



Pricing

Policy Statement

It is MLCC policy to use a transparent pricing strategy that meets the provincial government’s requirement for profit from the sale of liquor products while maintaining fair and equitable treatment to suppliers.

- For further information on the MLCC pricing strategy and details such as rates, see *Schedule A* of this policy.

The MLCC provides special discounts to specified customer groups.

- For further detail, see *Schedule B* of this policy.

The President and CEO may authorize price changes in special circumstances.

Purpose

To establish the guidelines and procedures that will ensure:

- Government profit requirements are met.
- Suppliers are treated fairly and equally.

Applies to

Purchasing; Finance.

Definitions

- | | |
|--------------------------------|--|
| • ad valorem | • markup |
| • capital cost allowance (CCA) | • minimum markup |
| • commercial consideration | • Multi-Material Stewardship Manitoba (MMSM) |
| • duty-paid landed cost | • packaging |
| • EPT | • PET containers |
| • FOB | • recycling charge |
| • handling charge | • refreshment beverages |
| • handling fee | • Retail Sales Tax (RST) |
| • in-bond landed cost | • SKU number |
| • landed cost | • trade show |

Related Documents

- Government legislation and publications**
- Consumer Price Index (CPI) for Winnipeg
 - General Agreement on Tariffs and Trade (GATT)
 - The Excise Act*
 - The Liquor Control Act and Regulations*
 - The Retail Sales Tax Act*
 - The Sustainable Development Act*
- MLCC programs and publications**
- Brand Pricing System
 - Liquor Vendor Operating Agreement
 - Liquor Vendor Operating Guidelines
 - Marketing at Retail Manual
 - Pricing and Listing Information booklet
 - Specialty Wine Store Operating Agreement
- Related policies**
- Appointing a Liquor Vendor (Ref. #12)
 - Beer Distribution (Ref. #2)
 - Compensation to Beer Vendors (Ref. #29)
 - Sampling (Ref. #11)

Contacts

For clarification of this policy:

- For discounts to manufacturers with retail licences, contact the Manager, General Accounting.
- For all other topics, contact Manager, Purchasing Administration.



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A. Overview

The *Liquor Control Act* and its *Regulations* stipulate that the price of liquor products sold from any Liquor Mart, liquor vendor and specialty wine store in the province must be uniform.

B. Price calculations

MLCC product prices are set using the following information:

- Various pricing components as described in *Appendix A*.
- Calculations based on the MLCC's strategy as to the use of these components as described in *Appendix B and C*.
 - The current rates used for markup percentage, per litre surcharge and the package equalization assessment are listed in *Schedule A* of this policy.
 - For a complete current list of the rates for each product category and size, see the *Pricing and Listing Information* booklet.

C. Customer pricing strategies

i) Public customers

Public customers purchasing alcohol products from Liquor Marts, liquor vendors or private beer vendors pay the total price—final retail price plus GST, RST and any applicable container deposit (refundable)—to the cashier.

ii) Customers operating under a licence or agreement

The price commercial customers pay to purchase alcohol from the MLCC is based on the type of licence the licensee holds for their operation or on the agreement (*Liquor Vendor Operating Agreement* or *Specialty Wine Store Operating Agreement*) they have signed with the MLCC.

- The MLCC issues the operator of an establishment—for example, a restaurant or a hotel—a licence to sell alcohol from their business.
- Liquor vendors operate in an area of the province where a Liquor Mart is not a feasible business option. A liquor vendor signs an agreement with the MLCC to sell alcohol products within a separate business such as a grocery store or pharmacy. For further detail, see *Appointing a Liquor Vendor (Ref. #12)*.
 - In special circumstances only, the vendor may be approved to sell privately distributed beer.
- Specialty wine store operators sign a agreement with the MLCC to sell wine, and under special authority, grape-based spirits.



iii) **Special account customers**

Special account customers purchasing alcohol products from the MLCC are eligible for price discounts through their professional affiliations with government, armed forces, clergy, etc. A promotional event may also be eligible.

- For further details about calculating the special discounts approved for special account customers, see *Schedule B* of this policy.

D. **Price change**

The MLCC changes product prices based on the following considerations:

- If feasible, changes in retail prices are implemented on the first Monday of the month.
- Freight rates are reviewed and adjusted before any major retail price changes.

i) **Approval for change**

The President and CEO must approve, in writing, any change to the pricing strategies, terms or conditions of the sale of liquor.

- The approval needed for changes to individual components may vary.
- For further information about approval on some components, see *Appendix A*.

ii) **Change due to government action**

Increases or decreases in federal or provincial taxes are implemented as directed and as soon as reasonably possible.

