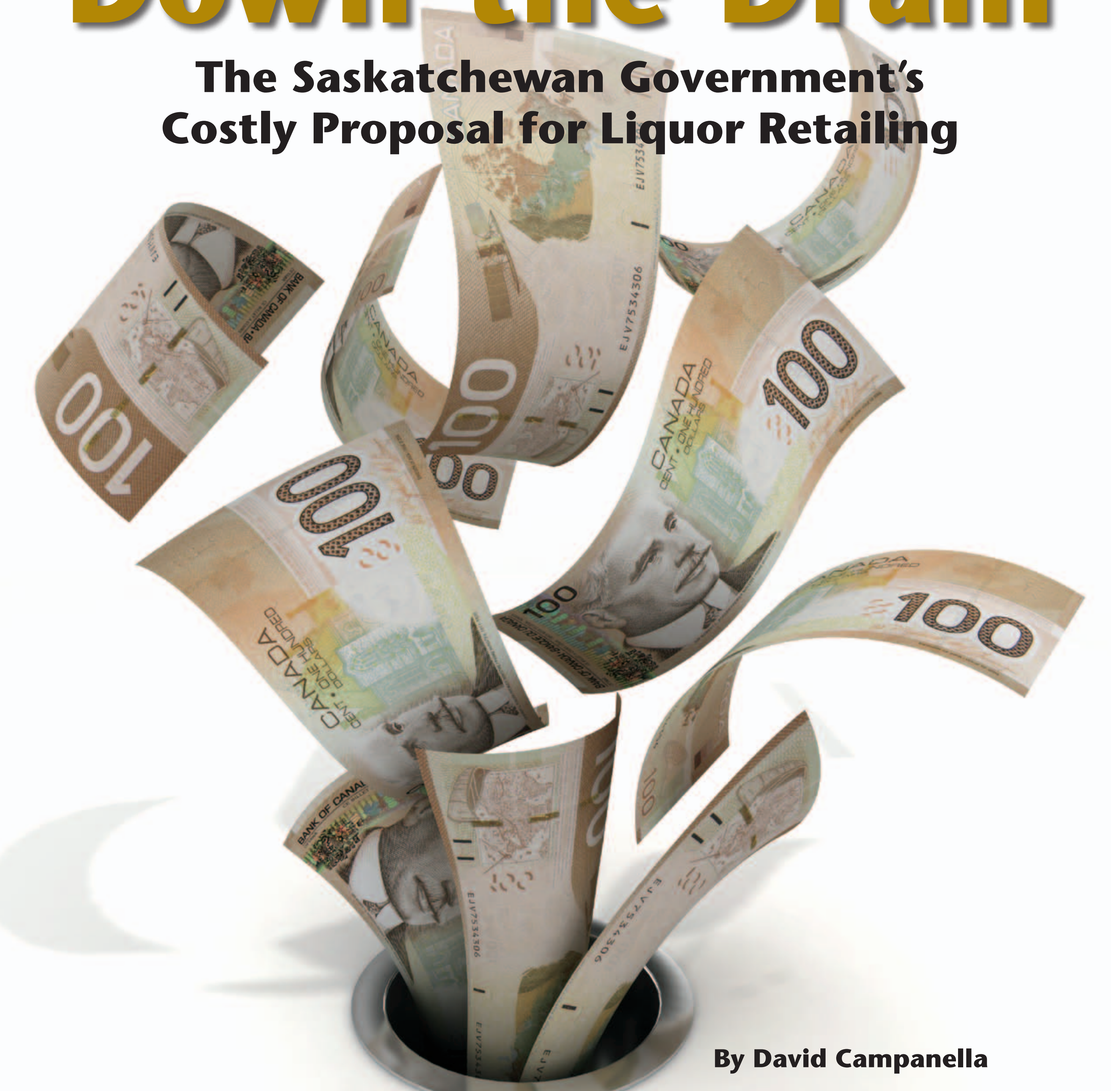
# Down the Drain

## The Saskatchewan Government's Costly Proposal for Liquor Retailing




By David Campanella

CCPA
CANADIAN CENTRE for POLICY ALTERNATIVES
CENTRE CANADIEN de POLITIQUES ALTERNATIVES

Saskatchewan Office
2138 McIntyre Street, 2nd Floor
Regina, SK S4P 2R7

www.policyalternatives.ca

# Down the Drain:
# The Saskatchewan Government's Costly Proposal for Liquor Retailing

By David Campanella

February 2016

## About the Author

David Campanella is a public policy researcher and was formerly the Research Manager at the University of Alberta's Parkland Institute. David holds a Master's degree from York University where he focused on political economy.

## Acknowledgements

I would like to thank Trevor Harrison, Taylor Bendig from the Saskatchewan Government and General Employees' Union, and an anonymous reviewer for their helpful suggestions and comments that led to significant improvements in the text. I would also like to thank Simon Enoch from the Saskatchewan office of the Canadian Centre for Policy Alternatives for guiding this report to the finish line and his invaluable help along the way. I take sole responsibility for errors or omissions.

This research was commissioned by the Saskatchewan Government and General Employees' Union (SGEU). The research underwent independent academic peer review and the findings and the conclusions are the sole responsibility of the authors.



Printed copies: $10.00. Download free from the CCPA website.

ISBN 978-1-77125-265-2

# Contents

# Introduction

The Wall government has recently proposed major changes to how liquor is distributed and sold in Saskatchewan. The proposal calls for selling 40 of the 75 government-owned liquor stores to the private sector and allowing 12 new privately-owned stores to open across the province. If enacted, the number of privately-owned, full-line liquor stores would increase from 4 to 56 and would outnumber the remaining 35 stores still operated by the Saskatchewan Liquor and Gaming Authority (SLGA). This represents a dramatic transfer of ownership and responsibility to the private sector. As recently as 2013, outside of the small rural stores and marginal amounts sold for off-site consumption at some businesses, there was just a single private retailer operating in the province and it was limited to selling wine.

The government claims that handing over more control of liquor retailing to the private sector will not reduce the SLGA's revenues. Despite proposing to privatize more than half of the SLGA's retail stores and allowing 12 new retail stores to be owned privately rather than by the SLGA, the government's proposal states that "government revenues would remain constant if the new retail store sales volume in product categories are consistent to what they are currently."[1] Essentially, the government claims that if consumers continue to buy the same amount and type of liquor, marginalizing the SLGA's retail role won't negatively affect its revenues. Can this be true? Can the SLGA's liquor operation continue to be exceptionally profitable even after abandoning its quasi-monopoly of retailing?

The government's rationale is that since the SLGA's revenues are derived from the mark-up it places on all wholesale alcohol, the retail stores are an expendable part of the SLGA's operations. If the mark-ups remain in place, it doesn't matter who owns the retail outlets. But this logic fails to fully understand the source of the SLGA's profits. If price levels are to be maintained — as the government contends — the size of the mark-up the SLGA is able to apply depends upon its ability to keep wholesale costs down.[2] The wholesale cost and provincial mark-up are the two key variables that determine the price of an alcoholic beverage. If the former increases, either the retail price follows suit or the SLGA's mark-up has to go down. As data has shown, the way to keep a lid on wholesale costs is to have an efficient, integrated distribution system with a strong central purchaser — such as how the SLGA has historically operated.[3]

Moreover, the cost of operating liquor stores is paid for by the SGLA regardless. If the SLGA owns the retail store, it pays the costs directly. If a private company owns the retail store, the SLGA essential pays them to operate by selling them liquor at a reduced price. For instance, rural franchise stores and full-line private stores currently purchase liquor from the SLGA at either a 15.3% or 16% discount from the retail price. The SLGA does this to encourage similar retail prices across all liquor outlets. Without these discounts, prices at private retailers would be higher than those at SLGA stores, because private retailers would have to recoup their operating costs and earn a profit. So selling off publicly-owned stores does not simply erase the operating costs from the SLGA's budget. Case in point: the government's proposal to bring in 52 more private retailers includes a major new discount in the form of dramatically lowering the SLGA's mark-ups, as is detailed in Table 1.

