

A STRATEGIC ANALYSIS OF QUEENS LIQUOR STORE

by

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Abstract

This paper is a strategic analysis of Queens Cold Beer, Liquor and Wine Store, located in the city of New Westminster, British Columbia. The purpose of this paper is to investigate the company and present strategic options for the growth and potential expansion of the retail store. An external analysis of the liquor industry in British Columbia is conducted, as well an examination of the local market and competitors. An internal analysis of the firm investigates the firm's resources and internal capabilities. The analysis provides the company with strategic alternatives that are evaluated to provide a recommendation for ownership.

Keywords: Strategic Analysis; Retail; Liquor Industry

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Glossary

Queens Liquor Store	Queens Cold Beer, Liquor and Wine Store
B.C.	British Columbia
LDB	Liquor Distribution Branch
LCLB	Liquor Control and Licensing Branch
LRS	Licensee Retail Store
SIR	Serving it Right
GLS	Government Liquor Store
QB Liquor Store	QB Liquor Store of New Westminster
Tugboat Annies	Tugboat Annie's Beer & Wine Store LTD
IT	Information Technology
POS	Point of Sale

1: Introduction

This project is to provide a strategic analysis for the growth of Queens Cold Beer, Liquor and Wine Store (Queens Liquor Store). Chapter 1 summarizes the strategic objective and describes the analysis framework used in the project.

1.1 Strategic Objective

The purpose of the analysis is to provide a professional strategic analysis for Queens Liquor Store. The project will analyse the external environment and internal characteristics for the company. The goal of this paper is to provide a recommendation to Queens Liquor Store ownership.

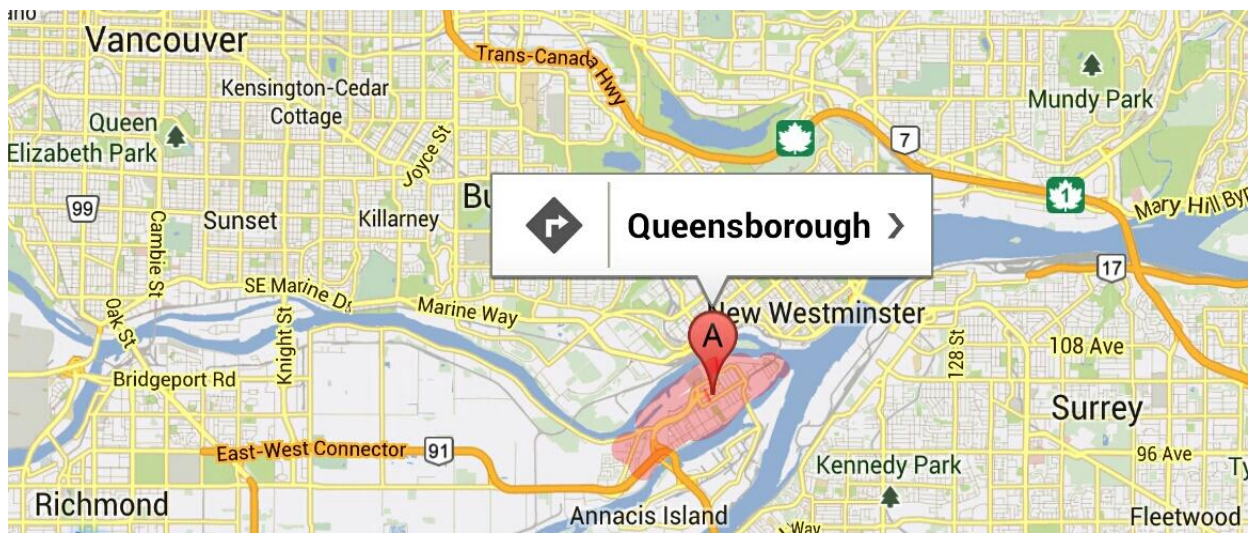
1.2 Analysis Framework

Market research is prepared through investigative research of online and traditional literature, as well as interviews with members of Queens Liquor Store. The resulting analysis is used to determine the areas of improvements for the retail store. Analysis begins with an introduction of Queens Liquor Store and the organization. External environmental analysis will include an overview of liquor license regulations in British Columbia (B.C.). This is followed by an industry analysis of the retail liquor market in B.C. An overview of the local market and competitors is also provided. The internal analysis of Queens Liquor Store will include resources inventory and value chain analysis. This is followed by an analysis of the store's current situation and strategy. Strategic alternatives are then provided, followed by a recommendation for ownership that will conclude the analysis.

1.3 Company Description

Queens Liquor Store is a private retail liquor store located in the Queensborough neighbourhood in the city of New Westminster, B.C. Queensborough is located on the eastern corner of Lulu Island on the Fraser River. Figure 1.1 shows the location of Queensborough in the Greater Vancouver Regional District.

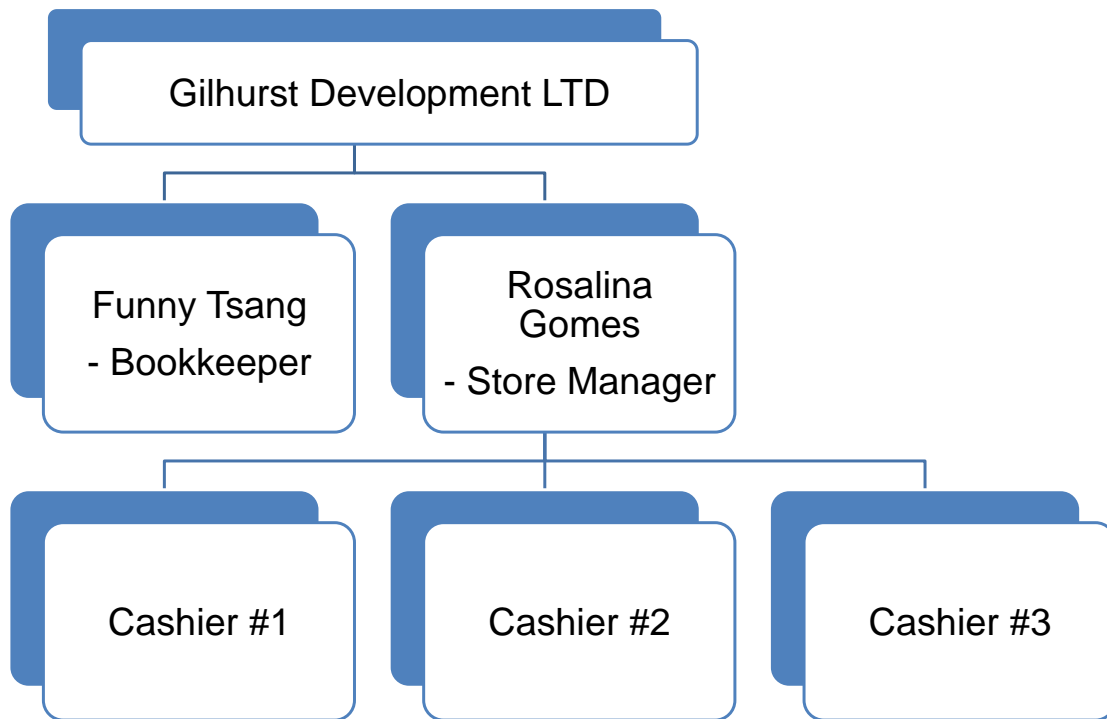
Figure 1.1 Map of Queensborough



Modified by author. Source Google Maps, 2013

Queens Liquor Store was acquired at the end of 2012 by new ownership under Gilhurst Development. Gilhurst Development is an urban development and construction company owned by five shareholders. Prior to the acquisition of Queens Liquor Store, Gilhurst Development has never operated a retail business. Their previous business ventures all involved urban development and construction. The company's main goal is to be profitable. Figure 1.2 shows the organizational chart for Queens Liquor Store.