- If the change must be immediate, the MLCC starts to pay the proper taxes immediately, passing the increase or decrease to its customers as soon as possible.
- The MLCC follows the procedures for implementing these changes in the same way they would for MLCC initiated price changes.

iii) **Supplier initiated changes**

a) **For products excluding privately distributed beer**

When a change is initiated by the supplier:

- The supplier is responsible for submitting written requests for approval.
 - Price decreases—excluding Limited Time Offers (LTOs)—must be in effect for a minimum of 90 calendar days.
 - For further detail about LTOs, see the *Marketing at Retail Manual*.
- Purchasing is responsible for:
 - Ensuring that supplier price changes are examined and approved.
 - Implementing approved price changes.



b) For privately distributed beer

When brewers change the price of privately distributed beer:

- They must submit a written request to Purchasing.
 - Price increases to the majority of a brewer's product line must be provided to the MLCC 30 days in advance of the effective implementation date.
 - This 30-day period is not required if matching an existing product price.
- Within two weeks, Purchasing will act on approved written requests for changes to meet competitor's product price.

iv) MLCC initiated price reductions

The MLCC adjusts prices in the following circumstances:

- Changes in the standard rates for external factors such as freight and exchange rates.
- The MLCC approves changes to markup or discounting strategies.

Products must be reduced in price appropriately so inventory can be cleared through Liquor Marts, liquor vendors and licensees in a timely manner.

- For further details about product discounts, see *Appendix A*.

These are the classifications of product that may be discounted:

- Discontinued general listings
Discontinued products include those reaching their shelf life, seasonal products or products not expected to sell.
- Christmas listings
The MLCC discounts products that were listed to sell as Christmas gift items and are unsuitable for selling as regular store stock.
- Specialty listings
Products with low volume potential because of price, rarity and uniqueness.
- Subsequent price reduction on products already discounted
When product remains after a reasonable length of time of discount pricing, the MLCC takes additional price reductions.

v) Notification to customers

The MLCC notifies customers of price changes as soon as possible:

- When the MLCC makes changes in product retail prices, Purchasing notifies their retail outlets, commercial customers and suppliers or marketing representatives at least 10 days—or as early as reasonably possible—before the effective date of the change.
- Changes due to revisions in the federal excise duties on alcohol are immediate.

For further detail about price changes for MLCC products including the schedule, see the *Pricing and Listing Information* booklet.



Schedule A. MLCC's pricing strategy

i) Objectives

MLCC's pricing strategy is based on the cost of the product—including freight and foreign exchange applied at standard rates, customs and excise duties—plus the following basic pricing components:

- The greater of markup percentage or per package minimum markup
- Surcharges
- Package equalization assessment
- Commercial consideration

The MLCC establishes standard rates for freight charges and exchange on the major foreign currencies in which the MLCC trades with these objectives:

- To prevent frequent fluctuation in product prices to customers.
- To avoid frequent price changes, the MLCC follows a predetermined schedule for making any needed price changes whenever possible.
- Over time, the MLCC will break even on the gains and losses resulting from these rates. The period is based on inventory turns on imported product.

ii) Approval for changes to markup

- The Board of Commissioners must approve changes to markup structure and rates.
- The President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) must approve any changes to minimum markup.
- The President and CEO may approve changes due to special circumstances.

iii) Minimum markup

Changes to the minimum markup are handled as follows:

- The minimum markup may be updated annually based on the change in the *Winnipeg Consumer Price Index* (CPI [All Items]) for the previous calendar year.
- In order to protect revenue generated for the province, the annual change to the per package minimum markup may be greater than the change to the CPI when necessary.

Changes may be implemented:

- Each year on March 1st; or
- When a price change is initiated from any source.

For further detail, see the description in *Appendix A* of this policy.



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iv) Current rates for basic price components

This table shows the current rates used as components of the basic price.

Product category	Markup percentage	Per litre surcharge ¹	Package equalization surcharge	
Spirits, liqueurs, premixed cocktails	153%	\$0.4767	50 ml	\$0.20
			200 ml	0.30
			375 ml	0.40
			1140 ml	0.25
			1750 ml	0.30
Wines – table, effervescent, fortified Wineries producing more than 100,000 litres per year	95%	\$1.701	750 ml	\$0.25
			1000 ml	0.25
			1500 ml	0.58
			2000 ml	0.65
			3000 ml	0.70
			4000 ml	1.17
			16000 ml	5.69
			18000 ml	6.40
Wines – fruit wines other than grape Wineries producing less than 100,000 litres per year	66.5%	\$1.2607	750 ml	\$0.175
			1000 ml	0.175
			1500 ml	0.406
			2000 ml	0.455
			3000 ml	0.490
			4000 ml	0.819
			16000 ml	3.983
			18000 ml	4.480
Refreshment beverages	95%	\$0.832	sizes to 375 ml	\$0.05
			750 ml	0.11
			1000 ml	0.14
			1140 ml	0.16
			1364 or 4 / 341 ml	0.20
			1750 ml	0.25
			2000 ml	0.28
			2046 or 6 / 341 ml	0.30
Beer: Annual production > 75,000 hl	Licensees: 49% Public: commercial price + 17%	\$0.213	24 bottles	\$0.36
			15 cans	0.14
Beer: Annual production < / = 75,000 hl	Licensees: 30% Public: commercial price + 17%	\$0.188	24 bottles	\$0.36
			15 cans	0.14

v) Commercial consideration

- The rate is based on the average cost of service per litre that is added to the price of all imported products after the markup has been calculated.
- The MLCC rates are set under the *General Agreement on Tariffs and Trade (GATT)*.
- Changes can only be made to the current rates after a federal government audit.