# Cutting Mark-ups

Part of the government's proposal is to slash the province's liquor mark-up, something that may not have ever happened before in the SLGA's history. The proposal does not make this reduction explicit. Instead, the unprecedented cut is framed as an innocuous means to "level the playing field" that the government itself made uneven when it introduced private retailers. But the reduction is critically important. The size of the liquor mark-up is critical in determining the revenues returned to the government from liquor sales. Mark-ups are a tax that the SLGA applies to wholesale liquor and is the predominant source of revenue for the SGLA from liquor sales. Mark-ups are applied as a percentage of the wholesale cost, except in the case of beer where the mark-up is a set dollar amount per litre.

A summary of the mark-up changes proposed by the government can be seen in Table 1. The mark-up on the major beer brands would be reduced from $1.99 per litre to $1.50 per litre. Coolers and ciders, which currently have a mark-up of 110% of the wholesale cost, would have their mark-ups lowered to 83%. The mark-up on the vast majority of wine would be lowered from 125% to 94%. The mark-up on spirits, which for the most part is 167%, would be only 125%. For each category, the proposed change results in a 25% decrease in the mark-up.

The proposal also includes discounts for premium products in the form of graduated mark-up rates. After a maximum dollar amount is applied to the product the mark-up is lowered. For instance, non-fortified wines or "Category 3," have a mark-up of 94% to a maximum of $12.50 per litre, after which the mark-up will be reduced to 53%. These mark-up discounts for premium products exist in the current mark-up structure.

**Table 1. Proposed Mark-up Reductions[4]**

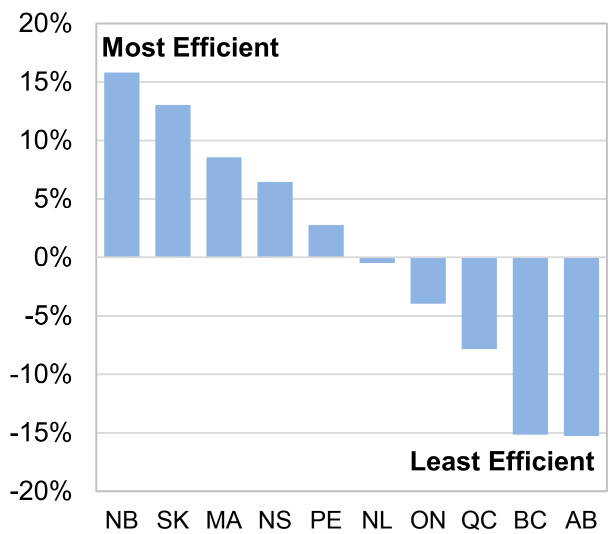
| Product Type | New Classification | Current Mark-up | Proposed Mark-up | Percentage Change |
|---|---|---|---|---|
| Non-draft Beers | Category 1: Beer ≤ 6.5% | $1.99/L | $1.50/L | -25% |
| Strong Beers, Coolers and Ciders | Category 2: Beer >6.5%; Non-Beer ≤ 7% | 110% | 83% | -25% |
| Non-Fortified Wines | Category 3: Non-Beer >7% to ≤ 14.5% | 125% | 94% | -25% |
| Fortified Wine and Spirits | Category 4: Non-Beer >14.5% | 167% | 125% | -25% |

# Higher Wholesale Costs

In addition to significantly lower mark-ups, the government's proposal is also likely to lead to higher wholesale costs. Adding private retailers and removing public stores will create a more fragmented, complex, and in all likelihood costly distribution system. For instance, the SLGA will no longer be the sole agent responsible for deciding how most of the liquor shelves in the province should be stocked and then purchasing that liquor wholesale. Instead, the private retailers, such as major grocery chains, will have control over what does and does not get stocked on their shelves. Therefore, liquor producers and their agents will have to market their product to several different customers, rather than simply the SLGA. Moreover, the SLGA may find its purchasing power and ability to negotiate wholesale prices with the major liquor producers significantly limited since it would be operating less than half of the full-line retail stores in the province.

A comparison of the financial performance of each province's liquor board highlights the real and dramatic impact of more private retailers on wholesale costs. By far the least efficient provinces at managing wholesale costs are those involving the largest number of private retailers. Figure 1 shows how wholesale liquor costs in each province have increased compared to the increase in liquor sales between 2004 and 2013. Positive results mean that sales revenue increased more than wholesale costs on a percentage basis, while negative results mean that wholesale costs rose more than sales revenue. All the provinces in which liquor sales are fully or mostly handled by government stores and their rural partners had sales revenue increase more than wholesale costs. In Saskatchewan for instance, sales increased 53% over that decade while wholesale costs rose just 40%. Provinces that allow a large number of private retailers to sell limited stock, i.e. Ontario and Quebec, had slightly negative results. And those provinces with the most privatized and fragmented retail systems — Alberta and British Columbia — saw a rise in wholesale costs far outstrip the increase in sales revenue. In British Columbia for instance, sales only increased 48% while wholesale costs rose by 64%.

**Figure 1. Change in Sales Less Change in Wholesale Costs by Province, 2004-2013**[5]




Alberta's retail system, which has been fully privatized, has struggled mightily. Shortly after privatization, a study found that the delivery cost per case rose 72% due to the increased number of smaller shipments resulting from the fragmentation of the distribution system.[6] In 2007, a corporate consulting company was hired to do a major review of how wholesale liquor was purchased and distributed after some suppliers and retailers were reported to have "lost confidence in the current model of liquor distribution in Alberta."[7] The overarching finding of the report was that the system suffered from the absence of a central actor responsible for the smooth functioning and profitability of the entire system, which was removed through privatization.

While Alberta is the extreme example, runaway wholesale costs are a problem that also afflicts British Columbia. BC's retail system is more analogous to the Wall government's proposal for Saskatchewan, as the BC government approved a partial privatization whereby private retailers proliferated alongside government-owned stores. As shown above, BC's failure to control wholesale costs under their partially privatized retail system has been just as severe as in Alberta.

# The Big Squeeze on Gross Profits

When mark-ups are decreased and wholesale costs increase, gross profits are squeezed. This is what has occurred in Alberta in the aftermath of privatization. Mark-ups were lowered multiple times, due in part to lobbying by the newly formed private liquor industry,[8] and remain lower than when privatization was implemented[9] while at the same time wholesale costs have skyrocketed.[10] It is less clear how mark-ups have changed in British Columbia following its brand of privatization because that information is not publicly available. But because of some documents received through Freedom of Information Requests, we know that last year the government lowered the mark-ups at least on beer, and most likely other categories of liquor as well.[11] What is perfectly clear though is that gross profits have greatly suffered in both provinces following privatization, and that the same will likely happen in Saskatchewan if the government's proposal is enacted.