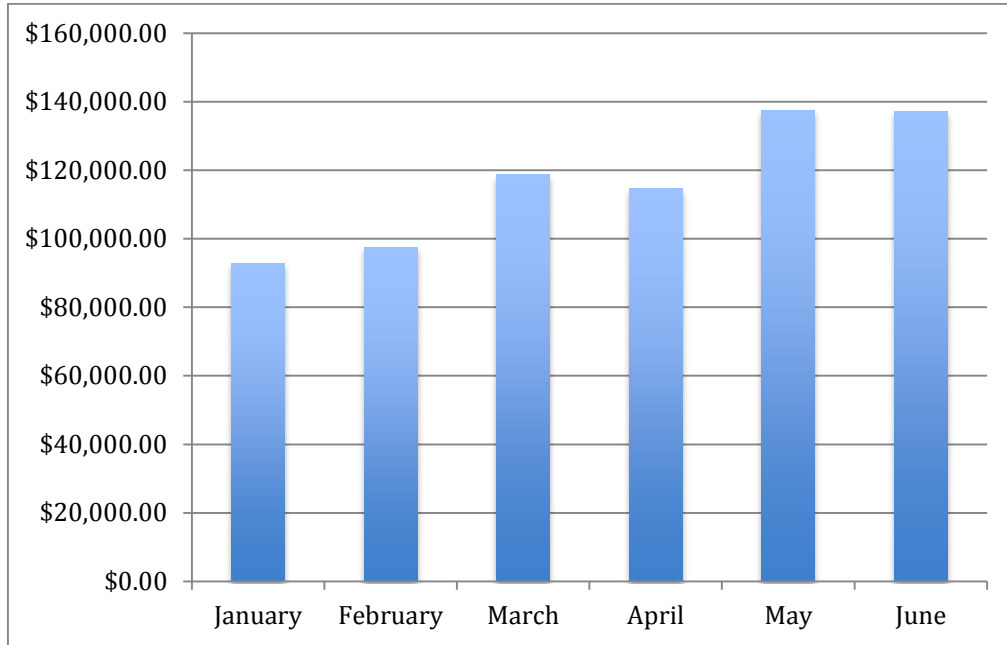
Figure 1.2 Queens Liquor Store Organizational Chart



Developed by author based upon information provided from Queens Liquor Store

Queens Liquor Store is a small business employing five fulltime employees. The store is close to 2,000 retail square feet (please refer to Queens Liquor Store Property, **Appendix A**). The store generated liquor sales of nearly \$700,000 in the first two quarters of 2013 (January 1st – June 30th). Figure 1.3 shows monthly liquor sales for Queens Liquor Store. Currently the company is preparing a development plan with the City of New Westminster. The plan would be for the property where Queens Liquor Store is established. This proposal would include a potential expansion of the retail store (please refer to Queens Liquor Store Proposed Development, **Appendix B**).

Figure 1.3 Queens Liquor Store 2013 Liquor Sales



Developed by author based upon information provided from Queens Liquor Store

2: External Environment of Queens Liquor Store

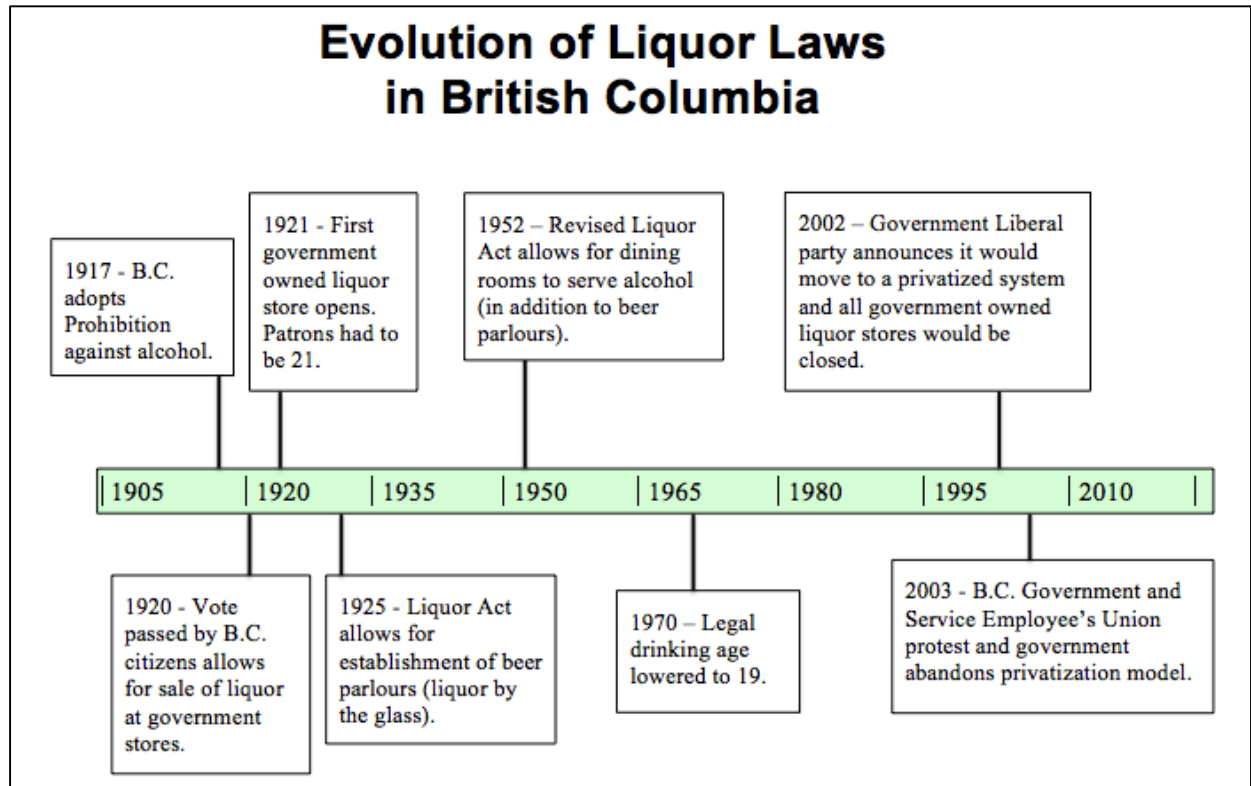
An external analysis assesses the attractiveness of the environment for an industry. The analysis reveals the key factors affecting the industry and ability to generate profit. The chapter begins by providing an overview of liquor regulations in B.C. This is followed with an analysis of the competitive forces in the industry. The chapter will conclude with an introduction of local competitors in the Queensborough neighbourhood.

2.1 Introduction to Liquor Regulation in British Columbia

2.1.1 History of Liquor Laws in British Columbia

In Canada the government has jurisdiction over the sales of alcoholic beverages. Provinces like Saskatchewan have government monopolies for off-premise sales of liquor. Alberta on the other hand transferred control of liquor sales over to the private sector. Figure 2.1 provides a brief history of liquor laws in B.C. This is followed by an overview of current liquor regulation in B.C.

Figure 2.1 History of Liquors Laws in B.C.