¹ The *Per litre surcharge* includes the *Environmental Protection Tax (EPT)*.



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vi) Social responsibility pricing for beer

a) Minimum pricing

To reduce the risk of product abuse and misuse, the MLCC reserves the right to set a minimum price for its products based on alcohol content and sizing.

The base used to set the price of single serving sizes is the 710 ml can of beer that is 5.5% alcohol by volume. This size and strength is sold at a minimum price of \$2.54 before taxes and deposit.

The MLCC sets the minimum price on products sold in sizes of less than one litre. For products with alcohol by volume at:

- 5.5% or less, the price is \$3.58 per litre before taxes and deposit.
- 5.6% and over, the price is \$65.045 per litre of *absolute alcohol* before taxes and deposit.

b) Pricing for strong beer

The MLCC sets the retail price for strong beer sold in any package size higher than the price of other premium beer.

Strong beer is:

- Defined as beer that is 7% alcohol by volume or higher.
- Priced at 8.5% more than the normal retail price of premium beer.

vii) Special pricing

To avoid frequent fluctuations in the retail price while protecting the government's profit base, the MLCC may adjust markups in special circumstances.

- Markups are adjusted so that the retail price of the product remains the same as the retail price in effect immediately before the situation occurred.

Examples include:

- When there is an unexpected shortage of a brand, the MLCC may incur additional costs in purchasing stock from another liquor jurisdiction.
 - The supplying jurisdiction charges a handling charge—normally 10% of the purchase price.
- For alcohol products that are ordered infrequently and not normally reordered, such as a fine wine, the price includes:
 - The standard (3 month) exchange rate and standard freight rates (in Canadian dollars) charged when the order is placed.
 - When the product is received, the rates are adjusted so the product price remains stable.



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viii) Other considerations

These considerations also apply to pricing MLCC product.

- All beer containers are subject to a deposit considered sufficient to encourage the container's return. The deposit is added to the price of beer sold to the public and licensees.
- Licensees pay GST but not Retail Sales Tax (RST).
- The GST and RST are applied at point of sale based on the retail price.
 - Customers are charged GST and RST at the time of sale unless they have proof that they are eligible for a registered tax exemption.
- Gift items (including liquor in ceramic bottles, gift packs, specialty packaging, etc.) are priced by applying the full markup to the landed cost of the liquor.
- The MLCC will try to accommodate a supplier wishing to absorb any increase required due to governmental change.

Schedule B. Discount structure

i) Special account customers

The MLCC approves discounts on the price of spirits, wine and beer sold to specified groups.

Category	Product	Discounted price calculation
Governor General of Canada, diplomats and consuls Also see section ii) <i>Special consular functions</i> in <i>Schedule B</i> of this policy.	all in-bond product, MLCC distributed beer	in-bond landed cost + [12½% handling charge * in-bond landed cost] + delivery charge (if any)
	all duty paid product	Landed cost + [12 ½% handling charge * landed cost] + delivery charge (if any)
Lieutenant Governor and Premier of Manitoba	all	landed cost
clergy	sacramental wine only	retail price - 25% discount
NATO and ships' stores	all in-bond product	in-bond landed cost + [MLCC's markup % for product * in-bond landed cost] (minimum markups do not apply)
	all duty paid product	Landed cost + [MLCC markup % for product * landed cost] (minimum markups do not apply)
duty-free operators	in-bond spirits, wine and coolers	in-bond landed cost + 40% of in-bond landed cost (minimum markups do not apply)
	in-bond beer	in-bond landed cost + 20% of in-bond landed cost (minimum markups do not apply)
Other provincial or territorial liquor jurisdictions	all	landed cost + 10% of landed cost
Canadian Armed Forces personnel (leaving Canada)	all	in-bond landed cost + 35% of in-bond landed cost
Special permit holders - Culinary (commercial food processors)	all	purchased directly from the liquor supplier
Special permit holders – Institutions (hospitals and sanatoriums, institutions for the aged and infirm)	ethyl alcohol	retail price – 45% discount
	other than ethyl alcohol	retail price – 25% discount
Special permit holders - Pharmaceuticals, Mechanical Scientific (businesses with a permit to use ethyl alcohol)	ethyl alcohol	retail price - 45% discount
	other than ethyl alcohol	retail price (no discount)
Special permit holders - Airlines	all	retail price (no discount)
Marketing representatives (for approved trade shows and other events)	excluding beer	retail price - 50% discount
	beer	retail price - 30% discount
Marketing representatives (for in-store sampling)	excluding beer	retail price - 50% discount
	beer	retail price - 30% discount



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ii) **Manufacturers with a retail licence**

Manufacturer's operating under a retail licence may sell to the public.