Gross profit margin is a standard accounting measure used to measure a business's efficiency at generating profits from its input costs. In this case, the input is the wholesale cost of liquor while profits are largely determined by the size of liquor mark-ups. So a higher gross profit margin indicates that a liquor control board is more efficient at keeping wholesale costs low and mark-up levels high.

As can be seen in Figure 2, in 2014 seven out of the ten provinces had a gross profit margin over 50%.[12] Of these seven provinces, only Saskatchewan has private liquor stores that sell a full range of products, of which it had two in 2014. The other six provinces either have no private sector involvement in liquor retailing outside of rural franchise stores — i.e. Newfoundland and New Brunswick — or allow some speciality stores to sell a limited type of products. While neither Quebec nor Ontario allow private retailers to sell a full-line of liquor products (i.e. spirits, wine, and beer), they do allow a large network of private stores to carry specific types of beverages. In Quebec, some wine and beers are allowed to be sold in grocery stores, although provincially-run stores account for roughly 90% of sales in the province.[13] In Ontario, The Beer Store, a private corporation owned by major international beer distributors, operates 447 retail stores and controls most of the province's beer sales. [14]

The outliers to this pattern of high gross profit margins and marginal private involvement are PEI, British Columbia, and Alberta. The gross margin of PEI's liquor board likely suffers simply from being an extremely small market. Outside of PEI, the two lowest gross profit margins belong to the two provinces with the most serious private sector participation. British Columbia, where there are nearly 700 full-line private liquor stores that in many cases compete directly against the publicly-owned liquor stores, has a gross profit margin of just 42%. While Alberta, where the provincial liquor board has completely vacated the liquor retailing sector, has a gross profit margin of just 32%.

The decline of gross profit margins in Alberta and British Columbia followed the permitting of a growing number of private retailers to operate. Retail privatization in Alberta began in 1993. At that time the province had a gross profit margin of 50% on liquor sales. By 1999, the province already had 748 private retail outlets and the gross margin had fallen to 42%. By the time Alberta had more than 1300 private retailers in 2013, the gross profit margin had fallen even further to 32% (Figure 3). No other province has come anywhere close to the reduction in gross margins that Alberta has experienced over these two decades. In fact, most provinces have seen their gross profit margins increase over this time.[15] The only reason the profits of Alberta's liquor agency (the Alberta Gaming and Liquor Commission) have not completely collapsed since privatization has been because the volume of alcohol consumed in the province grew tremendously and per capita consumption rates remained far above the Canadian average,[16] a trend that should be concerning due to alcohol's serious health impacts.

In British Columbia, the provincial government allowed the number of private retail liquor stores to balloon through the early 2000s. At the outset of the 2003 fiscal year, the province lifted its ban on new private retail stores and permitted all such stores to begin selling spirits. In 2001, there were 289 private retail stores selling wine and beer, and the province's liquor board had a gross profit margin of 48%. Twelve years later, there were 670 private, full-line liquor stores in the province and the gross profit margin had fallen to 41%, a decrease of 15% in just over a decade (Figure 4).