Developed by author based upon information from Mayhew, 2008

2.1.2 British Columbia Liquor License Regulations

B.C. currently uses a hybrid system where both private and government controlled stores can sell alcoholic beverages. The Ministry of Energy and Mines has two branches that regulate the liquor industry in B.C. The Liquor Distribution Branch (LDB) is responsible for importation and distribution of liquor in the province. The other is the Liquor Control and Licensing Branch (LCLB) which licenses private liquor stores, restaurants, pubs and manufacturers. The LCLB also enforces regulations in accordance with the Liquor Control and Licensing act (Liquor Distribution Branch, 2012).

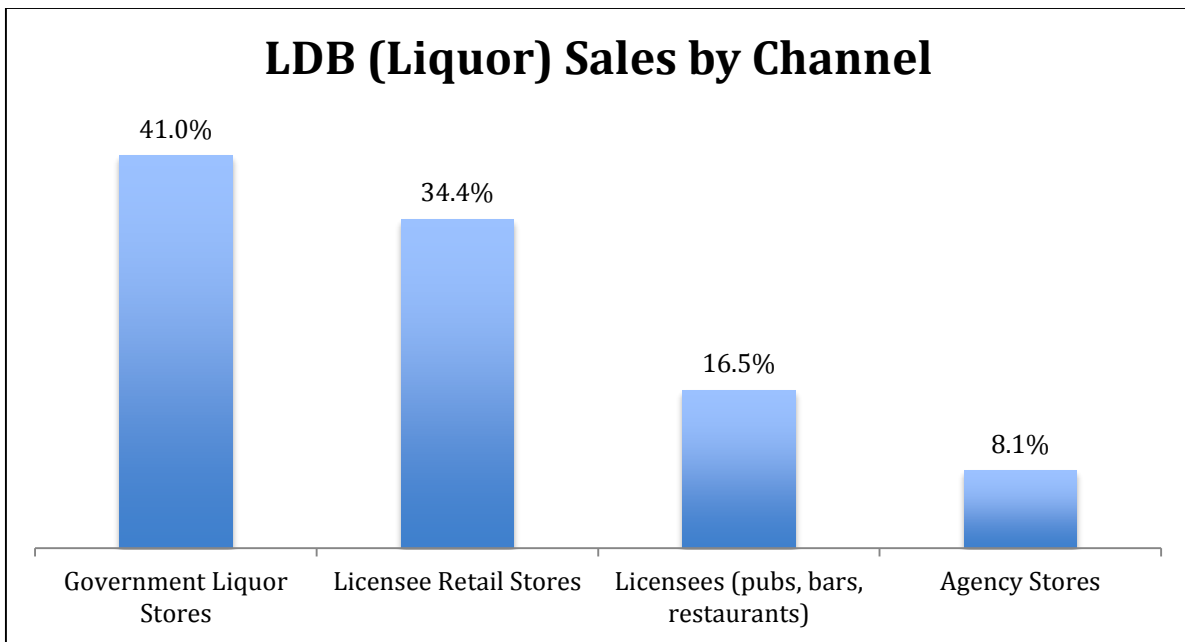
The LDB is responsible for the importation of beverage alcohol into the province of B.C. It purchases alcohol from more than 400 suppliers and manufacturers around the world. In 2011/12, LDB sales were \$2.89 billion. It is responsible for over 1,400 alcohol retail outlets in B.C. including:

- 197 government liquor stores (government-owned and operated stores)
- 672 licensee retail stores (private stores licensed to sell liquor)
- 220 rural agency stores (general merchandise stores in rural communities authorized to sell liquor)
- 35 off-site manufacturer stores
- 12 private wine stores
- 11 duty-free stores

There are also over 8,000 bars, restaurants, and other licensed establishment in the province.

Below Figure 2.2 is the breakdown of gross sales by channel in 2011/12.

Figure 2.2 Percentage of Gross Sales by Sales Channel in 2011/12



Developed by author based upon information from Liquor Distribution Branch, 2012

2.2 Competitive Forces in B.C. Retail Liquor Industry

Porter's five forces is a framework that can be used in industry analysis (Porter, 1979). It is derived of forces that determine the attractiveness and profitability of an industry.

Examination of the forces and how they influence the industry provides a starting point in the general evaluation of the market. For the purpose of this analysis, the industry is defined as establishments that are selling liquor for off-site consumption only.

2.2.1 Threat of New Entrants

The following section examines some of the barriers to entry in the retail liquor industry in B.C. If rivals can enter an industry easily, it increases competition and decreases profitability. Barriers to entry are government licensing and capital requirements.

2.2.1.1 Licensing and Access to Distribution

Entry into the retail liquor industry in B.C. is extremely difficult due to government regulation. The LCLB is responsible for regulating the liquor industry in the province. Only licensed establishments in B.C. may sell beverage alcohol including beer, wine, coolers, cider, and spirits. This includes Licensee Retail Stores (LRS), which are often referred to as private liquor stores. LRSs in B.C. account for 34.4% of total liquor sales in the province (Liquor Distribution Branch, 2012). The LDB is responsible for distribution of liquor in the province. Currently new entry into the retail liquor market in B.C. is not possible. The government of B.C. is not accepting applications for new LRSs until July 2022 due to a moratorium (Ministry of Justice, 2013). While it is possible to make changes to a current license, this does not allow entry into an existing market. A relocation request can be made only within five kilometres of the current LRS location and not within one kilometre of any existing LRS sites. Until the moratorium is lifted, entry into the market and access to distribution is unlikely.

2.2.1.2 Capital Requirements

In addition to obtaining a license, there would be capital requirements for the retail store and inventory. The land for the storefront would need to be leased or purchased. This would include any architectural and interior design plans. There would also be capital requirements for inventory. This is due to the LDB restrictions on purchasing liquor through their distribution channel. Any purchases through the LDB must be paid in advance of delivery. Many of the private stores are unchained and therefore unable to consolidate their supply and distribution network. This would include any non-alcoholic products, such as tobacco, snacks, non-alcoholic beverages, and other liquor-related items. Private stores would benefit from economies of scale by purchasing product in bulk however it is not a key requirement to enter the market. In general, capital requirements are not a significant barrier to entry in the retail liquor industry.

2.2.1.3 Threat of Entry – Conclusion

Overall the barrier to entry is currently very significant in the retail liquor market in B.C. Threat of entry into the market is very low due to present government restrictions. Obtaining a liquor license would be difficult due to a moratorium. While there may be some capital requirements, they are less significant. Government regulations restricting entry to the retail liquor market make the industry attractive to current liquor storeowners.

2.2.2 Power of Suppliers

Suppliers with significant power in an industry are able to extract higher prices and reduce the industry's profitability. Two factors in general determine the strength of the supplier. The first being supply and demand of the product, and the second being control of the product. If demand is higher than the supply of the product, suppliers are able to charge a premium. If

suppliers also have high control of their product, it increases their power. The main supply inputs for the retail liquor industry are labour and liquor suppliers.

2.2.2.1 Labour

One of the main requirements in running a liquor store is labour. To be able to sell liquor as a cashier, a Serving It Right (SIR) certificate is required. In order to obtain certification, a SIR course and exam must be passed. This can be completed online or via a print version (Serving It Right, n.d.). While this certification is required, liquor store cashiers are paid closer to minimum wage. Queens Liquor Store cashiers are paid just above minimum wage. Minimum wage has increased in the past few years, from \$8.75 in May 2011 to \$10.25 per hour in May 2012 (Employment Standards Branch, 2013). In late 2006, there was a recession that changed the labour industry. The unemployment rate as of May 2013 for B.C. was 6.9% according to BC Stats (BC Stats, 2013). With the current economy and high unemployment rate, the power for labourers in the retail liquor industry is low.