- The CFO is responsible for setting these discount rates.
- For further details on how a manufacturer operating under a retail licence reports sales, see *Manufacturer's Licence (Ref. 14)*.

The MLCC processes a transaction to purchase the product from the manufacturer and to sell it back to the manufacturer as follows:

Category	Product	Discounted price calculation
Distilleries with a retail licence	Product manufactured on site and listed by the MLCC	Retail price less a 10.5% discount
Wineries with a retail licence	Fruit based wine products manufactured on site and listed by the MLCC	Retail price less a 25% discount
Wineries with a retail licence	Product other than fruit based wines manufactured on site and listed by the MLCC	Retail price less a 10.5% discount
Brewers with a retail licence	Product manufactured on site and listed by the MLCC	Licensee's price

iii) **Consular functions**

Counsul Generals are eligible for special pricing on liquor purchases only under these conditions:

- For the personal use of the official. *Personal use* includes that of the family, staff and guests of the official.
- For consumption within the residence, office or premises rented by the official in that capacity.
- To be served at a bona fide function conducted and hosted by the official under the auspices of the office and at a place other than the official residence as approved by the MLCC.

Further detail related to consular functions is described in *Appendix F*.

Appendix A. Price component descriptions

i) Commercial consideration

Commercial consideration is a warehousing fee that is applied to import products after the markup has been calculated. It offsets the additional average per litre cost of warehousing products due to the need to store inventories for longer periods.

- The MLCC monitors the rate used at least annually.
- A significant change in the variance between the current rate used and the annual trend may indicate the need for a review.

For further detail related to:

- Commercial consideration, see *Schedule A*.
- The current rates calculated for each size and brand, see the *Pricing and Listing Information* booklet.
- Calculating commercial consideration, see *Appendix E*.

ii) Container deposit

The MLCC charges a refundable container deposit on all beer sold for on- or off-premise consumption.

- The container deposit is exempt from *Goods and Services Tax (GST)* and *Retail Sales Tax (RST)*.
- The deposit is refunded when the customer returns the empty containers.

iii) Duties

Duties include *Customs Duty* and *Excise Duty*.

The government charges duty on imported liquor products based on either:

- Litres per case
- Litres of absolute alcohol per case

For rates, see the *Pricing and Listing Information* booklet.

a) Customs duty

Import products are subject to customs duties. Customs duties are affected by two rates:

- Most Favoured Nations (MFN) duty rate
- Trade Agreement duty rate

Each supplier is entitled to the lowest rate available to the product's country of origin subject to certain conditions such as a trade agreement.

- Without a trade agreement with a specific country, the Most Favoured Nations duty rate is used as the customs duty.
- With a trade agreement, the Trade Agreement Duty rate is used in place of the Most Favoured Nations rate.



b) Excise duty

All products are subject to excise duties.

However some smaller Canadian wineries and breweries may be exempt from duty based on production quotas of producers.

- MLCC purchases these products duty paid.
- For detail, see the amendments to *The Excise Act* effective July 1, 2006.

iv) Exchange

The goal for setting standard exchange rates is for the MLCC to break even on foreign currency transactions over a five year period. Even with the standard rates, small gains and losses are realized and are reported in the MLCC's operating statements.

a) Setting the rates

Rates are set based on future market rates adjusted to recover previous losses or reduce previous gains over a five year period. The MLCC sets standard exchange rates for the US dollar, Australian dollar, New Zealand dollar, British pound and Europe's single currency, the euro.

- All other exchange rates are considered non-standard.
- Non-standard rates are based on the Bank of Canada rate that is effective at the time goods are received.

Apply rates as follows:

- Establish the rates before merchandise is received.
- Set rates using the following:
 - Rates actually paid for inventory in the preceding quarter.
 - The accumulated gain or loss in the exchange account by currency at the end of each quarter.
 - Futures market rates.
 - Previous years' gains or losses.
- Apply rates for these situations as follows:
 - When purchasing imported liquor, use the rate for the specified currency when the order is placed.
 - For one-time purchases, use the rate that is in effect when the product is received.

For further detail related to the current rates, see the *Pricing and Listing Information* booklet.

b) Responsibilities

Finance monitors and maintains the standard rates.

- The rates are subject to change at any time but are usually changed quarterly.
- The Chief Financial Officer (CFO) and the Director, Purchasing agree on any rate changes.
- The proposed rates are submitted to the President and CEO for approval.