**Figure 2. Gross Profit Margin and Number of Private Retailers by Province, 2014**[17]

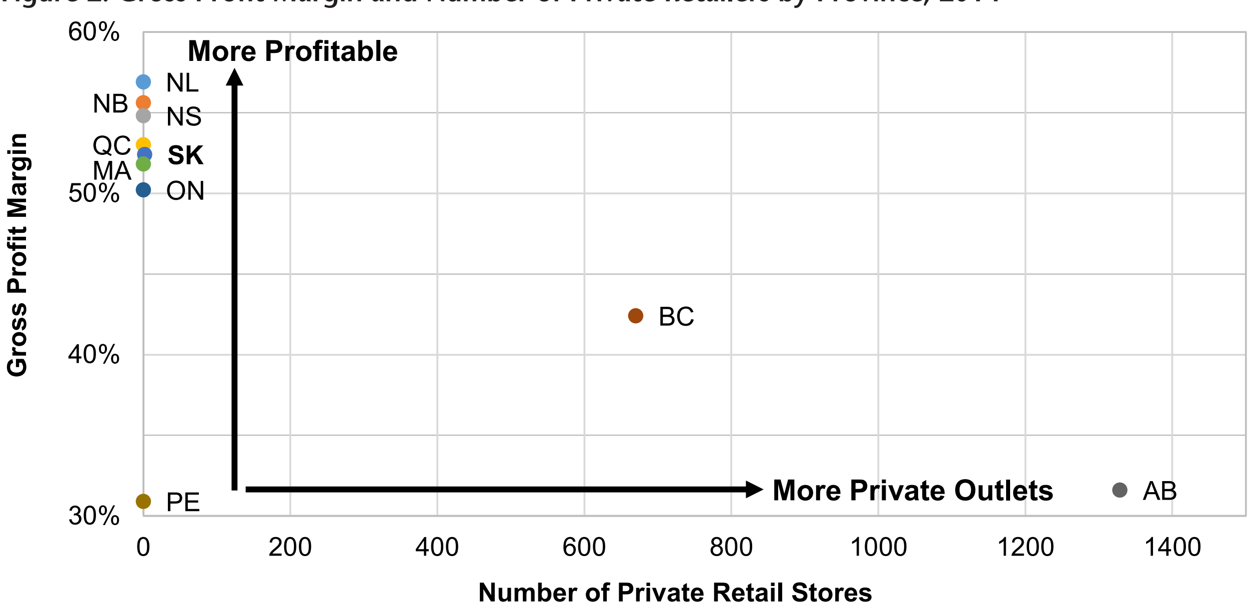


**Figure 3. Alberta's History of Falling Gross Margins and Increased Private Stores**[18]

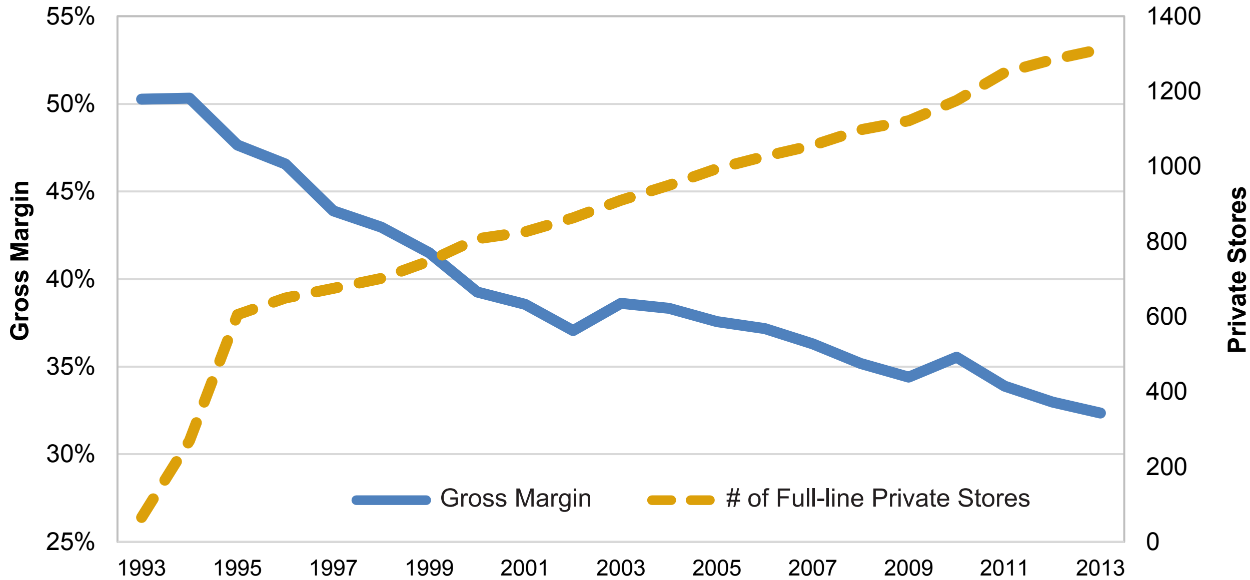
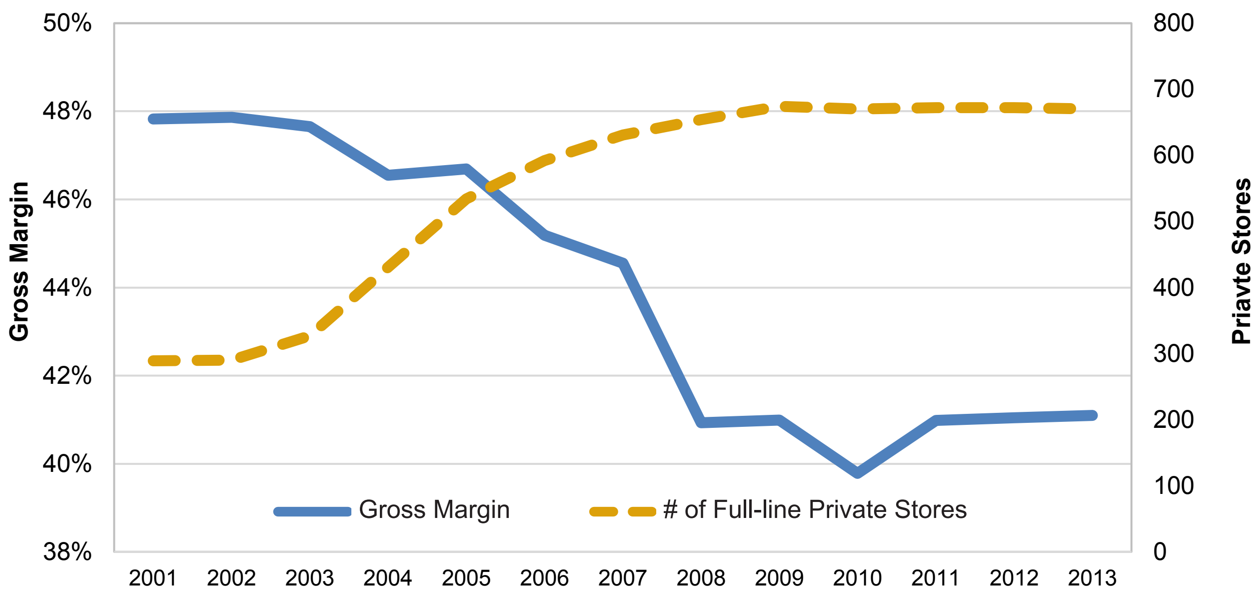



**Figure 4. British Columbia's History of Falling Gross Margins and Increased Private Stores**[19]



# Costly Implications

The drastic differences between the gross profit margins of most provincial liquor boards and those of British Columbia and Alberta translate into major differences in liquor board profits, and ultimately revenue for provincial governments. For instance, if Saskatchewan's liquor board — the SLGA — had the same gross profit margin as British Columbia's liquor board in 2014, the SLGA would have made $65.3 million less in profit. If the SLGA had achieved the gross profit margin of Alberta's liquor board, the SLGA would have missed out on more than half of its 2014 profits, or $131.7 million less.

**Table 2. SLGA's Lost Profits in 2014 with Gross Profit Margins of BC and Alberta**

| ($M) | Sales | Adjusted Wholesale Costs | Operating Expenses | Profit | Loss |
|---|---|---|---|---|---|
| With BC's GPM | $612.0 | $352.5 | $72.5 | $187.0 | - $65.3 |
| With AB's GPM | $612.0 | $418.9 | $72.5 | $120.6 | -$131.7 |

# The Public Cost of the Saskatchewan Government's Proposal

To calculate the fiscal repercussion of the government's proposed changes to liquor retailing, it is possible to measure the SLGA's resulting savings and costs. The SLGA's savings are fairly straightforward. By closing 40 publicly-owned retail stores, the SLGA will no longer have to pay the annual operating costs of these stores. The SLGA will also save money by no longer giving a discounted mark-up rate or commission to private retailers (rural franchise stores, private full-line stores, and off-sales), who will instead be compensated with the 25% mark-up reduction. Finally, the Saskatchewan government will receive a very modest revenue bump of less than million dollars per year from the corporate income tax paid by the new owners of the private liquor outlets.

The new costs the SLGA would incur under the proposed changes are similarly straightforward, and they come in two parts. One new cost is that the government's plan includes lowering the province's liquor mark-ups. As shown above, the government has proposed to lower mark-ups by 25% from current levels and the lower mark-up would be applied to all sales in the province. However, for the purposes of the calculations in this report, the mark-up reduction is not applied to sales at the 35 SLGA stores slated to remain open. This is because it is assumed these stores will maintain their current prices, rather than institute a 25% cut, which essentially means the SLGA would keep the current mark-ups for products sold on its shelves.

For reasons explained above, the second cost that would result from the proposal is higher overall wholesale costs. The government's proposal to dramatically increase the share of retail stores that are privately-owned closely resembles BC's approach to privatization in the 2000's. From 2002 (the year before the BC government lifted its ban on new private liquor stores) to 2013 (the latest year for which Statistics Canada has data), the wholesale cost of liquor in BC increased on average by 6.0% per year.[20] Therefore, the expected impact of increased wholesale costs is found by multiplying the SLGA's wholesale costs by 6.0% for each year.

Table 3 uses the SLGA's financial data for the previous five fiscal years to calculate the expected savings and costs of the government's proposed privatization. Clearly, the savings accruing from the government's proposal are far outweighed by the additional costs. If the government's proposal had been implemented in any of the last five fiscal years, the SLGA would have lost out on tens of millions of dollars. Last fiscal year, selling off the 40 SLGA stores and slashing the province's liquor mark-up, as the government has proposed, would have meant lost revenue of $20.16 million. Over the last five fiscal years combined, the government's proposal would have cost the SLGA, and by extension the provincial government, nearly $100 million.

**Table 3. Public Costs of Proposed Privatization**[21]

| | SAVINGS | | | COSTS | | DIFFERENCE |
|---|---|---|---|---|---|---|
| ($M) | Operating Expenses | Discounts and Commissions | Income Tax Revenue | Cost of Sales Increase | Mark-up Decrease | |
| 2011 | $ 9.34 | $14.50 | $0.56 | $16.14 | $ 30.27 | -$22.01 |
| 2012 | $ 9.58 | $20.10 | $0.58 | $16.95 | $ 31.34 | -$18.03 |
| 2013 | $ 9.87 | $20.20 | $0.61 | $17.47 | $ 32.18 | -$18.97 |
| 2014 | $ 9.95 | $20.30 | $0.68 | $17.71 | $ 33.72 | -$20.50 |
| 2015 | $10.03 | $23.60 | $0.67 | $18.19 | $ 36.27 | -$20.17 |
| Total | $48.76 | $98.70 | $3.11 | $86.46 | $163.79 | -$99.68 |

# Growing Costs

Saskatchewan's liquor market is far from static. Revenues and costs have both risen over the past five years. Using the growth rates of key variables over the past five years, it is possible to project the future size of the savings and costs related to the government's proposal. For instance, the operating expenses of the 40 stores pegged for sale grew from $9.34 million in 2011 to $10.03 million in 2015, or an average of 1.48% per year. Due to the increased profitability of the 40 SLGA stores to be sold, the projected corporate income tax paid by the private owners of these stores increased on average by 3.77% per year.

