



ALLIANCE OF BEVERAGE LICENSEES
FOR A RESPONSIBLE LIQUOR INDUSTRY

Benchmarking your Liquor Store

By Paul Rickett

Note to Reader: A shorter version of this article is published in *The Quarterly Pour* Spring edition. This on-line version contains additional information and expanded commentary.

On behalf of ABLE BC, we thank those who took the time to respond to the 2nd Annual LRS Benchmark survey. In the Winter 2018 edition of the *Publican* we published an article “Benchmarking Your LRS” which included the results of the first annual ABLE BC Benchmark survey. Additional analysis was presented at the ABLE BC annual Liquor Conference in November 2018. This year’s survey was conducted via SurveyMonkey between November and December 2019. The Benchmark commentary notes similarities and differences between 2019 and 2018 when appropriate and uses comparisons to data for BC Liquor Stores (BCLS) drawn from the Annual Report for the year ending 31 March 2019 and Alcanna Inc. Alcanna is a public company operating 213 liquor stores in Alberta and BC. Comparison data for Alcanna is taken from the 9 month period ending 30 November 2019.

We took special care to ensure anonymity of the respondents and individual results came directly to the author and no one else. Respondents were only asked to identify themselves as being in one of the following regions, and, optionally, Municipality – this latter identification was not used in any analysis.

- Metro Vancouver
- Greater Victoria
- Vancouver Island outside of Greater Victoria
- Elsewhere in BC

Due to the mix of responses in both the 2018 and 2019 we can only breakout the Metro Vancouver area versus the Rest of Province (ROP) from a geographical perspective. We hope that more responses in 2020 will allow extended geographical comparison.

There were differences between the questions in 2019 and 2018. Some were dropped and others added. Some were rephrased for greater clarity. The core Operational Metric questions are largely comparable between the two surveys except where noted.

The 2018 and 2019 surveys are reasonably congruent in their results despite differences in the demographics of the responders and the survey format. 2019's respondents include Large stores and stores identifying themselves as part of a chain for the first time.

In neither 2018 nor 2019 do the number of responses do not allow rigorous statistical analysis so they should be considered as broad indicators of how other private liquor stores operate in BC when comparing to your own results.

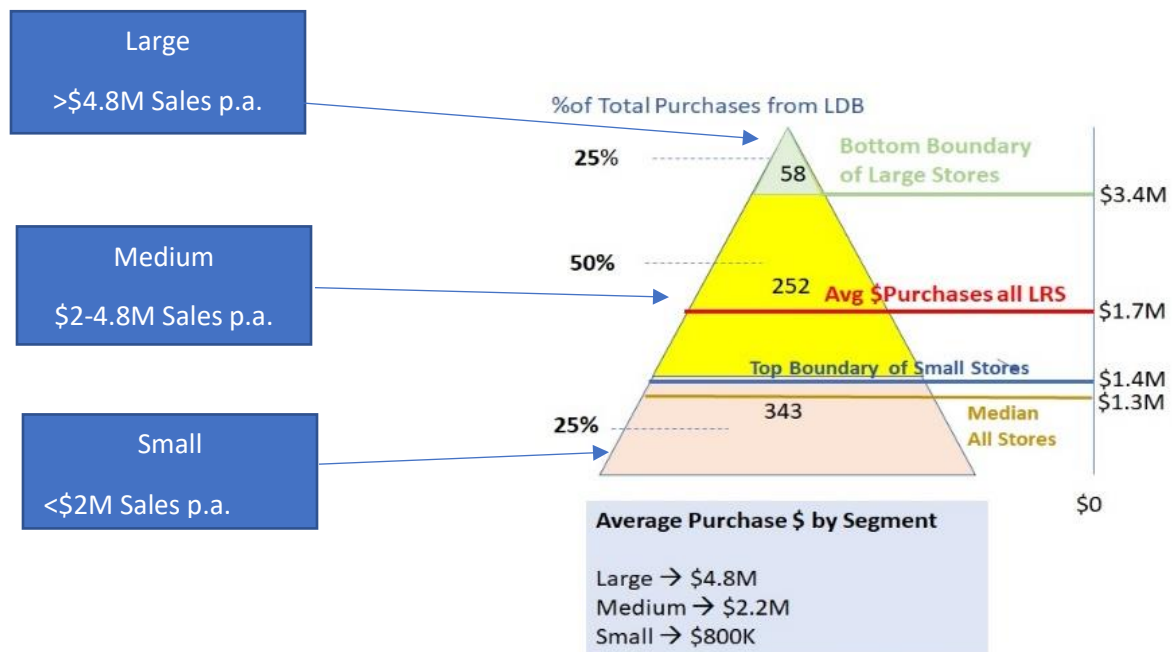
LRS Demographics – Size and Geography Baseline