Purchasing is responsible for coordinating the timing of exchange rate changes.



v) Freight

The MLCC establishes standard rates for the costs of inbound freight on all domestic and imported products brought into the MLCC excluding privately distributed beer.

a) Setting the rates

- Rates are set to prevent frequent fluctuation in retail product prices due to minor variances in freight rates.
- The goal is to break even on freight expenses.
- Standard rates are set for each shipping point.
 - The rate for domestic product is based on the average per litre freight cost FOB the point of origin.
 - The rate for imported product is based on the average per litre freight cost from the country, or in cases where there are significant differences, from the region of the country of origin. Rates include all forwarding agents' fees, ocean freight and inland freight.
- For special events and special orders, where the product is not consolidated with normal traffic, the additional freight cost over the normal rate is passed through to the customer without markup. For example, air freight for Beaujolais Nouveau.
- Rates are reviewed and adjusted if necessary:
 - quarterly or as required
 - prior to major retail price changes
- Adjust to take into account any additional relevant factors such as new freight rates.

b) Approval

- The President and CEO, the CFO, and the Director, Purchasing approve rate changes.

c) Calculating inbound rates

Freight rates are calculated as follows:

For each shipping location:

$$\text{freight rate} = \frac{\text{total actual freight costs (see NOTE 1)}}{\text{total litres for previous 12 months}}$$

NOTE

(1) Adjust the rate to take into account any additional pertinent factors such as new freight rates.

For further information on actual rates currently used, see the *Pricing and Listing Information* booklet.

vi) Handling charges for MLCC distributed beer

The MLCC allocates a portion of the markup on MLCC distributed beer to offset the handling fee paid to beer vendors for accepting returns of MLCC distributed beer containers.

- For further information on the handling fee paid to beer vendors, see *Compensation to Beer Vendors (Ref. #29)*.



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Finance is responsible for a General Ledger liability account:

- A portion of the markup on MLCC distributed beer sold to the public is credited to the account.
- Handling fees paid to beer vendors are debited to this account.

The CFO monitors the balance in the account and recommends changes to the handling charge as required.

- Changes to handling charges are approved by the President and CEO.

The portion of the markup on MLCC distributed beer allocated to the handling charge is:

Container size	Charge added
All package sizes	\$0.07 per dozen

vii) Handling charges for privately distributed beer

The MLCC adds a charge to the price of privately distributed beer to offset the handling fee paid to beer vendors for accepting returns of privately distributed beer containers.

- For further information on the handling fee paid to beer vendors, see *Compensation to Beer Vendors (Ref. #29)*.
- This charge is added after licensee markup but before markup to the public.

Finance is responsible for a General Ledger liability account:

- Handling charges included in the price of beer sold to the public are credited to the account.
- Handling fees paid to beer vendors are debited to this account.

The CFO monitors the balance in the account and recommends changes to the handling charge as required.

- Changes to handling charges are approved by the President and CEO.
- Every attempt is made to schedule any changes to the handling charge with a supplier price change.

The current handling charge added to the price of privately distributed beer is:

Container size	Charge added
All package sizes	\$0.34 per dozen

viii) Markup

Markup is calculated on a percentage basis of the landed cost of a particular product. The percentage calculated depends on the product category. A minimum markup structure is employed, in conjunction with the percentage markup. Markup is based on the greater of the markup percentage or the minimum markup.

- For current rates, see *Schedule A* of this policy.
- For further detail, see the *Pricing and Listing Information* booklet.



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ix) Minimum markup

Minimum markup is the lowest dollar amount per package that the MLCC sets for a product.

- For the current markup percentages used to calculate the minimum markups on different types of product, see *Schedule A* of this policy.
- For the current amounts for all product variations, see the *Pricing and Listing Information* booklet.

x) Discounts on discontinued products

a) General listings

Discontinued products include those reaching their shelf life, seasonal products or products not expected to sell.

- For products on the general list, the MLCC charges the reduction to the supplier unless an agreement that states otherwise is in place.
- The President and CEO may approve discounts of a greater percentage for seasonal products or those reaching the end of their shelf life.
- The MLCC charges the actual cost reduction to a maximum of 25% of the original supplier invoice price back to the supplier. The cost discounts over 25% are borne by the MLCC.

The following discounts are applied to discontinued products during the reviews:

Classification		Discount	Regular retail value
spirits	up to	20%	all prices
liqueurs	up to	20%	up to \$22.00
		25%	\$22.00 and over
wines	up to	20%	up to \$10.00
		25%	\$10.00 to \$14.99
		30%	\$15.00 to \$21.99
		40%	\$22.00 and over
refreshment beverages	up to	30%	all prices
Imported beer	up to	30%	all prices

b) Christmas listings

The MLCC discounts products listed as Christmas gift items that are unsuitable for selling as regular store stock.

- Each year, these items may be reduced 20% to 40% as soon as possible after the Christmas season.
- The discount must be approved by the Director, Retail Sales and the Director, Purchasing.
- The discount is borne by the MLCC.

c) Specialty listings

The MLCC may discount products listed as specialty products.