On the other side of the ledger, the driving up of wholesale costs likely to be caused by the government's proposal would have meant costs of $16.14 million in 2011 and $18.19 million in 2015 — an average increase of 2.55% per year — because the SLGA's overall purchasing costs rose over that time. Similarly, with the significant growth in mark-up revenue earned by the SLGA over this time, the impact of reducing mark-up levels by 25% grew on average by 3.96% per year.

A qualification is required in calculating the expected annual increase in the discounts and commissions that the SLGA currently provides to all private retailers. In 2011, the SLGA paid off-sale retailers a discount totalling $7.4 million. The following year, that sum had jumped to $12.3 million, an increase of 66%. This dramatic increase is due to the fact industry lobbyists negotiated a one-time increase in the discount rate the SLGA provided to off-sale retailers in order to make these businesses more profitable.[22] Such an increase is not a regular occurrence, and in the last 13 years for which there is data no other dramatic change in the discount rate is noted.[23] Therefore, using the 2011 figure in calculating the future trend makes the expected annual increase appear much larger than it would be otherwise. Looking instead at the years 2012 to 2015, the savings the SLGA would receive from ending the discounts and commissions increases on average by 3.48% per year.

While the government's proposal would have cost the SLGA $100 million in revenue if it had been in place over the last five years, the average growth of each form of savings and cost show that the drain on the SLGA revenues over the next five years would be even greater. The SLGA's savings from the proposal — operating expenses of the 40 closed stores, discounts paid to private operators, and corporate income tax from private sales — increased on average by 1.48%, 3.48%, and 3.77% per year, respectively. The higher wholesale cost of liquor and the decreased mark-up, the two main costs of the proposed changes, increased on average by 2.55% and 3.96% per year, respectively. If these growth rates continue, the government's proposed privatization would cost $115 million over the next five years. The cost of the government's proposed changes would continue to grow beyond that point and, all else being equal, would be upwards of $25 million every year.

**Table 4. Future Costs of Proposed Privatization**[24]

| | SAVINGS | | | COSTS | | DIFFERENCE |
|---|---|---|---|---|---|---|
| ($M) | Operating Expenses | Discounts and Commissions | Income Tax Revenue | Cost of Sales Increase | Mark-up Decrease | |
| 2016 | $10.17 | $ 24.42 | $0.70 | $18.66 | $ 37.71 | -$ 21.07 |
| 2017 | $10.33 | $ 25.27 | $0.72 | $19.13 | $ 39.20 | -$ 22.02 |
| 2018 | $10.48 | $ 26.15 | $0.75 | $19.62 | $ 40.76 | -$ 23.00 |
| 2019 | $10.63 | $ 27.06 | $0.78 | $20.12 | $ 42.37 | -$ 24.02 |
| 2020 | $10.79 | $ 28.01 | $0.81 | $20.64 | $ 44.05 | -$ 25.09 |
| Total | $52.40 | $130.92 | $3.76 | $98.17 | $204.10 | -$115.20 |

# Why Sell Profitable Assets?

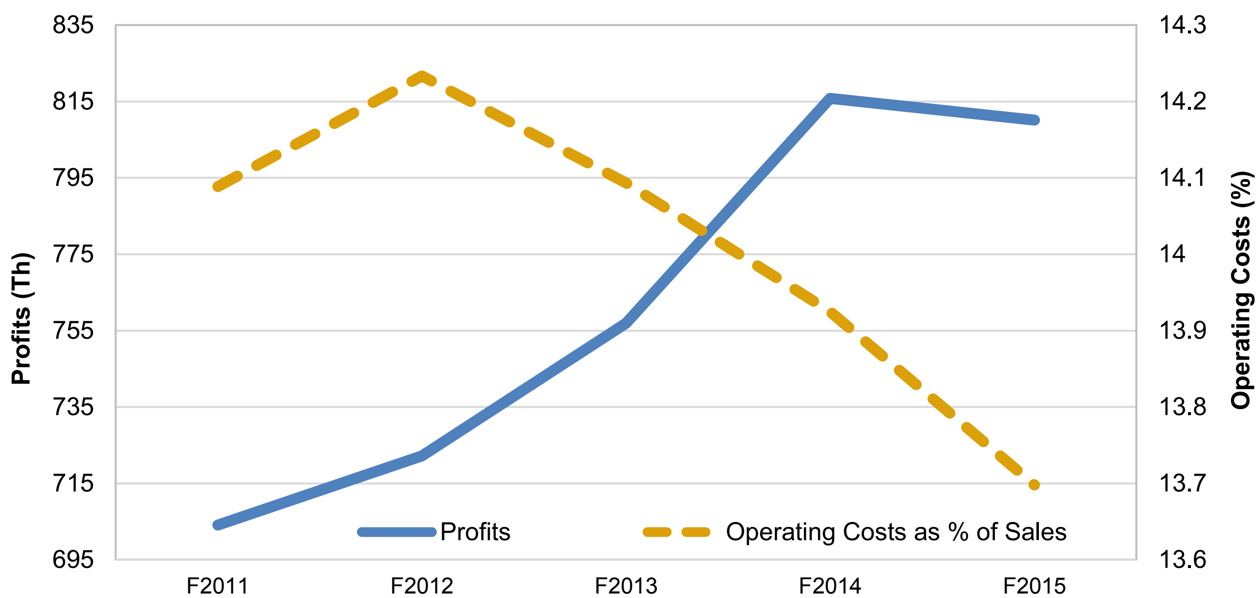
The Saskatchewan government's proposal entails selling off mostly, although not exclusively, the SLGA stores that are less profitable and more costly to operate. But these stores are not small, marginal operations. Liquor sales at these 40 stores totalled close to $80 million last fiscal year. In 2015, the Melfort and Kindersley stores both had sales over $5 million while Saskatoon's Market Mall alone had sales of $10.4 million. In total, 32 of the 40 stores had sales over or close to a $1 million. The lowest sales last fiscal year, among the 40 targeted stores, was at the Leader store, which still totalled more than $750,000.


*Lloydminster Liquor Store, one of the 40 public stores slated for closure.*

Sales, as well as profits, are also on the rise in recent years (Figure 5). Overall, liquor sales are up 12% from 2011 at the 40 stores. Profits have risen even more having increased by 15% over that time span. Eleven of the 40 stores have seen profits rise by over 20% since 2011. None of the stores that the government proposes to sell have recently turned a loss. In each of at least the last five years, all 40 stores have earned a profit. Indeed, the average profit reported by these stores last fiscal year was more than $750,000. Overall, these 40 stores combined for profits of more than $150 million in the last five fiscal years and nearly $32.5 million in the last fiscal year alone.