In late 2018 ABLE BC and the author drew data from the Liquor Distribution Board about LRS demographics based on wholesale value to provide a baseline for comparison to the Benchmark results. This data was used to:

- a) Segment the LRS universe by size
- b) Segment the LRS universe by average size in different geographies
 - a. Metro Vancouver
 - b. Greater Victoria
 - c. Rest of Province outside of the two large population centres.
- c) Establish LRS universe Product Mix

We will reset this baseline for the 2020 3rd Annual Benchmark.

The total LRS market can be categorised by size using as a baseline data drawn from the Liquor Distribution Board (LDB). From this we drew the revenue boundaries for the store demographics used in our analysis.



Taking average and median purchases of the ~670 active LRS in the Province we can compare survey results to the baseline by size and geography to see how representative of the total market they are:

\$ alcohol Purchase Value at wholesale	2018 LDB Data Baseline		Survey Results			
			2019 Respondents		2018 Respondents	
	Median	Average	Median	Average	Median	Average
Overall Wholesale Purchases of all LRS (extrapolated)	\$1.85M	\$2.3M	\$2.0M	\$2.9M	\$2.5M	\$2.6M
Large Stores	Not computed	\$4.8M	Not Computed	\$7.3M	Not Computed	No data
Medium Stores		\$2.2M		\$2.1M		\$2.3M
Small Stores		\$800K		\$1.1M		\$1.2M
Metro Vancouver		\$1.9M		\$4.6M		\$2.1M
Victoria		\$2.2M		Insufficient data points to separate; aggregated into ROP		
ROP		\$1.5M		\$1.7M		\$1.8M

2019's overall average results have a definite upward skew because of the responses from Large stores in Metro Vancouver. However, within very broad parameters, overall the responses (especially from Medium and Small stores and ROP region) are consistent from year to year and reasonably reflective of the total market. More responses in 2020 from all segments but especially outside of Metro Vancouver would likely close the gap between the total market and the survey responses.

Benchmark 1: Starting out we'll go straight to the Bottom Line – EBITDA %

Earnings Before Interest, Taxation and Depreciation (EBITDA) is an important statistic for any business. It is a measure of operational profitability. Looking at EBITDA in percentage terms allows us to consider just how efficient different businesses are in generating return to shareholders regardless of size and location.

We asked respondents to give their EBITDA % in bands and very broadly the overall sample gave an EBITDA return of c. 12% - identical to 2018's results. As noted last year, LRS EBITDA% compares favourably with other retail sectors. The following table shows how the responses break down:

Band	EBITDA %	% of Responses
A	Loss	0%
B	0-5% EBITDA	17%
C	5-10% EBITDA	17%
D	10-13% EBITDA	41%
E	>13% EBITDA (High Performers)	25%

There were no significant differences in distribution of above results by size, chain, independent or geography. This year we asked for responses in bands rather than specific %. Extrapolating from these bands the average EBITDA% is +/- 12% which is the same as 2018.

High Performers (Band E above) occurred in all size segments and in both Metro and ROP geographies. All High Performers were independently owned and not part of a Chain.