- The discount is borne by the MLCC.



d) Previously discontinued products

When discounted product remains after a reasonable period has passed, the MLCC takes additional price reductions. The entire discount is borne by the MLCC.

xi) Purchase price

The price the MLCC pays to the supplier to purchase the product.

xii) Recycling charge (MLCC distributed beer only)

The containers from MLCC distributed beer can be returned to beer vendors by customers for refund but cannot be reused. The MLCC has a contract with a private beer distributor to recycle these containers. The MLCC adds a recycling charge to the price of MLCC distributed beer to offset the cost of recycling the containers.

- The MLCC builds the recycling charge into the landed cost of the product, called *Extra Cost*.

Finance is responsible for a General Ledger liability account named *Empty Return Charge-MLCC* used for these transactions:

- Credit the recycling charges included in the price of beer sold to the public.
- Debit the fees paid to the beer distributor.

The CFO monitors the balance in the liability account and recommends changes to the recycling charge as required.

- Changes to the charge are approved by the President and CEO.
- Every attempt is made to schedule a change to the recycling charge with an MLCC price change.

The rates currently charged are:

Containers	Charge added
24 bottles	\$1.68
24 cans	\$1.10
Each PET container	\$0.10

xiii) Surcharges

Surcharges are defined as fees charged in addition to the normal cost of a product. Usually a surcharge is added to cover a specific item related to the product. In its pricing strategy, the MLCC may charge a per litre surcharge, a package equalization surcharge or both.



Pricing Appendix

a) Per litre surcharge

This surcharge includes profit and, for non-deposit containers only, the *Environmental Protection Tax (EPT)*.

- The following amounts are charged as the EPT:

Container size	Environmental Protection Tax
bottles less than 750 ml	\$0.05
bottles 750 ml or more	\$0.10

- For current per litre surcharge rates, see *Schedule A*.

b) Package equalization surcharge

This surcharge is intended to provide fairness and equity to consumers in the pricing of various product sizes.

- The surcharge is calculated on a per package basis that is unique to each size.
- For current rates, see *Schedule A*.

xiv) Taxes (GST and RST)

Two taxes are calculated on the basic retail price and applied on all sales of liquor at the cashier at the time of sale.

The taxes are:

- Retail Sales Tax (RST)
- Goods and Service Tax (GST)

Licensees are charged GST but not RST.



Appendix B. Calculating landed cost

The MLCC pricing strategies are determined by first calculating the basic retail price and then applying the price components that apply to that type of customer.

i) Landed cost

The MLCC calculates landed cost as the total cost that MLCC pays to bring the product into the province.

The calculation is as follows:

landed cost = purchase price in Canadian dollars (see NOTE 1)
+ freight-in (see NOTE 2)
+ customs duty (if applicable)
+ excise duty (if applicable)
+ recycling charge (for MLCC distributed beer only)

NOTE:

(1) The price of products purchased in another currency is converted to Canadian dollars using the standard exchange rates. For the rates, see *Schedule A* of this policy.

(2) For the calculation of freight rates, see *Freight in Appendix A* of this policy.

ii) In-bond landed cost

The calculation is as follows:

in-bond landed cost = purchase price in Canadian dollars (see NOTE 1)
+ freight-in (see NOTE 2)
+ recycling charge (for MLCC distributed beer only)

NOTE:

(1) The price of products purchased in another currency is converted to Canadian dollars using the standard exchange rates. For the rates, see *Schedule A* of this policy.

(2) For the calculation of freight rates, see *Freight in Appendix A* of this policy.



Appendix C. Calculating price of MLCC distributed products

The MLCC pricing strategies are determined by first calculating the basic retail price and then applying the price components that apply to that type of customer.

- For details on the pricing of privately distributed beer, see *Appendix D. i).*

i) Retail price of MLCC distributed products

The general calculation is as follows:

$$\begin{aligned} \text{retail price} = & \text{landed cost} \\ \text{(See NOTE 2)} & + \text{the greater of } [\% \text{ markup specified for product type} * \text{ landed cost}] \text{ or} \\ & \text{[per package minimum markup]} \\ & + \text{per litre surcharge} \\ & + \text{package equalization surcharge, if applicable} \\ & + \text{commercial consideration (if applicable) (see NOTE 1)} \end{aligned}$$

NOTE:

(1) For the calculation of commercial consideration, see *Appendix E* of this policy.

(2) Minimum retail price for beer with a selling unit of up to one litre:

- 5.5% alcohol per volume or less is \$3.58 per litre before taxes and deposit.
- 5.6% alcohol per volume or more is \$65.045 per litre of absolute alcohol.
- Price components may require adjustment so that the *retail price* calculates to the supplier's required retail price.

ii) Final price to public customers

Public customers purchasing alcohol products from Liquor Marts, liquor vendors or private beer vendors pay the final retail price to the cashier.

$$\begin{aligned} \text{final price} = & \text{retail price} \\ & + [\text{GST rate} * \text{retail price}] \text{ (see NOTE 1)} \\ & + [\text{RST rate} * \text{retail price}] \text{ (see NOTE 1)} \\ & + \text{container deposit (for beer only) (see NOTE 2)} \end{aligned}$$

NOTE:

(1) Unless customers have a registered tax exemption, they are charged GST and RST at the time of purchase.