There is also no indication that the operating costs at these stores are unmanageable. Last fiscal year, operating costs as a percentage of sales averaged 14%, which is less than the 16% discount the SLGA currently pays private retailers to operate. And over the last five years, operating expenses at these stores have increased just 8%, which is less than the rise in both sales and profits. Accordingly, operating expenses as a percentage of sales have decreased by 2% since 2011. At the Kindersley store, for instance, profits have increased 41% while operating costs increased by just 6%. Even one of the least profitable stores, Gull Lake, has increased its net income by over 50% in the last five years while its operating expenses rose just 2%.

**Figure 5. Average Profits and Operating Costs of 40 Stores to Be Sold, F2011-F2015**[25]



# Conclusion

The government's proposal avoids mentioning the two critical aspects that make the proposal a major revenue drain for the SLGA and the province. One is that the government's newly proposed mark-ups are actually reductions of roughly 25%. The second is that the fragmentation of the distribution system and reduction in purchasing power of the SLGA will almost certainly increase wholesale costs, as has occurred in the heavily-privatized provinces of Alberta and British Columbia. If retail liquor prices are to be kept at roughly the same level, these two factors will squeeze the revenue going to the SLGA and ultimately public coffers.

An in-depth analysis clearly shows who will be the winners and losers of the government's proposed changes. The winners will be those individuals and corporations that take over exceptionally lucrative liquor stores which virtually guarantee major returns year after year. The losers will be the rest of the Saskatchewan public who are set to lose out on $115 million in funding over the next five years alone. While a few will benefit substantially, the public will pay for the resultant loss of revenues through reduced public services or higher taxes.

If the goal is a renewed focus on customer service and convenience in the purchase of alcohol in Saskatchewan, the SLGA simply needs the mandate from the provincial government to make the necessary investments. More selection can be brought to rural areas by replacing some franchise shops with full-line SLGA stores. More convenience can be accomplished by opening smaller stores beside or even within existing retail centres, as Manitoba's liquor board has done. Access to premium wines and liquors can be expanded with speciality stores or sections within existing stores, as Quebec's and Ontario's liquor boards have done. And the shopping experience can be enhanced with further investments in renovating or relocating existing retail stores and the further training of retail staff. The SLGA has the benefit of these successful initiatives in other provinces from which to learn and has the financial resources to implement these improvements. It only needs the political direction from the government to act on them.

# Appendix A: Calculations

## Corporate Income Tax Revenue

To calculate what the province can expect to earn in corporate income tax from the newly privatized liquor stores, we need to know the stores' expected profits. Profit equals revenue minus costs. In this case, revenue equals liquor sales and costs are the sum of purchasing costs and operating costs. The current revenue and costs of the SLGA-owned stores provides a benchmark from which to derive an estimate of the revenues and costs expected from these same stores under private ownership.

Two generous assumptions are also used: 1) that private operators will cut operating costs in half, and 2) that all profits are taxed at 12% rather than the small-business tax rate of 2%. Because the proposal includes lowering current mark-ups by 25%, the private owner's cost of purchasing liquor will be the wholesale cost currently paid by the SLGA stores plus 75% of the current mark-up. This can be calculated as SLGA COGS + ((Net sales-COGS)*0.75). Accordingly, using summed 2015 figures for the 40 stores proposed to be sold, corporate income tax revenue is calculated as: Net Sales – ((Net Sales-COGS)*0.75) -(Operating Expenses*0.5) = Profits*0.12 = Corporate Income Tax Revenue.

| ($M) | Sales | Wholesale Costs | Operating Expenses | Profits | CIT |
|---|---|---|---|---|---|
| F2011 | $70.0 | $60.7 | $4.7 | $4.7 | $0.6 |
| F2012 | $71.6 | $62.0 | $4.8 | $4.8 | $0.6 |
| F2013 | $74.7 | $64.7 | $4.9 | $5.1 | $0.6 |
| F2014 | $78.1 | $67.4 | $5.0 | $5.7 | $0.7 |
| F2015 | $78.1 | $67.5 | $5.0 | $5.6 | $0.7 |

Sales = sales revenue of SLGA stores to be sold

Wholesale Costs = SLGA Wholesale Costs + ((SLGA Wholesale Costs – Sales)*0.75)

Operating Expenses = SLGA Operating Expenses * 0.5

Profits = Sales – Wholesale Costs – Operating Expenses

CIT = Profits * 0.12

## Mark-up Loss

Calculating the cost of reducing the mark-up on liquor sales by 25% requires a few steps. First, the total mark-up earned on all sales is calculated by subtracting the total cost of sales from the total sales revenue. Because sales are reported net of commissions and discounts, and the proposal includes ending these commission and discounts, their value is added to the total sales revenue. Second, the mark-up earned through sales at the 35 SLGA stores proposed to remain open is calculated by subtracting the cost of sales at these stores from their sales revenue. Finally, the mark-up loss is found by subtracting the mark-up earned at the remaining SLGA stores from the total mark-up and multiplying this figure by 25%.

| | TOTAL | | | | REMAINING SLGA STORES | | | |
|---|---|---|---|---|---|---|---|---|
| ($M) | Sales Revenue | Commissions and Discounts | Cost of Sales | Mark-up | Sales Revenue | Cost of Sales | Mark-up | MARK-UP LOSS |
| F2011 | $550.5 | $14.5 | $268.9 | $296.0 | $322.3 | $147.3 | $175.0 | $30.3 |
| F2012 | $571.8 | $20.1 | $282.4 | $309.5 | $338.0 | $153.9 | $184.1 | $31.3 |
| F2013 | $592.3 | $20.2 | $291.2 | $321.3 | $352.9 | $160.2 | $192.6 | $32.2 |
| F2014 | $612.0 | $20.3 | $295.2 | $337.1 | $365.9 | $163.7 | $202.2 | $33.7 |
| F2015 | $622.4 | $23.6 | $303.2 | $342.7 | $359.2 | $161.5 | $197.6 | $36.3 |

Total Mark-up = Sales Revenue + Commissions and Discounts – Cost of Sales

Remaining SLGA Stores Mark-up = Sales Revenue – Cost of Sales

Mark-up Loss = (Total Mark-up – Remaining SLGA Stores Mark-up) * 25%

# Appendix B: Communities Affected by the Government's Proposal

### Communities to Lose SLGA Stores

Battleford
Broadview
Canora
Carrot River
Davidson
Foam Lake
Gravelbourg
Gull Lake
Hudson Bay
Indian Head
Kamsack
Kelvington
Kindersley
Kipling
Lanigan
Leader
Lloydminster
Maple Creek
Melfort
Melville
Outlook
Preeceville
Raymore
Regina (Broad St.)
Rosetown
Rosthern
Saskatoon (20 th St. W.)
Saskatoon (Market Mall)
Shaunavon
Shellbrook
St. Walburg
Stoughton
Tisdale
Unity
Wadena
Wakaw
Waskesiu
Watson
Wilkie
Wynyard

### Communities to Receive New Private Liquor Stores

Aberdeen
Bienfait
Dalmeny
Emerald Park/White City
Hague
Moose Jaw
Osler
Pilot Butte
Prince Albert
Regina
Saskatoon
Yorkton