Quantitatively, the main difference between a High Performer and the rest appears to be in the level of overhead costs not measured by any of our Benchmarks as it seems to matter little whether the store has a lower or higher Gross Profit Margin, Rent or staff cost relative to the other respondents.

Qualitatively however, there is a commonality shared by all High Performers in both 2018 and 2019 surveys – **Product Specialisation**. Each of the top performing EBITDA % had at least one product category (Wine, Beer, Spirits, Refreshment, Other) in their product mix that was much higher than the average for all responses. In 2019 there were a few other stores that had an outstanding product category but they did not beat the High Performers in that category. The other costs that we measure were inline with the Benchmarks so somewhere they have other overhead costs not incurred to same degree as the High Performers.

Product sales specialisation in the High Performers could be the result of deliberate strategy, unique market catchment area demographics or, more likely, a combination of both. Given it has shown up in two consecutive years our hypothesis is that some level of product specialisation is potentially a route to higher efficiency and to a competitive advantage in what is a very competitive retail environment.

For EBITDA% comparison, BCLS stores generated 9.6% net profit before allocation of Corporate Overhead. Alcanna reported an EBITDA% of 7.6% on total liquor operations across BC and Alberta.

Benchmark 2: Product Sales Mix

The table below shows typical product mix and the range.

Product Category	Total Sample 2019	Normal Range +/- to average	Large Average	Medium Average	Small Average	2018 Total LRS market baseline (LDB data)
Beer	34%	9%	29%	38%	32%	42%
Refreshment	11%	6%	10%	11%	13%	10%
Spirits	21%	8%	29%	20%	14%	25%
Wine	27%	12%	28%	24%	32%	23%
Other*	7%	5%	4%	7%	11%	n/a

*Other includes Tobacco and non-alcohol sales

There are some interesting differences between the store size segments. These are possibly related to size of store in square feet as smaller square footage store (or those in smaller markets) cannot carry the selection or inventory cost of a wider selection in all categories compared to their larger brethren. This shows up particularly in Spirits, there is a positive correlation showing Spirit sales % increased as stores grew larger. The overall responses to this Benchmark still match (allowing for normal variations) the total LRS store mix from the 2018 baseline.

EBITDA% High Performers all had one product category where they were higher than the Total sample plus the top of the Normal range (e.g. in Wine >43%)

Comparing product mix by geographic location, and Chain vs Independent:

Product Category	Location		Type	
	Metro Vancouver	ROP	Chain	Independent
Beer	34%	35%	33%	35%
Refreshment	9%	13%	9%	12%
Spirits	27%	16%	27%	19%
Wine	27%	27%	26%	27%
Other	3%	9%	5%	7%

Note the differences in sales between Location and Type in Refreshment, Spirit and Other categories versus the very similar percentages in Beer and Wine. Chains showed a significantly higher percentage product mix on Spirits than Independents.

We asked respondents which Product Categories had the best and worst sales performance in the year, almost universally Refreshment was Best and Beer was worst – given the overall market dynamics this is not surprising.

Benchmark 3: Sales Change

A new question for 2019.

	Overall	Large	Medium	Small	Chain	Independent	Metro	ROP
Sales Change %	9%	6%	12%	4%	6%	10%	7%	11%

The overall average gain included some high gain outliers (one was a High performer) which might be due to opening new larger stores or other market driven events. As a result, the normal range was +/- 9%! The Median was much lower than the average at 4%. LDB reported in FY2019 that sales to LRS (in wholesale \$) rose by 5.2%. 46% of respondents reported sales increases less than this.

BCLS sales rose by 0.1%.

Benchmark 4: Basket Size

	Overall	Large	Medium	Small	Chain	Independent	Metro	ROP
Basket Size	\$27.46	\$32.23	\$26.16	\$25.71	\$27.50	\$27.44	\$28.33	\$26.71

Normal Range for this was +/- \$6.56. There were outliers below and above the range (including one of the High Performers) as also occurred in 2018. The overall average was slightly down from 2018 but those results had a much larger range of +/- \$11.

In FY2019 LDB reported an average basket size of \$36.57, a small increase over FY2018.

