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TO: All Trade Associations

RE: Central Assortment Planning Pilot

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Dear Trade Partners,

At our Trade Symposium on Tuesday, April 25, I had provided an update on our Centralized Assortment Planning pilot.

The LCBO is piloting this corporate initiative in a small number of stores, at this time. At the end of the test, we will assess the results of the nine store pilot, and will determine next steps. Additional details are provided in the FAQ's attached.

Please let me know if you have any questions.

Thank you for your continued support,

Shari Mogk-Edwards

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Centralized Assortment Planning

FAQ's

1. *What is Centralized Assortment Planning all about?*

Currently within each retail location, a portion of the product assortment is centrally determined and a portion is selected at the discretion of store level management. With best-in-class retailers, assortments are selected centrally to optimize customer shopping preferences within store clusters.

The LCBO intends to transition to a Centralized Assortment Planning approach, which is characterized as the Products, Sales and Merchandising (PSM) Category teams developing assortments by store clusters, including listings and delistings, with targeted input from stores.

2. *Why is the LCBO undertaking this initiative?*

The overarching goal of this corporate initiative is to maximize profitable growth, customer satisfaction and operational efficiency by having the right products, at the right store for the right customers.

The initiative provides the opportunity for a collaborative, cross-functional analytics approach to redesign the assortment and to deliver our merchandising strategy. PSM is leading the initiative in concert with Retail, Supply Chain, and Store Development / Real Estate.

3. *How were the clusters developed?*

Transactional data was analyzed to group stores based on a common set of performance and demographic variables. Performance variables included category mix, identification of the top sets, basket size, and price band preference; demographic variables included age, income and ethnicity. Store features such as square footage, competition and geographic location were also assessed.

The outcome of this initial review resulted in 10 clusters, with stores segmented to one of three store types: Urban, Rural, and Combo stores.

4. *Can you let me know what the store assortments are and how they were created?*

The assortment in each cluster consists of the following –

- Core group of SKUs
- *Cluster-specific* SKUs
- Layered with *Local* SKUs

Core SKUs are the same set of SKUs available in any location. They are the LCBO's top performers, regardless of location.

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Cluster-specific SKUs are SKUs within a set that perform relatively consistently within the cluster. These SKUs also include new and seasonal products that are expected to have notable performance.

Local SKUs are store-specific SKUs with strong customer preference. Localized SKUs may be unique to that market, such as from local craft brewers or an expanded assortment of Portuguese wine.

PSM Category teams have selected core and cluster SKUs with input from Retail, and Supply Chain. Local SKUs have been recommended for the store manager.

Within each store's assortment, there will be changes with some SKUs coming out of specific stores and some SKUs going in. The Category teams were supplied with cluster-based analysis that looked at product margin, gross margin return on inventory investment and unit sales as a guide in making the determination as what to remove and/or add.

There was also strong consideration for local trade area opportunities such as microbreweries within the store market and products from Ontario. It is not our intention to diminish the presence of Ontario wine, spirits or beer in our stores given the work that we have put in together to grow the business, and given that it is explicitly called out as strategic pillar of our business plan. Having said, some SKUs that do not sell well in specific stores will be discontinued, although this is no different than any store when a product fails to capture customers in that trade area.

5. *Can we still work stores to list products?*

No, not in the pilot stores.

The success of the pilot is primarily based on the analytics and insights gained to develop the clusters and the product assortment developed by the PSM team and Store Managers. The assortment, in general, cannot change to effectively test and measure the success.

As a result, Store Managers are not able to consider core or cluster-specific product listings during the pilot. Trade agents/representatives are encouraged to have product knowledge and discussions regarding upcoming promotions, including tastings opportunities with store staff.

6. *How are my new products being sent to these stores?*

New products are being forced to these stores on a scheduled basis, where the new product is part of the pilot store's assortment. Products will also be identified for delisting to accommodate the new products being introduced.

There are no changes to the promotional programs in the pilot stores. All pilot stores will continue to participate in approved promotional programs.

7. *What is the pilot all about?*

In order to assess the clusters and assortment work, we have selected to test three clusters within the ten clusters identified. Within each cluster, three stores have been chosen for a total of nine stores in the pilot.

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Store	Cluster	Location	Store Class	City	Sq Feet	Address	District
564	1	Finch Ave. & Victoria Park Ave.	B	Toronto	4,949	2946 FINCH AVENUE EAST	14
584	1	Finch Ave. E & McCowan Rd.	B	Toronto	5,191	1571 SANDHURST CIRCLE	14
601	1	Mavis Rd. & Steeles Ave.	B	Brampton	7,458	100 CLEMENTINE DR.	1
148	2	Dorval Dr. & QEW	A	Oakville	8,459	270 NORTH SERVICE ROAD WE	11
371	2	Royal Windsor Dr. & Southdown	AA	Mississauga	7,571	930 SOUTHDOWN ROAD	11
437	2	Rebecca St. & 3 Line	A	Oakville	7,235	1527 REBECCA STREET	11
95	5	Main St. E & Franklin Blvd.	A	Cambridge	6,547	200 FRANKLIN BLVD., UNIT FS 3	6
381	5	Manitou Dr. & Fairway Rd.	A	Kitchener	6,646	655 FAIRWAY ROAD SOUTH	6
465	5	Taunton Rd. & Harmony Rd.	A	Oshawa	6,286	1409 HARMONY RD	17

While each store is being planogrammed to accommodate the updated assortment, store fixtures and layout would not be drastically affected in pilot stores.

As we learn from the pilot, and in order to capitalize on this centralized assortment planning approach, the clusters and assortment SKUs may be modified at a later date. To that extent, we will not be sharing the clusters and assortment SKUs during the pilot phase.

8. How long is the duration of the pilot?

The duration of the pilot is for four fiscal periods and is expected to be launched as early as late-May, before the summer.

9. How are you measuring the success of the pilot?

There are a series of measurements that are being closely monitored. These include KPI's and feedback from our customers and store associates and Managers.

In addition, the project team is reviewing the methodology and approach in the development of clusters and assortment. The decisions and their effectiveness will be measured as part of the pilot as well.

10. What are the next steps after the pilot?

The pilot will help us determine what information, tools and processes will be needed to consider a larger implementation, so it should not be interpreted as anything final. We have limited the number of stores and duration of the pilot for this reason.

Learning from the pilot will determine next steps using sales and productivity results, as well as feedback from the stores and customers. Furthermore, similar to the approach taken with pilot team, discussions will be held with senior team members across the organization to consider the opportunities while collaborating on required changes to sustain a centralized assortment planning approach.

This is a large and complex undertaking with many shifts/changes required in order to transition to CAP common in best-in-class retailers.