# Appendix C: 2015 Financial Data for SLGA Stores to Be Retained and to Be Sold

## TO BE RETAINED

| Location | Net Sales | Wholesale Costs | Operating Expenses | Net Income | Operating Expenses % of Sales |
|---|---|---|---|---|---|
| Regina – Quance | $29,319,557 | $13,259,088 | $2,380,748 | $13,679,721 | 8.12% |
| Regina – South Albert | $24,007,608 | $10,896,663 | $1,826,979 | $11,283,966 | 7.61% |
| Saskatoon – 8th St E | $22,784,029 | $10,348,989 | $2,228,278 | $10,206,762 | 9.78% |
| Prince Albert – South Hill | $20,853,346 | $ 9,162,800 | $1,682,865 | $10,007,681 | 8.07% |
| Regina – Normanview | $20,176,550 | $ 9,110,663 | $1,842,119 | $ 9,223,768 | 9.13% |
| Saskatoon – Confederation | $18,483,323 | $ 8,231,470 | $1,846,484 | $ 8,405,369 | 9.99% |
| Saskatoon – 2nd Ave N | $17,604,836 | $ 8,149,061 | $1,605,561 | $ 7,850,214 | 9.12% |
| Regina – North Albert | $16,728,196 | $ 7,522,762 | $1,381,749 | $ 7,823,685 | 8.26% |
| Saskatoon – Univ Heights | $17,036,660 | $ 7,697,007 | $1,657,667 | $ 7,681,986 | 9.73% |
| Moose Jaw -Manitoba | $16,896,418 | $ 7,470,582 | $1,811,296 | $ 7,614,540 | 10.72% |
| Saskatoon – Lawson | $15,284,543 | $ 7,020,040 | $1,503,999 | $ 6,760,504 | 9.84% |
| Yorkton | $12,476,533 | $ 5,613,702 | $1,061,753 | $ 5,801,078 | 8.51% |
| North Battleford | $11,762,394 | $ 5,394,685 | $1,105,665 | $ 5,262,044 | 9.40% |
| Regina – Dewdney | $11,350,933 | $ 5,091,682 | $1,010,233 | $ 5,249,018 | 8.90% |
| Swift Current | $10,700,678 | $ 4,814,040 | $ 914,908 | $ 4,971,730 | 8.55% |
| Regina- Broadway | $ 9,840,439 | $ 4,509,541 | $1,008,645 | $ 4,322,253 | 10.25% |
| Prince Albert – 9th St E | $ 8,812,842 | $ 3,829,532 | $ 765,836 | $ 4,217,474 | 8.69% |
| Estevan | $ 8,826,190 | $ 3,909,064 | $ 722,865 | $ 4,194,261 | 8.19% |
| Saskatoon – Idylwyld | $ 8,391,972 | $ 3,662,960 | $ 727,584 | $ 4,001,428 | 8.67% |
| La Ronge | $ 7,249,833 | $ 3,080,313 | $ 476,314 | $ 3,693,206 | 6.57% |
| Weyburn | $ 5,981,556 | $ 2,625,367 | $ 614,904 | $ 2,741,285 | 10.28% |
| Saskatoon -Broadway | $ 6,023,959 | $ 2,707,286 | $ 639,142 | $ 2,677,531 | 10.61% |
| Meadow Lake | $ 5,303,659 | $ 2,397,687 | $ 537,791 | $ 2,368,181 | 10.14% |
| Humboldt | $ 4,478,991 | $ 1,968,310 | $ 425,952 | $ 2,084,729 | 9.51% |
| Nipawin | $ 4,337,558 | $ 1,995,214 | $ 413,803 | $ 1,928,541 | 9.54% |
| Creighton | $ 3,276,796 | $ 1,353,827 | $ 279,183 | $ 1,643,786 | 8.52% |
| Ft. Qu'Appelle | $ 3,350,332 | $ 1,496,059 | $ 373,897 | $ 1,480,376 | 11.16% |
| Carlyle | $ 2,745,579 | $ 1,251,223 | $ 332,215 | $ 1,162,141 | 12.10% |
| Esterhazy | $ 2,527,994 | $ 1,155,450 | $ 267,209 | $ 1,105,335 | 10.57% |
| Moosomin | $ 2,352,797 | $ 1,067,581 | $ 255,749 | $ 1,029,467 | 10.87% |
| Assiniboia | $ 2,106,908 | $ 945,232 | $ 224,175 | $ 937,501 | 10.64% |
| Watrous | $ 2,097,559 | $ 962,756 | $ 204,512 | $ 930,291 | 9.75% |
| Buffalo Narrows | $ 1,827,845 | $ 829,156 | $ 195,945 | $ 802,744 | 10.72% |
| Biggar | $ 1,681,066 | $ 775,758 | $ 173,486 | $ 731,822 | 10.32% |
| La Loche | $ 2,473,831 | $ 1,205,908 | $ 546,964 | $ 720,959 | 22.11% |

## TO BE SOLD

| Location | Net Sales | Wholesale Costs | Operating Expenses | Net Income | Operating Expenses % of Sales |
|---|---|---|---|---|---|
| Saskatoon-Market Mall | $10,351,203 | $4,549,212 | $1,195,564 | $4,606,427 | 11.55% |
| Kindersley | $ 5,302,260 | $2,424,719 | $ 497,352 | $2,380,189 | 9.38% |
| Melfort | $ 5,558,747 | $2,562,137 | $ 638,700 | $2,357,910 | 11.49% |
| Regina – Broad St. | $ 4,111,517 | $1,966,051 | $ 587,947 | $1,557,519 | 14.30% |
| Melville | $ 2,766,934 | $1,227,081 | $ 303,256 | $1,236,597 | 10.96% |
| Tisdale | $ 2,627,143 | $1,186,727 | $ 314,469 | $1,125,947 | 11.97% |
| Rosetown | $ 2,031,676 | $ 916,620 | $ 246,036 | $ 869,020 | 12.11% |
| Saskatoon – 20th St W | $ 2,354,758 | $1,075,486 | $ 432,569 | $ 846,703 | 18.37% |
| Kamsack | $ 1,941,887 | $ 884,858 | $ 213,996 | $ 843,033 | 11.02% |
| Canora | $ 1,910,611 | $ 861,539 | $ 215,708 | $ 833,364 | 11.29% |
| Battleford | $ 1,943,770 | $ 868,610 | $ 246,470 | $ 828,690 | 12.68% |
| Maple Creek | $ 1,949,654 | $ 928,874 | $ 225,380 | $ 795,400 | 11.56% |
| Wynyard | $ 1,682,496 | $ 744,859 | $ 194,833 | $ 742,804 | 11.58% |
| Shellbrook | $ 1,676,093 | $ 750,365 | $ 191,745 | $ 733,983 | 11.44% |
| Unity | $ 1,681,137 | $ 751,172 | $ 199,551 | $ 730,414 | 11.87% |
| Shaunavon | $ 1,717,070 | $ 797,430 | $ 197,463 | $ 722,177 | 11.50% |
| Outlook | $ 1,705,938 | $ 796,072 | $ 236,443 | $ 673,423 | 13.86% |
| Lloydminster | $ 1,678,488 | $ 798,353 | $ 220,889 | $ 659,246 | 13.16% |
| Gravelbourg | $ 1,439,461 | $ 709,346 | $ 88,095 | $ 642,020 | 6.12% |
| Indian Head | $ 1,727,746 | $ 831,461 | $ 263,654 | $ 632,631 | 15.26% |
| Rosthern | $ 1,449,647 | $ 668,375 | $ 172,653 | $ 608,619 | 11.91% |
| Wadena | $ 1,510,154 | $ 686,718 | $ 225,919 | $ 597,517 | 14.96% |
| Hudson Bay | $ 1,390,621 | $ 627,910 | $ 181,476 | $ 581,235 | 13.05% |
| Preeceville | $ 1,207,726 | $ 531,530 | $ 149,758 | $ 526,438 | 12.40% |
| Wakaw | $ 1,226,532 | $ 547,267 | $ 166,563 | $ 512,702 | 13.58% |
| Watson | $ 1,250,387 | $ 587,719 | $ 171,053 | $ 491,615 | 13.68% |
| Kelvington | $ 1,182,620 | $ 524,915 | $ 176,920 | $ 480,785 | 14.96% |
| St. Walburg | $ 1,297,932 | $ 631,130 | $ 193,911 | $ 472,891 | 14.94% |
| Kipling | $ 1,161,609 | $ 526,972 | $ 181,211 | $ 453,426 | 15.60% |
| Waskesiu (Seasonal) | $ 1,190,828 | $ 568,531 | $ 208,633 | $ 413,664 | 17.52% |
| Raymore | $ 1,018,751 | $ 445,059 | $ 165,547 | $ 408,145 | 16.25% |
| Foam Lake | $ 971,074 | $ 422,071 | $ 161,878 | $ 387,125 | 16.67% |
| Stoughton | $ 980,910 | $ 438,520 | $ 155,278 | $ 387,112 | 15.83% |
| Lanigan | $ 992,649 | $ 454,548 | $ 161,504 | $ 376,597 | 16.27% |
| Davidson | $ 930,984 | $ 422,574 | $ 149,423 | $ 358,987 | 16.05% |
| Carrot River | $ 841,245 | $ 381,443 | $ 136,534 | $ 323,268 | 16.23% |
| Wilkie | $ 904,271 | $ 417,728 | $ 168,737 | $ 317,806 | 18.66% |
| Gull Lake | $ 887,077 | $ 443,008 | $ 126,852 | $ 317,217 | 14.30% |
| Broadview | $ 801,829 | $ 371,724 | $ 124,925 | $ 305,180 | 15.58% |
| Leader | $ 764,567 | $ 359,835 | $ 137,622 | $ 267,110 | 18.00% |

