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What We Heard

Class E Small Manufacturers Liquor Remittance

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WHAT WE HEARD: CLASS E SMALL MANUFACTURERS LIQUOR REMITTANCE

AGLC has identified the liquor remittance model for Class E small manufacturers as benefitting from review. This report provides an analysis of the survey conducted to gauge stakeholder opinions on potential changes to the remittance model.

Class E small liquor manufacturers in Alberta can sell and self-distribute their products directly to other liquor licensees or the public through their own Class A (e.g., taproom) and Class D (e.g., off-sales) premises. Currently, these sale transactions are captured under the consignment remittance process as liquor product distributed through AGLC. After a reported sale is made, AGLC deducts/collects provincial markup, container deposit, recycling fees and all federal duties and taxes from the wholesale price and remits/pays the product cost price back to the manufacturer. This remittance process currently averages under one week for a small manufacturer to receive the payment from AGLC.

Some Class E small manufacturers have expressed concern about the time it takes to receive their payment, claiming it presents a cash flow concern. A new remittance model was proposed in this consultation that would allow Class E small manufacturers to directly sell their products to liquor licensees and collect the wholesale price themselves. The manufacturer would subsequently be responsible for remitting only the markup, GST, and relevant fees to AGLC.

This report offers a summary of stakeholder feedback. The findings highlight the need for consideration to address concerns and opportunities presented by this proposed change to the remittance model.

METHODOLOGY

On February 5, 2024, AGLC invited all licensed Class E small manufacturers, Class D retail liquor stores and Liquor Industry Associations to participate in an online survey. The survey focused on the remittance model for Class E small manufacturers and contained three sets of questions, one set designed for each stakeholder group.

Participants had the opportunity to answer these questions and provide any additional feedback they thought pertinent to decision making.

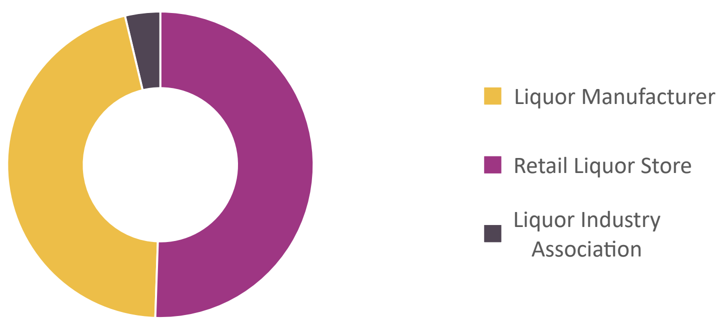
The survey remained open until February 23, 2024.

STAKEHOLDER GROUP

In the survey, AGLC sought to understand the perspective of various stakeholders on the topic of the remittance model for Class E small manufactures. The questions explored whether the current remittance model is working for Class E licensees or if an alternate suggested model would be preferred.

Also included in the survey were questions around length of business operations and opened ended questions regarding remittance to further solicit comments from respondents.

One hundred eighty-eight stakeholders including Class E licensees, Class D licensees, and liquor industry associations responded to the invite and participated in the survey which was open from February 5-23, 2024.



Of those who responded, 51 per cent identified as a retail liquor store, 46 per cent identified as a liquor manufacturer and four per cent identified as a liquor industry association.

OVERALL CONSULTATION FINDINGS

Feedback from most participants agreed a new remittance model, or the suggested alternate remittance model, would be preferred. An overwhelming 96 per cent of Class E licensees support the concept in which Class E small manufacturers remit only the markup and relevant fees to AGLC.

Note: Totals in this report sometimes do not add to 100% due to rounding.

CLASS E RESPONDENTS

How long respondents have held their Class E licence:

Of those who responded, 60 per cent have held a licence for five years or more, 19 per cent have held a licence for more than three years but less than five years, 13 per cent have held a licence for more than one year but less than three years, and seven per cent have held a licence for less than one year.

Types of liquor products Class E small manufacturers produce:

> Of those who responded, 59 per cent manufacture beer, 40 per cent manufacture spirits, 31 per cent manufacture refreshment beverages, 16 per cent manufacture cider, 12 per cent manufacture wine, and zero per cent manufacture kombucha.

Class E small manufacturers that also have a Class D and/or Class A licence:

Of those who responded, 95 per cent also hold a Class D Licence, 73 per cent also hold a Class A Licence, and two per cent hold no additional licences.