Benchmark 5: Gross Profit Margin

	GPM	% of Responses	2018
Band A	<26%	15%	15%
Band B	26-28%	31%	38%
Band C	28-30%	31%	24%
Band D	30-32%	15%	15%
Band E	>32%	8%	8%

Responses indicate an average GPM around 28% without significant differences between size of store or location although there is a pattern that Small stores have higher margins than Medium which in turn have higher margins than Large. A more marked difference in the order of 2-3% was observed between Metro and ROP where margins tend to be higher outside of Metro Vancouver – this could be due to a higher level of competition in the Vancouver area. There is a weak positive correlation of higher GPM to higher EBITDA%. The question was rephrased this year but the results are very similar to 2018 when an average GPM of 28% was also reported.

Benchmark 6: Sales Per Square Foot

This is a key measure of how successful a store is at using the space it has and is a good generic measure against other retail industries.

	Overall	Range	Large	Medium	Small	Chain	Metro	ROP
Sales per Square Foot p.a.	\$1,415	+/- \$484	\$1,492	\$1,476	\$1,197	\$1,252	\$1,495	\$1,347

In their FY2019, BCLS reported sales per square foot of \$1,417. This metric stands up well against most other retail industries. As a very broad comparison of liquor retail industry against a basket of retailers represented by shopping malls it would rank #4 in Canada (source: [Statista: Leading Shopping Malls in Canada 2019](#))

Benchmarks 7, 7a, 7b & 8: Staffing Costs & Staffing Efficiency

This is a measure of sales staff efficiency; one would expect economies of scale to kick in with larger format stores. The question was rephrased in 2019 to be more specific that we meant customer-facing staff.

		Overall Average	Large	Medium	Small	Chain
BM7	Staffing Cost as % of Sales	6.8%	6.0%	7.5%	5.9%	6.7%
BM7a	Sales per FTE p.a.	\$604,000	\$699,000	\$604,000	\$599,000	\$722,000
BM7b	Transactions per FTE p.a.	23,215	24,670	24,045	19,825	27,734

There is a strong correlation between square footage and the number of customer facing FTE. It takes a minimum of 3.0 customer -facing FTE (including owner/operator or full-time Manager) to operate an LRS 12+ hours per day, 7 days a week regardless of sales size.

There was a 1% drop in the median staffing cost from 8% to 7% this year, likely driven by the inclusion of larger more, efficient stores in the response mix. The range of reported staff cost to sales was much narrower than 2018 dropping from 5-15% to 4-9% with a normal range of +/-1.8%. However, this may be due to a rephrasing of the question. Two of the High EBITDA% reporters had staff cost at the low end of the range, one was at the high end.

Transactions per sales FTE is computed from the responses. The overall average is up substantially from 2018's 16,000 but likely due to a combination of the question itself, better data quality and response mix. In effect, each transaction represents a sales opportunity to increase basket size.

This year we also asked what was the top and bottom hourly rate currently paid to hourly sales employees.

Benchmark 8		Average
Top Hourly Wage	\$22.00	\$18.03
Bottom Hourly Wage	\$13.85	\$14.36

Fully 38% of respondents have staff at current minimum wage, 33% have their lowest hourly rates already pegged above the upcoming rise to \$14.60 in June 2020.

Benchmark 9: Rent cost as % of Sales

There was a question format change this year as we asked stores who owned their own building to enter 0% - This was done to assess more effectively the market rates paid by those who do not own their premises.

	Overall	Range	Large	Medium	Small	Chain	Independent
Rent as % Sales	3.6%	2-6%	3.7%	2.1%	2.2%	3.0%	2.2%

2019’s average is lower than the 4.5% average reported last year. In 2018 we had a cluster of responses up in the 7-8% range versus this year they mainly clustered in the 3-4% range. Another difference this year is that there were no differences in reported rent cost between Metro Vancouver and ROP.

Benchmark 10: Marketing expense as % of Sales

A new question in 2019. All the High EBITDA% performers reported effectively at 0%.