2.2.2.2 Liquor Suppliers

Private stores must purchase liquor through the LDB and approved manufacturers. The LDB controls and regulates all aspects of sales through their channel. Orders through the LDB:

- Must be paid in advance for pick-up or delivery.
- Take minimum of 48 hours to process.
- Are ineligible for return other than for defective product or processing errors.

Private stores are responsible for their business decisions, including product portfolio. Products that are unsuccessful in the local market do not qualify for a refund through the LDB. The pricing for product changes monthly and is regulated by the LDB. Case configurations may also

change (number of bottles of alcohol per case). Private liquor stores may also purchase liquor directly from approved manufacturers. These manufacturers need to be approved by the LCLB. The terms and conditions from these manufacturers vary. In general, these companies have less strict regulations compared to the LDB. Currently LRSs get a discount of 16% off retail price from the LDB and approved manufacturers. Independent wine stores get a discount of 30% off retail price (Liquor Distribution Branch, 2013). The power for liquor suppliers in B.C. is fairly high as they control both price and terms of distribution.

2.2.2.3 Power of Suppliers – Conclusion

Overall the power for suppliers is moderately high in the beverage alcohol industry in B.C. The LDB and LCLB control and regulate all alcohol distribution across the province. Product must be paid for in full and there are no returns except for defective product or processing errors through the LDB. Private stores must comply and follow all regulations set by the LDB and LCLB or are at risk of losing their license.

2.2.3 Threat of Substitutes

If substitute products are readily available, an industry may experience lower profitability. The degree in which a substitute can replace liquor for off-site consumption is low. Substitutes to the retail liquor industry are bars, restaurants, casinos, and any other establishments that sell alcohol by the glass (for on-site consumption).

2.2.3.1 Liquor by the Glass Establishments

There are a wide range of establishments that serve alcohol by the glass for on-site consumption. The threat of this substitute for the retail liquor industry (for off-site consumption) is relatively low. The potential benefit of these establishments in the industry is entertainment and potentially longer hours of business. The downside is they can only sell liquor for on-site

consumption. These establishments also pay a higher premium through the LDB compared to private liquor stores.

2.2.3.2 Threat of Substitutes – Conclusion

Overall the threat of substitutes in the retail liquor industry is low. This is due to liquor by the glass establishments only being able to serve for on-site consumption and paying a higher premium for liquor. It can be also argued on-site and off-site liquor consumption may complement one another. Individuals that indulge in alcoholic beverages at a restaurant likely do the same in their home. In general, the lack of substitutes in the retail liquor market makes the industry more attractive.

2.2.4 Power of Buyers

Powerful buyers can make an industry less attractive as they can demand price concessions for products and services. There is only one type of buyer in the retail liquor industry for private stores. Private liquor stores are only able to sell directly to final customers. All other customers must purchase liquor from a government liquor store (BC Liquor Store) or another source approved by the LDB. These include liquor by the glass establishments (restaurants, bars), and for any special occasion licenses (weddings, tastings, non-profit events). In general the bargaining power of buyers in the retail liquor industry is moderate.

2.2.4.1 Retail Liquor Customers

The buying power of customers in the retail liquor industry is strengthened due to low switching costs between establishments. If a customer is dissatisfied with a liquor establishment, they can simply decide to avoid that store. Similar to any retail shopping, many factors may influence where customers spend their money. Price, convenience, speed, consistency, quality, and location are all characteristics the buyers demand in the retail liquor industry. If a liquor

store continuously fails to provide a level of service a buyer expects, then the store will lose sales. The primary factor mitigating buyer power in the retail liquor industry is store concentration. Customers may only legally purchase liquor for off-site consumption through licensed establishments. Currently the government of B.C. regulates the number of liquor stores available in the province. This decreases buyer power as it limits options available to them.

2.2.4.2 Power of Buyers – Conclusion

Overall the power for buyers is moderate in the retail liquor industry. Customers may decide between establishments based on their requirements such as price, convenience, and product availability. While there are no switching costs for buyers, current government regulation lowers the concentration of firms in the industry, and reduces overall buyer power.

2.2.5 Threat of Rivals

Intense rivalry among firms in an industry can reduce the overall profitability. Price competition can greatly reduce profitability in an industry as it transfers directly from the industry to the customers. The retail liquor industry is very susceptible to price competition. This is due to products being identical and marginal costs staying relatively low. Rivalry between liquor firms is still only moderately intense due to competitors not being numerous. This is due to regulation and a current moratorium on liquor licenses. There are different types of establishments that may sell liquor for off-site consumption. In order to better understand the rivalry in the industry the following section examines these different establishments in more detail.

2.2.5.1 Government Liquor Stores

Government Liquor Stores (GLS) are government owned and operated liquor stores across the province of B.C. (also known as BC Liquor Stores). GLSs are the only stores able to sell to

by the glass establishments, and special occasion licenses (such as weddings). At the end of 2012, there were 197 GLSs and they accounted for 41% of sales in B.C. (Liquor Distribution Branch, 2012). In general these stores are larger and less expensive than private liquor stores.

2.2.5.2 Licensee Retail Stores

LRSs are private stores licensed to sell all retail liquor products available in B.C. In addition to liquor, these establishments may sell B.C. lottery products, tobacco, packaged snacks, non-alcoholic beverages, and liquor-related items such as glasses or bottle openers. The stores cannot resemble a convenience store and sell items such as milk or newspapers (Liquor Control and Licensing Branch, 2013). LRSs are able to provide free promotional goods from liquor representatives. Private liquor stores may also provide free ice and snacks. These stores purchase liquor products at 16% off retail price from the LDB and various approved manufacturers. LRSs generally charge higher prices for liquor beverages compared to GLSs. In a survey from 2012, the average increase in price for LRSs compared to GLSs is shown in Table 2.1. LRSs were also shown to be generally smaller, open longer, and provide refrigerated beverages depicted in Table 2.2 (Macdonald et al., 2012).

Table 2.1 Percentage Price Increase of Beverages - LRSs and GLSs

Type of Liquor Beverage	LRS Price Percentage Increase vs. GLS (%)
Beer	14.18
Wine	18.89
Fortified Wine	25.88
Spirits	12.64
Coolers	22.16

Developed by author based upon information from Macdonald et al., 2012

Table 2.2 Operational Differences - LRSs and GLSs

	GLSs	LRSs
Store Size (Average square feet per store)	6000 sq. feet	Ranges from 500 – 4000 sq. feet
Refrigerated Beverages (Percentage of stores available)	10.5%	99.3%
Hours of Operations (Average hours per week)	61.2 hours	94.5 hours

Developed by author based upon information from Macdonald et al., 2012

2.2.5.3 Wine Stores

Wine stores are private licensed establishments that are only able to sell wine. These private wines stores are unable to sell other liquor. “Wine” encompasses:

- Table wine – red, rose, and white
- Sparkling wine and crackling wine
- Fortified wine
- Mead
- Rice wine (sake)
- Cider and wine coolers

These include BC VQA stores which carry the largest selections of wines from B.C. Private wine stores may only sell wine products and have a different discount rate. The wine must be purchased through the LDB or from licensed wineries in B.C. The discount provided by the LDB is 30% off list price (Liquor Control and Licensing Branch, 2013).

2.2.5.4 UBrew/UVin Stores

UBrews and UVins are establishments that provide ingredients, equipment, and advice for customers to make their own beer or wine. Once the product is made, customers can take their liquor away for private consumption yet it cannot be sold to others. UBrews and UVins are required to have an UBrew/UVin license approved by the government (Liquor Control and Licensing Branch, 2013).