How Class E small manufacturers primarily distribute liquor products for sale in Alberta:

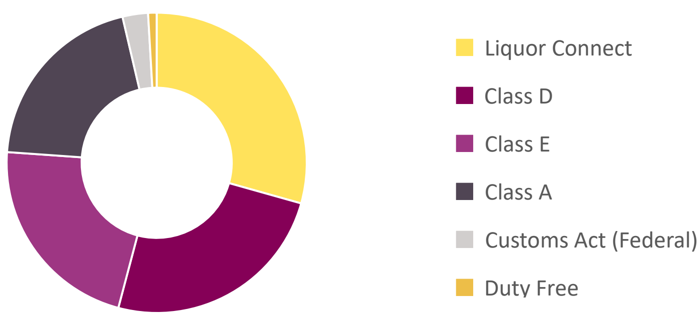
Of those who responded, 57 per cent distribute directly from manufacturing facility (Class E), 28 per cent through Connect Logistics Services, 11 per cent through Class D (i.e. off sales) and five per cent through Class A (i.e. taproom) licence.

Additional distribution channels:

Respondents were presented with the following two-part question: "Are there other channels you distribute liquor products through?". Respondents who selected yes were then asked to list which additional channels they utilize.

Of those who responded, 75 per cent distribute through other channels and 25 per cent do not distribute through other channels.

When asked about additional channels for distribution, respondents provided the following:



Note: *Customs Act* relates to manufactures exporting to other countries and subject to duties and tariffs. Duty Free refers to products sold through Duty-Free stores and additional Duty-Free channels (i.e. airplanes, cruise ships).

Key Question: Is the current payment process working for your business? Do you have additional comments about the liquor payment process?

Of those who responded, 47 per cent felt the current payment process was working for their business while 53 per cent did not.

The top three concerns related to the current payment process were as follows:

1. The requirement to pay the full wholesale cost upfront, rather than just the markup, impacts cash flow and creates administrative burdens.

2. The process of waiting for reimbursement from AGLC after paying the wholesale cost causes further cash flow strain, especially for producers with limited resources.
3. The system's reliance on outdated payment methods and lengthy processing times compounds the issue, negatively impacting efficient operations and financial planning.

Respondents were then presented with an example of a possible remittance model that would authorize Class E small manufacturers to remit only the markup and relevant fees to AGLC.

96%

Ninety-six per cent would support Class E small manufacturers remitting only the markup and relevant fees to AGLC while four per cent do not.

The 96 per cent who answered yes to the above question were then asked why they would support the proposed change. The top three reasons are as follows:

1. Improved Cash Flow Management: Many respondents noted the current system ties up a cash flow, causing difficulties in managing financial obligations, paying suppliers, and sustaining operations. Remitting only the markup and relevant fees directly to AGLC would solve cash flow issues.
2. Simplified Process and Efficiency: Streamlining the remittance process would reduce paperwork, administrative burdens, and confusion. The change could provide for a more straightforward system while eliminating inefficiencies.
3. Greater Control over Finances: By remitting only the necessary payments to AGLC, businesses could retain more control over their funds and make more informed financial decisions.

Overall, the proposed change to the remittance model is seen to address cash flow challenges, streamline processes, and empower businesses with greater financial control.

Respondents who did not support the proposed remittance model indicated they were satisfied with the current remittance process and expressed concern that a new process could cause additional burden.

Key Question: Would moving to the new proposed remittance model be more beneficial for your business than the current payment process?

92%

Of those who responded, 92 per cent supported moving to the proposed remittance model. Eight per cent did not believe the proposed payment process would be more beneficial.

Key Question: How would the proposed remittance model impact your business?

Most respondents identified that the proposed remittance model would dramatically improve cash flow issues. One respondent noted approximately $50,000 flows back and forth between them and AGLC, thus preventing these funds from being used for any other expenditures. Most other comments noted streamlining the remittance process would alleviate administrative burdens, improve cash flow, and enable businesses to focus on growth and development rather than paperwork.

CLASS D RESPONDENTS

How long have respondents held a Class D retail liquor store licence?

Of those who responded, 69 per cent have held a Class D licence for longer than five years, 13 per cent have held a Class D licence for more than three years but less than five years, nine per cent have held a Class D licence for more than one year but less than 3 years, and eight per cent have held a licence for less than one year.

Key Question: What impacts, if any, would changes to the remittance process have on your business?

Three main themes emerged:

1. Some stakeholders foresee no significant impact on their business operations or outcomes.
2. Mixed perceptions about impacts on pricing and competitiveness, with some anticipating benefits like lower prices and increased competitiveness, while others foreseeing prices increasing and reduced competition.
3. Issues related to payment processing and invoicing, including concerns about errors, delays, and accounting requirements.

LIQUOR INDUSTRY ASSOCIATIONS

Liquor associations were asked how the proposed changes to liquor remittance would impact their members.

Most respondents felt changes would be minimal, assuming there is no change to costs for producer or consumer.

Liquor associations were asked to suggest alternate options for remittance and to identify how the process would work, and potential benefits for members.

Respondents noted no alternative suggestions.

CONCLUSION

The survey gathered insights into the opinions of stakeholders within the liquor industry regarding the current remittance model and an alternate form of remittance for Class E small manufacturers. These valuable findings will be used by AGLC when considering the current remittance process.

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AGLC wishes to thank stakeholders for their participation in this consultation.