(2) Container deposit is not taxed.

iii) Final price to licensees (excluding beer)

This price applies to all licensees and to all products except beer. The calculation is as follows:

$$\begin{aligned} \text{commercial price} = & \text{retail price} \\ & + [\text{GST rate} * \text{retail price}] \text{ (see NOTE 1)} \end{aligned}$$

NOTE:

(1) Licensees pay GST but not RST.



Appendix D. Calculating price of privately distributed beer

i) Price to licensees and authorized liquor vendors

The price to all licensees including brewers with a retail licence and to liquor vendors who are authorized to sell privately distributed beer is calculated as follows:

a) Commercial price to licensees and authorized liquor vendors

commercial price = landed cost
+ the greater of [49% markup * landed cost] or
[per package minimum markup] (For breweries only)
+ the greater of [30% markup * landed cost] or
[per package minimum markup] (For microbreweries only)
+ per litre surcharge
+ package equalization surcharge (if applicable)
+ handling charge

b) Final price to licensees and authorized liquor vendors

final price = commercial price for beer
+ container deposit (for beer only) (see NOTE 1)
+ [GST rate * commercial price] (see NOTE 2)

NOTE:

- (1) The container deposit is not taxed.
- (2) Licensees pay GST but not RST.

ii) Customer selling price

This calculation determines the price when selling privately distributed beer.

a) Retail price of privately distributed beer

retail price = commercial price for beer
(See NOTES) + the greater of [17% markup * commercial price] or
[per package minimum markup]

NOTE:

- (1) Minimum retail price for beer with a selling unit of up to one litre:
 - 5.5% alcohol per volume or less is \$3.58 per litre before taxes and deposit.
 - 5.6% alcohol per volume or more is \$65.045 per litre of absolute alcohol.
 - Price components may require adjustment so that the *retail price* calculates to the required retail price.
- (2) Price components may require adjustment so that the *final selling price* (see below) rounds to the nearest nickel.
- (3) Retail beer vendors and authorized liquor vendors may sell to the other licensees at a price negotiated by the two parties. The price cannot be less than the *commercial price* to licensees or more than the *retail price*. Licensees pay GST but not RST.



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b) Final selling price

final price = retail price
+ container deposit (for beer only) (see NOTE 1)
+ [RST rate * selling price]
+ [GST rate * selling price]

NOTE:

(1) The container deposit is not taxed.



Appendix E. Commercial consideration

Briefly, the rate used for each product category is based on the following:

commercial consideration = incremental carrying cost (see NOTE 1)
+ incremental operating costs (see NOTE 2)
+ markup on [incremental carrying costs + incremental operating costs]
(for imported beer only)
+ ROI on brewers' wholesale inventory (for imported beer only) (see NOTE 3)

NOTE:

(1) Amount represents the higher carrying cost of import vs domestic product. Use the interest rate factor of 12%. Carrying cost is defined as the interest cost of holding funds in inventory.

(2) Amount represents the higher operating cost of import vs domestic product. Operational costs are defined as costs associated with storage, handling and distribution of inventory.

(3) Amount that represents the return on investment (ROI) factor multiplied by the MLCC markup of 70%. This amount takes into consideration that domestic brewers incur costs associated with a distribution facility which are reflected in their price to the MLCC and on which the MLCC markup is applied. Import products do not have this factor in their invoice price and therefore no markup is applied. This calculated amount is included to equate the import beer distribution with the domestic.

i) Calculating commercial consideration

The detailed calculations are as follows:

1. Accumulate statistics for a 12-month period on the total inventory for each product category, separately for domestic products, products imported from the US, products imported from the European Union and products imported from other areas.
 - For a description of the categories, see *Categories and conversion factors*.

For each category, calculate:

average annual inventory in \$ = $\text{sum [monthly inventory in \$]} / 12$
average annual inventory in cases = $\text{sum [monthly inventory in cases]} / 12$
total sales in litres = $\text{sum [sales in litres for 12 months]}$

2. Convert the total annual sales in litres to sales in cases.
 - For a description of the conversion factors, see *Categories and conversion factors*.

For each category, calculate:

total sales in cases = $\text{total sales in litres} / \text{conversion factor for the category}$



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3. Determine each of the following amounts.