# Endnotes

1 Government of Saskatchewan. *The Future of Retailing in Saskatchewan*, Regina: The Government of Saskatchewan 2015, p.8.

2 Graham, Jennifer. "Saskatchewan Privatizing 40 government-owned liquor stores," *Globe and Mail*, 18 November 2015.

3 Campanella, David. *A Profitable Brew: A Financial Analysis of the LSGA and its Potential Privatization*. Regina: Canadian Centre for Policy Alternatives and Parkland Institute, 2015.

4 Percentage change is calculated as: (Proposed Mark-up – Current Mark-up)/Current Mark-up. Proposed mark-ups found in: Government of Saskatchewan. *The Future of Retailing in Saskatchewan*, 2015, p.8; Current Mark-ups found in: Saskatchewan Liquor and Gaming Authority. Pricing Structure and Policy, 1 April 2014, p.5-7.

5 Author's calculations based on CANSIM Table 183-0017.

6 *The Impact of Privatization on the Distribution and Sale of Beverage Alcohol in Alberta*. Mississauga: Canadian Wine Intitute, 1994, as cited in Jazairi, Nuri. The Impact of Privatization the Liquor Control Board of Ontario. Toronto: Department of Economics, York University, 1994.

7 PricewaterhouseCoopers LLP. *Liquor Warehousing and Distribution in Alberta: Supply Chain Analysis*. Edmonton: PricewaterhouseCoopers LLP, 2007, p.3.

8 Campanella, David and Greg Flanagan. *Impaired Judgement: The Economic and Social Consequences of Liquor Privatization in Western Canada*. Regina: Canadian Centre for Policy Alternatives and Parkland Institute, 2012, p.14.

9 Flanagan, Greg. *Sobering Result: The Alberta Liquor Retailing Industry Ten Years after Privatization*. Toronto: Canadian Centre for Policy Alternatives and Parkland Institute, 2003, p.24.

10 Campanella, David. *A Profitable Brew: A Financial Analysis of the LSGA and its Potential Privatization*. Regina: Canadian Centre for Policy Alternatives and Parkland Institute, 2015, p.23.

11 The highest beer mark-up has been lowered from \$1.75/L to \$1.08/L, which fewer producers will now pay. The lowest mark-up on beer has been lowered from \$1.04/L to \$0.55/L. The mid-level mark-up has been lowered from \$1.16/L to a graduated mark-up between \$0.56/L and \$1.02/L. The previous mark-up schedule for beer is included in Ministry of Energy and Mines Liquor Distribution Branch. Briefing Note for Honourable Rich Coleman, 22 May 2012, accessed through FOI Request – EGM-2012-00299, p.6. Current beer mark-up described in: British Columbia Liquor Distribution Branch. *Mark-up Schedule: Effective April 1, 2015*, 30 January 2015.

12 Gross Profit Margins are calculated as: (Revenue – Cost of Goods Sold)/Revenue. Data comes from 2014 Annual Reports of each liquor board.

13 SAQ. *2014 Annual Report: The Experts of Choice*, n.d., p.42.

14 Liquor Control Board of Ontario. *LCBO Annual Report 2013-2014: 20 Years of Growing Dividends for Ontario*, n.d., p.56.

15 CANSIM Table 183-0017

16 CANSIM Table 183-0019

17 Data for Gross Profit Margins and number of non-franchise, non-specialty private liquor stores operating in each province came from the 2013-2014 annual report of each provincial liquor board.

18 Gross Profit Margins calculated by author using data from CANSIM Table 183-0017. For the years 1999-2013, the number of private retailers is found in the AGLC annual reports. The number of stores in 1994 is imputed based on the fact that the 205 ALCB stores were mostly sold to the private sector. The number of stores in 1995 is found in West, Douglas. *The Privatization of Liquor Retailing in Alberta*, Vancouver: Fraser Institute, 2003, p.8. The number of stores in 1995 and 1996 are imputed.

19 Gross Profit Margins calculated by author using data from CANSIM Table 183-0017. The number of private liquor stores are defined as Licensee Retail Stores in the BC LDB Annual Reports (2001-2013).

20 CANSIM Table 183-0017

21 Author's calculations using data from "SLGA All Stores – Net Income, Total Expenses and Operating Expenses as a Percentage of Sales – 5 Year History," *Saskatchewan Liquor and Gaming Authority* [Excel spreadsheet], 2015.

22 Saskatchewan Liquor and Gaming Authority. *Annual Report for 2010-2011*, n.d., p.8; Saskatchewan Liquor and Gaming Authority. *Annual Report for 2011-2012*, n.d., p.9.

23 Saskatchewan Liquor and Gaming Authority Annual Reports (2003-2015).

24 Author's calculations using data from "SLGA All Stores – Net Income, Total Expenses and Operating Expenses as a Percentage of Sales – 5 Year History," *Saskatchewan Liquor and Gaming Authority* [Excel spreadsheet], 2015.

25 Author's calculations using data from "SLGA All Stores – Net Income, Total Expenses and Operating Expenses as a Percentage of Sales – 5 Year History," *Saskatchewan Liquor and Gaming Authority* [Excel spreadsheet], 2015.