2.2.5.5 Wineries and Breweries

Any company that makes liquor must have a manufacturer's license from the government of B.C. With a manufacturer's license, these establishments have the potential to serve their alcohol for both on-site and off-site consumption. These companies may only sell their liquor for off-site consumption as long as they are endorsed to do so. They cannot sell any other liquor products in their retail store that are manufactured outside their establishment. Wineries and breweries may also sell liquor for on-site consumption provided they have a special endorsement license. They may sell other kinds of liquor (not just their own) for on-site consumption. This liquor must be purchased through the LDB or authorized manufacturers (Liquor Control and Licensing Branch, 2013).

2.2.5.6 Overview of Competition

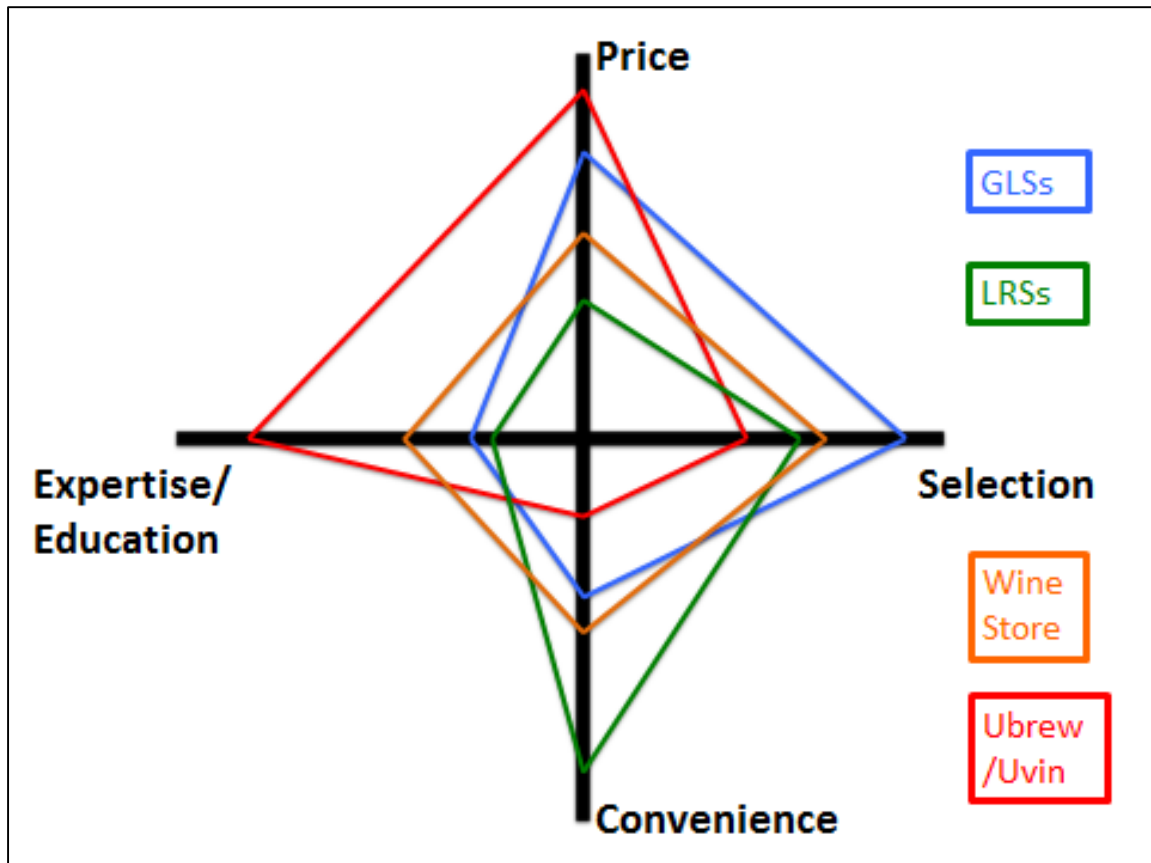
There are a variety of establishments where consumers may purchase liquor. This section provides an overall comparison and the different level of services these establishments provide. Below Table 2.3 provides an overview and the differences between establishments. This is followed by a Polar Diagram using four elements: 1) Price 2) Convenience 3) Selection 4) Expertise. Breweries and wineries are excluded, as price comparison is unknown.

Table 2.3 Overview of Liquor Competition

	GLS	LRS	Wine Stores	UBrew/UVin Stores	Wineries and Breweries
Price	Low	High	Moderate	Low	Unknown
Hours of Operation	Moderate	High	High	Moderate	Moderate
Number of Locations	Moderate	Many	Low	Low	Low
Selection	High	Moderate	Moderate	Moderate	Low
Non-alcoholic Products	Low	Many	Moderate	Moderate	Moderate
Expertise	Moderate	Low	High	High	High

Developed by author based upon information provided from Queens Liquor Store

Figure 2.3 Liquor Competition Comparison Polar Diagram



Developed by author based upon information provided from Queens Liquor Store

The Polar Diagram in Figure 2.3 shows four critical measures used to evaluate a customer's experience. UBrews and UVins measured as the most economical based on price per litre. This is due to customers being able to produce their own beer or wine in bulk. This was followed by GLSs as they are a part of the LDB and regulate pricing. Wine stores get a larger discount from the LDB than LRSs, and are able to provide cheaper pricing.

Convenience takes into account the number of locations, hours of operations, and access to non-alcoholic products. LRSs have the most locations and are the only liquor stores able to sell pop, snacks, and tobacco at their stores. Wine stores have longer hours of operation and therefore are more convenient than GLSs. UBrew and UVins take on average 3-4 weeks for beer or wine to be produced before their customers may take it home.

Selection takes into account the different types of alcohol and brands available. GLSs have large retail stores and are able provide better selection to their customers. Wine stores may carry a variety of wine that may not be found at both GLSs and LRSs. UBrews and UVins offer a variety of beer or wine that can be customized by the buyer. Wineries and breweries are only able to sell their product and would have the least selection.

Education and expertise takes into account how much knowledge these establishments can provide a customer. UBrews, UVins, and manufacturers are able to provide the most knowledge and help educate customers. UBrews and UVins walk customers through the process of creating their own beer or wine. Wineries and breweries provide guided tours and samples of all their products. Wine stores are specialty stores and are able to provide more information regarding different types of wines. BC VQA wine stores for example may stock over 500 different wines, and pride themselves in having more knowledgeable store staff (BC VQA, n.d.). LRSs generally provide the least expertise. They carry a range of products and do not usually specialize in any

type of liquor. Majority of LRSs store employees are also paid closer to minimum wage. GLSs have large stores and commonly have more employees per location. These employees are also paid by the LDB and paid above minimum wage, as much as \$21 per hour (Wilson, 2012).

Overall GLSs, LRSs, and wine stores directly compete with one other in the retail liquor industry. UVins, UBrews, and manufacturers comparatively do not provide enough convenience. These establishments may provide different services and knowledge to customers, however they may only sell their company's liquor. Their lack of convenience does not allow them to compete on the same level as other liquor stores. Retail liquor customers are more likely to go to a GLS, LRS, or a wine store for off-site consumption.

2.2.5.7 Threat of Rivals – Conclusion

Currently the rivalry between competitors in the retail liquor industry in B.C. is moderate. Retail liquor customers have a variety of options to purchase alcohol. GLSs, LRSs, and wine stores compete directly with one another. There is little product differentiation in the industry as all LRSs have access to the same product catalogue. In order to compete, rival stores provide different levels of price, selection, and convenience to attract customers. Rivalry between firms is reduced due to limited store concentrations in the market. Current government regulation limits new licenses, which makes the rivalry only moderately intense. The threat of rivalry would quickly change if government regulations were to change.