For each category, calculate:

$$\begin{aligned} \text{average in-bond cost per case} &= \text{average annual inventory in \$} \\ &\quad / \text{average annual inventory in cases} \\ \text{average carrying cost} &= \text{Stated interest rate (currently set at 12\%)} \\ &\quad * \text{average annual inventory in \$} \\ \text{average carrying cost per case} &= \text{average carrying cost} \\ &\quad / \text{total sales in cases} \\ \text{additional average carrying cost per case} &= \text{average carrying cost per case (imported products)} \\ &\quad - \text{average carrying cost per case (domestic products)} \end{aligned}$$

4. Determine the average operational (handling) cost per case.

For each category, calculate:

$$\text{average operational cost per case} = \text{average annual warehouse cost} \\ * \text{turnover factor}$$

WHERE:

$$\begin{aligned} \text{average annual warehouse cost per case} &= \text{total warehouse cost} \\ &\quad / \text{sum [average total warehouse cost for category]} \\ \text{total warehouse cost} &= \text{amount of General and Administration account} \\ &\quad \text{for warehouse for previous 12 months} \\ &\quad + \text{light, heat and water allocated by square footage} \\ &\quad + \text{CCA for building} \\ &\quad + \text{CCA for furniture and fixtures allocated to warehouse} \\ &\quad + \text{business and property taxes by square footage} \\ &\quad \text{NOTE: CCA is Capital Cost Allowance or depreciation} \\ \text{turnover factor} &= \text{average annual inventory in cases} \\ &\quad / \text{average annual sales in cases} \end{aligned}$$

5. Determine the average additional cost per litre and use as commercial consideration.

- See *Categories and conversion factors*

For each category, calculate:

$$\begin{aligned} \text{additional average operational cost per case} &= \text{average operational cost/case (imported products)} \\ &\quad - \text{average operational cost/case (domestic products)} \\ \text{total differential cost/case} &= \text{additional average operational cost/case (imported)} \\ &\quad + \text{additional average carrying cost/case (imported)} \\ \text{average additional cost/litre} &= \text{total differential cost/case} \\ &\quad / \text{conversion factor (number of litres/case)} \end{aligned}$$

ii) **Beer handled through the MLCC warehouse**

The rate used as commercial consideration for imported beer includes two more amounts:

- See *Categories and conversion factors*.

$$\begin{aligned} \text{rate for imported beer} &= \text{average additional cost/litre} \\ &\quad + \text{return on investm1nt (ROI) factor per 24 case} \\ &\quad + \text{markup factor per 24 cases} \end{aligned}$$

WHERE:

$$\begin{aligned} \text{ROI factor per 24 case} &= \text{[total UCC annual / average total cases]} \\ &\quad * \text{[[70\% average inventory for beer]] / total sales in cases]} \\ \text{markup factor per 24} &= \text{additional average cost/litre} \\ &\quad / \text{conversion factor (number of litres/case)} \end{aligned}$$



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iii) Categories and conversion factors

Product Type	Inventory type	Prod. Cat.	Size assumption	Conv. factor
spirits (excluding liqueurs)	• domestic	1	750 ml X 12 = 9 litres/case	9
	• US imports			
	• European Union imports			
	• other imports			
liqueurs (imported)	• domestic	2, 3	750 ml X 12 = 9 litres/case	9
	• US imports			
	• European Union imports			
	• other imports			
Wine (excluding fortified wine)	• domestic (MB)	4, 5	750 ml X 12 = 9 litres/case	16
	• domestic (excluding MB)	4, 5	750 ml X 12 = 9 litres/case	9
	• US imports			
	• European Union imports			
fortified wine	• domestic	6	750 ml X 12 = 9 litres/case	9
	• US imports			
	• European Union imports			
	• other imports			
refreshment beverages	• domestic	7		
	• US imports			
	• European Union imports			
	• other imports			
refreshment beverages (coolers)	• imported	7	750 ml X 12 = 9 litres/case	9
	• domestic	7	8.184 ml X 12 = 12 litres/case	8.18
refreshment beverages (ciders)	• imported	7	1000 ml X 12 = 12 litres/case	12
	• domestic	7	1.420 ml X 6 = 8.52 litres/case	8.52
beer	• MLCC distributed only	8	355 ml X 24 = 8.52 litres/case	8.52



Appendix F. Guidelines for consular functions

The guidelines for purchasing liquor at the discounted price are dependent on the purpose of the purchase.

- For details about the special discounts, see *Schedule B* of this policy.

For use within the official residence, office or premises rented by the counsel or accredited diplomat in their official capacity, products may be purchased at the discount for:

- The personal use of the named official only.
- Consumption by the official, their family, staff or guests.

For use at a function at another location, the official is responsible for:

- Applying to the MLCC for an occasional permit.
- Clearly indicating on any invitations that:
 - The official is hosting the function and will be present.
 - Any invitations or tickets must clearly indicate that the Consul General or a diplomat is hosting the function and that a portion of the proceeds is going to charity.
- Ensuring that all products used at the function:
 - Are purchased from the MLCC.
- The official may send any product for a function prepaid, but must pay an administrative fee on the prepaid product. The MLCC uses the fair market value of the product to assess the administrative fee.
- Ensuring products remaining after the function are handled appropriately.
 - They can be returned to the MLCC or held at the official residence for future consular functions.
 - They cannot be held by an individual other than the named official.