	Overall	Range	Large	Medium	Small	Chain	Independent
Marketing cost as % of sales	0.9%	0-4%	1%	1%	0.4%	1.2%	0.8%

The overall percentage looks light compared to other retail business segments although it likely does not include uncoded staff time spent promoting on email lists, social media, TV etc. being considered “free”. In the 2020 survey we’ll take a look at what channels are used and which are considered most effective.

Benchmark 11: Wastage

This new question was included at the request of attendees at the 2018 BC Liquor Conference.

We used three broad bands to assess product lost through breakage, theft, or otherwise written off as a % of product purchases.

	Wastage Rate %	% of Responses
Band A	<0.1%	50%
Band B	0.11-0.99%	42%
Band C	>1%	8%

Mediums and Chains had more responses in Band B than Small stores. There was no geographical differentiation.

Although LDB do not report their wastage rate they do spend c. 0.1% of total revenue on Loss Prevention. Presumably the bulk of that is spent within the retail store chain in which case that would be up to 0.3% of their purchases.

Looking Forward to 2020

The survey had two forward looking questions about challenges for the year and Cannabis impact.

The table below aggregates responses as a percent of total responses for 2020 business challenges

	Staffing			Maintain/Increase			Product Supply	Grocery Competition
	Staff Retention	Hiring New Staff	Staff Training	Sales	GPM	EBITDA		
No Problem	33%	17%	50%	8%	8%	8%	23%	31%
Somewhat Challenging	58%	58%	38%	54%	46%	69%	31%	38%
Very Challenging	9%	15%	12%	38%	46%	23%	46%	31%

The Maintain/Increase categories overall show the highest rates of concern and especially EBITDA which will be impacted by rising minimum wage rates.

Cannabis

Compared to above table, Cannabis legalisation is of much less of a concern to most.

	No Material Impact on sales	Negative Impact on Sales
Since Legalisation in 2018	92%	8%
In 2020 after edibles and drinks legalised	67%	33%

No responses indicated legalisation of Cannabis had a positive impact on sales.

Conclusion

All the above is a lot to take in when comparing against one's own numbers. First and foremost, this is an indicator of the market as a whole - it's cool to be different. For most LRS outside of Metro Vancouver likely the biggest constraining factor is available market in their catchment area. Stores in Metro Vancouver have up to six times the population per store to support their business compared to an LRS located in a small town and double the population to store ratio of Greater Victoria.

To use these benchmarks effectively:

Step 1 – Measure yourself appropriately against peers in size, format and geography. If you are a Small, Independent store in ROP don't be misled by benchmarks from Large and Medium stores in Metro Vancouver.

Step 2 – If you are significantly underperforming in a benchmark spend some time thinking about why that is so. Every store has finite space so, short of moving, you can only work within these confines.

Sales per Square foot is an important, and near universal, metric to look at. Increasing sales may be a strategy of changing product mix, spending a little more on marketing to your catchment area or staff incentives and training – or a combination so don't assume it's just one thing you need to do. Increasing GPM may need some changes in product mix or better purchasing (e.g. buy ins on LTO). Increasing EBITDA may be a combination of increased sales, tweaks to GPM and finding some cost savings.

Step 3 – Set a plan, measure frequently, adjust as you find out what is working and what is not.

Step 4 – Participate in the 2020 survey, the more responses the better we can segment by geography and store size and type.

Benchmarks are interlinked, so if you aim to adjust one benchmark then you may have to accept changes in others e.g. To increase sales per square foot you may have to hire more staff which will impact other benchmarks, at least in the near term. You have to judge the cost/benefit return before taking action.

We'll be back in 2020 for the 3rd Annual ABLE BC LRS Benchmark Survey. Watch this space.

Paul Rickett is principal of VARketing! - a company specializing in turning liquor industry data analytics into effective business strategies. He also runs a median-sized LRS in the Lower Mainland. Paul can be reached at paul@varketing.net and welcomes your questions, comments and suggestions for the 2020 Benchmark.