2.2.6 Sixth Forth – Government

Governments may affect the performance and profitability of an industry depending on their policies. Across North America, government regulation on liquor varies. In Canada, there are discrepancies on liquor laws from province to province. In the province of Quebec one can buy beer at grocery stores. In Ontario one can only buy beer at specific Beer Stores and the

Liquor Control Board of Ontario. Provinces such as New Brunswick and Nova Scotia have a government-only market where liquor can be purchased. Provinces like Alberta offer a strictly private retail market (CBC, 2011). In the United States, each state is also responsible for regulating sales of alcoholic beverages. It is believed privatization and deregulation is expected to increase. Washington State for example privatized state-run liquor stores in 2012 (Kaczanowkda, 2013).

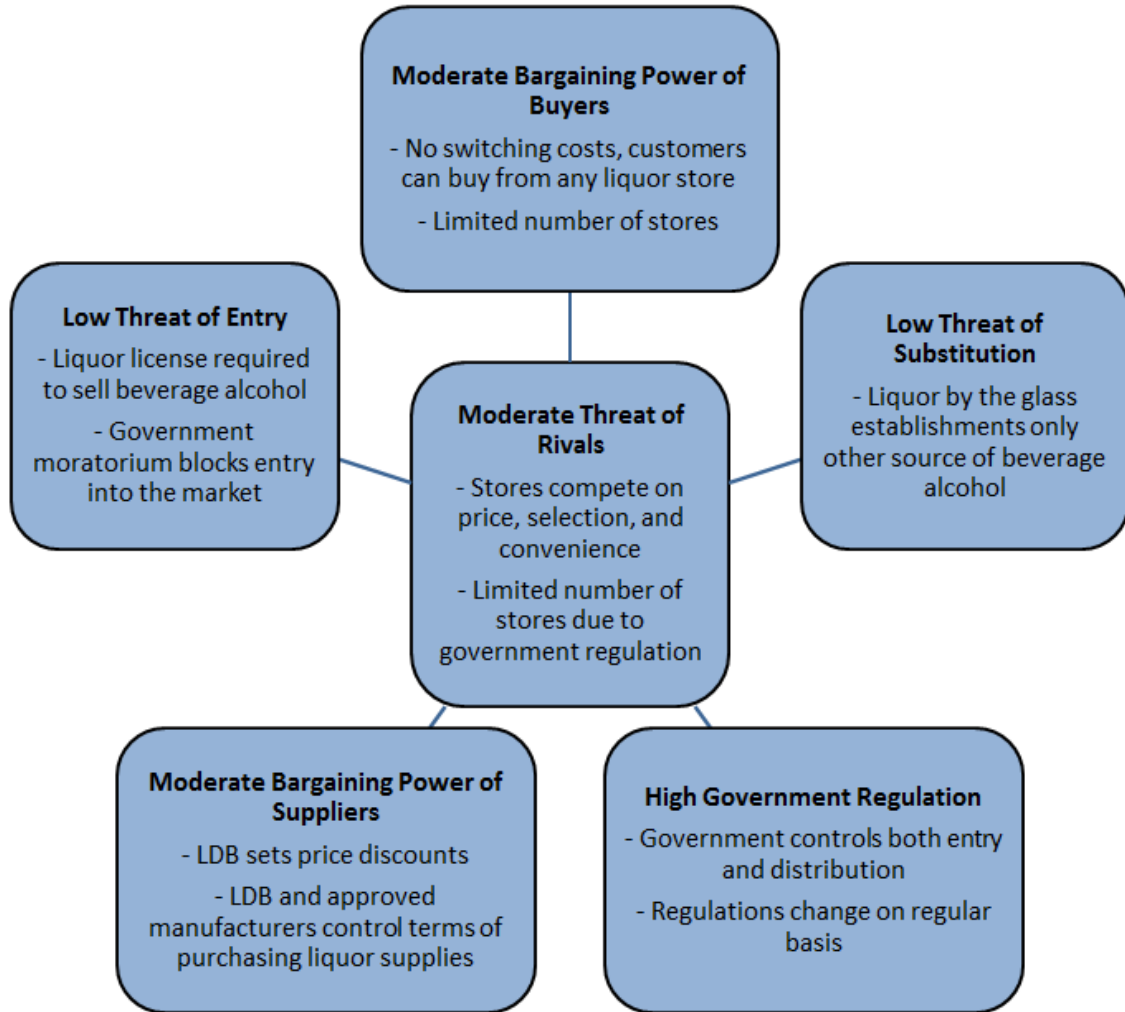
The province of B.C. currently has a mixed government and private market. The government of B.C. regulates the liquor industry through the LDB and LCLB. They control access to and terms of liquor distribution across the province. Government regulations provide advantages and disadvantages to the retail liquor industry in B.C. The LCLB currently blocks access to new entry due to a moratorium. Meanwhile the LDB controls both price and terms of sales for liquor supplies. The licensing and control of liquor supplies are the two factors that currently have the largest effect on the industry. Any changes in government regulations in B.C. could drastically affect the industry. Government liquor policies in B.C. change on a regular basis. In recent years, there has been a move for “The Modernization of BC Liquor Laws”. For example in 2012, a “Bring Your Own Wine” program was introduced to the province. This allowed customers to bring their own bottle of wine into participating restaurants to enjoy it with their meal (Ministry of Energy and Mines, 2012). The retail liquor store laws in B.C. have not changed significantly since 2002 and 2003 when the privatization model was dropped. The present government regulation in B.C. makes the retail liquor market attractive to current liquor storeowners.

2.2.7 Summary – Moderate Level of Industry Attractiveness

An analysis of the forces influencing the retail liquor industry in B.C. currently reveals a moderate level of attractiveness. Figure 2.4 shows the competitive forces in the retail liquor

industry in B.C. At first glance, the industry does not appear to be very attractive. There is little product differentiation available as all stores have access to the same distribution channels. Rivals compete on price, selection, and convenience to attract customers. Capital requirements to enter the market are low and there are no switching costs for customers. The current government regulations are what make the industry attractive. A current moratorium blocks access for retail liquor licenses and is the main influence on the industry. Though the government has a high degree power over supplies, access to distribution is restricted without a license. License requirements block entry into the market, and make the industry not very fragmented. The concentration of firms is limited and reduces buyer power and rivalry between stores. Rivalry between firms is reduced as stores do not need to concede on price. While buyers have no switching costs, limited store locations reduces their power. Any changes by the government would have a strong effect on the forces in the retail liquor industry. The next chapter will introduce and take a closer look at the local competitors in the Queensborough area.

Figure 2.4 Competitive Forces in Retail Liquor Industry

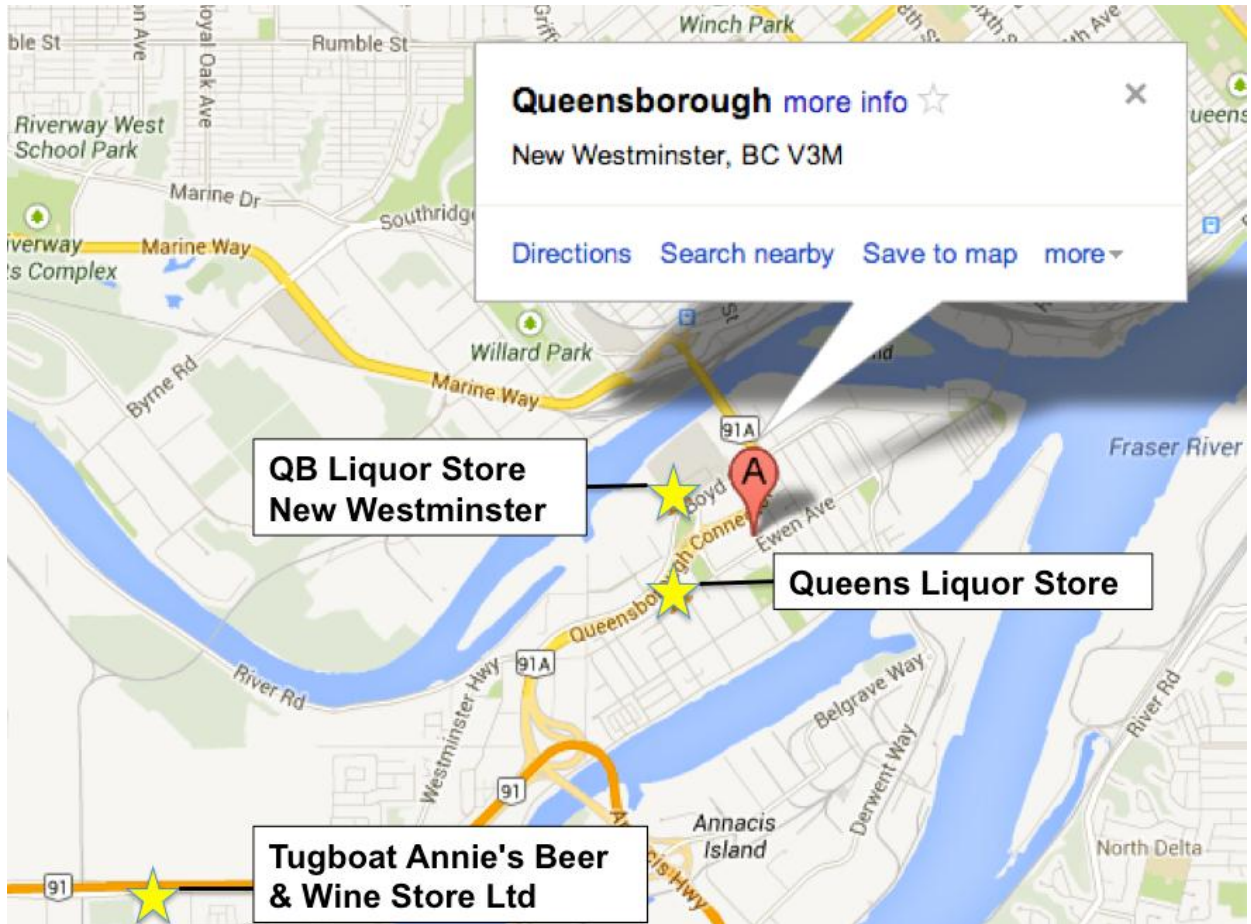


Developed by author. Adapted from Porter, 1979

2.3 Queensborough Retail Liquor Market

This chapter provides an overview of the main competition in the Queensborough neighbourhood, in the city of New Westminster. There are two private LRSs that are within close proximity to Queens Liquor Store. One is the QB Liquor Store of New Westminster (QB Liquor Store) located less than one kilometre away. The other is Tugboat Annie's Beer & Wine Store LTD (Tugboat Annies). Figure 2.5 shows the location of these two competitors in relation to Queens Liquor Store.

Figure 2.5 Local Liquor Store Competition



Modified by author. Source Google Maps, 2013

2.3.1 QB Liquor Store

QB Liquor Store is located in Queensborough near a number of commercial stores. It has a larger retail store and provides a wider selection of liquor brands compared to Queens Liquor Store. QB Liquor Store is owned by Tag Liquor Stores and have other stores located in the lower mainland of the province. They specialize in wines from B.C., Australia, and California. The store supports local BC VQA wines and also has a wine consultant that can be contacted online (Tag Liquor Stores, n.d.). Figure 2.6 shows the storefront and retail space for QB Liquor Store.

Figure 2.6 QB Liquor Store



Source Tag Liquor Stores, n.d.

2.3.2 Tugboat Annies

Tugboat Annies is located less than five kilometres away from Queens Liquor Store. Tugboat Annies is also a LRS and has a bigger retail store with over 3,000 square feet of space. The store was recently renovated and has a new cooler over 1,000 square feet. They have over 500 red wines and close to 200 white wines. They recently launched a new company website in May 2013 (Tugboat Annies, n.d.). Figure 2.7 shows the storefront and retail space for Tugboat Annies.

Figure 2.7 Tugboat Annie's



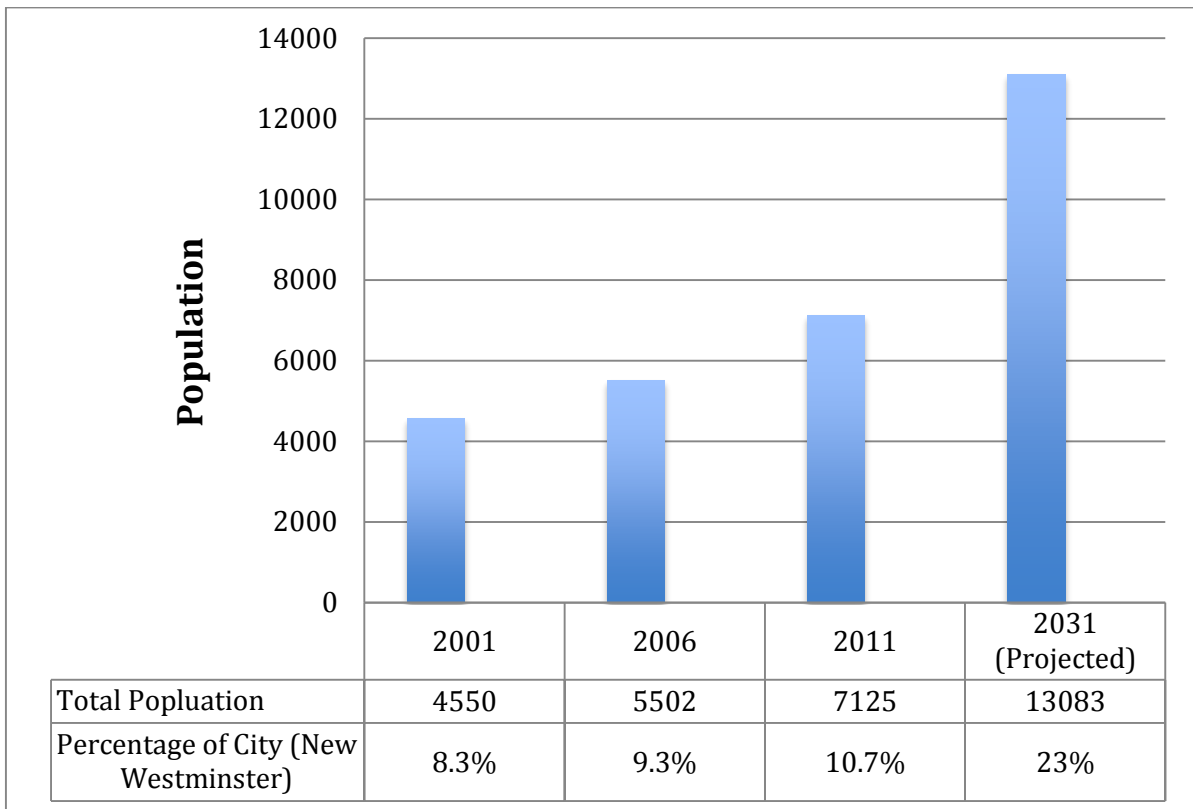
Source Tugboat Annie's, n.d.

2.3.3 Overview of Local Competition

The Queensborough community has been growing rapidly over the past years. As of 2011 Queensborough accounted for 10.7% of the entire population of the city of New Westminster. Figure 2.8 shows the population growth in the neighbourhood. The total population of Queensborough increased by 29% from 2006 to 2011. According to the City of New Westminster, the population of Queensborough would increase by over 80% by 2031. The

Queensborough community has been rapidly developing both residentially and commercially as well. Between 1991 and 2011, residential floor space in the neighbourhood increased by 248%. In the same period, commercial floor space in Queensborough increased by 535%. The main reasons for this increase was due to the development of commercial stores (Queensborough Landing) in 2003, and a new casino (Starlight Casino) in 2007 (City of New Westminster, 2012).

Figure 2.8 *Queensborough Population Growth*



Developed by author based upon information from City of New Westminster, 2012

The growth of the community benefits the local retail liquor market. Consequently, it will increase rivalry between local stores. The industry is favourable as firm concentration is limited across the province of B.C. Stores that are located in close proximity are prone to compete more aggressively for the local market. QB Liquor Store and Tugboat Annies are two very close competitors to Queens Liquor Store. All three stores are less than five kilometres

apart and are in a growing market. The local competitors currently have larger retail stores and provide a wider selection of products compared to Queens Liquor Store. As the stores are in close proximity and compete directly in the Queensborough neighbourhood, the rivalry between firms is heightened. The following chapter will look to further compare these competitors by analysing Queens Liquor Store's internal capabilities.

3: Internal Characteristics of Queens Liquor Store

Chapter 3 focuses on Queens Liquor Store's internal characteristics. This helps determine any potential advantages and disadvantages to earn above average profits. The analysis looks to identify what resources and competencies form the basis of these advantages and disadvantages. This is accomplished through a resources analysis and value chain analysis of Queens Liquor Store (Boardman, et al., 2004).

3.1 Queens Liquor Store's Resources Inventory

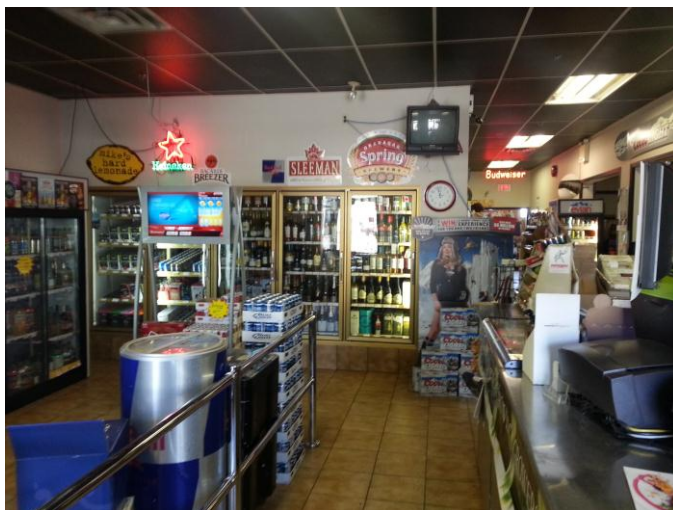
Resources analysis provides insight into the strengths and weaknesses of a firm. In this section Queens Liquor Store's resources are analysed. When possible, these resources are benchmarked against their local competition. The resources inventory for Queens Liquor Store that are analysed includes its physical storefront, management team, and information technology capabilities.

3.1.1 Physical Storefront

Queens Liquor Store's physical storefront is one of the company's most important resources. Gilhurst Development owns both Queens Liquor Store and the property it operates on. This does not require the store to be leased and reduces the company's expenses. Queens Liquor Store is also able to save on inflation as the property has continued to increase in value. Other commercial stores would be responsible to renew their leases as time passed. Owning the storefront provides Queens Liquor Store a potential advantage over their competition. In the retail industry, store location can be imperative for the success of a company. Queens Liquor Store is located in a condensed residential area. Their closest competitor, QB Liquor Store is

located in a more industrial and commercial area (please refer to Queensborough Land Use, **Appendix C**). Queens Liquor Store is located directly around residential homes and provides an advantage to generate more foot traffic than their local competitors. The weaknesses of Queens Liquor Store are its store size and age. Figure 3.1 below shows Queens Liquor Store and retail space. The store is less than 2,000 square feet and has not been upgraded in years. Both QB Liquor Store and Tugboat Annies have newer and larger retail stores. This provides the advantage of being able to carry a wider selection and the capability to hold more stock.

Figure 3.1 Queens Liquor Store



Source: Queens Liquor Store

Overall the storefront for Queens Liquor Store is an advantageous resource. Owning the property evades paying leasing fees. Queens Liquor Store is also located in a condensed residential area providing convenience for their customers. While the store is relatively small and outdated, there is always the potential to renovate and expand the retail store.

3.1.2 Management Team

Gilhurst Development acquired Queens Liquor Store in late 2012. Gilhurst Development is a construction company with Queens Liquor Store being its first retail business. The management team consists of five shareholders, all with experience in urban development and construction. Gilhurst Development has a good standing with the City of New Westminster as they have built residential projects in the neighbourhood. All shareholders have different skills sets and education however have little experience in the retail liquor industry. The management team has relied on Queens Liquor Store's staff in its first year of business. The store manager, Rosalina Gomes has been with the store for over 12 years. She has long-term relationships with many of the liquor manufacturers. Funny Tsang is Queens Liquor Store's bookkeeper. The management team has relied heavily on these two individuals due to their inexperience in the industry. This is a disadvantage compared to the local competition. QB Liquor Store is affiliated with Tag Liquor Stores and owns other liquor stores. Their management has experience running other retail liquor stores in the lower mainland of B.C. The other local competitor, Tugboat Annies, has both a retail liquor store and restaurant. Tugboat Annie's Pub and Grille has been open since 1986 (Tugboat Annies, n.d.). The lack of management experience in running any retail business is a disadvantage to Queens Liquor Store.

3.1.3 Information Technology Capabilities

Queens Liquor Store has poor information technology (IT) capabilities internally. The store has no website, nor social media. Both QB Liquor Store and Tugboat Annies have company websites. Tugboat Annies has recently launched social media features including Twitter and Facebook. It is used to announce specials and vendor tasting dates.

Queens Liquor Store's internal IT system is out of date. The inventory system is a DOS-based system that needs to be updated manually on a daily basis. The store's point of sale (POS) system does not connect with accounting and inventory. Sales are entered daily and manually separated for accounting purposes. Monthly sales are printed out and there are no electronic versions for historical data. The data is not organized and it is not possible to get any historical sales reports electronically from the system. Any business intelligence or product reports would have to be done manually. The IT infrastructure limits Queens Liquor Store's marketing ability as it provides little sales data. The store's marketing activities will be further analysed in the value chain analysis.

3.1.4 Summary of Resources Inventory

From Queens Liquor Store's resources inventory analysis, it can be concluded that the company lacks core competencies for the retail liquor industry. The most advantageous resource is its store. Owning both the property and the store reduces costs for Queens Liquor Store. The location is also in a concentrated residential area, which benefits the store. The company's remaining resources provides little value compared to its competitors. The lack of IT capabilities and marketing are a disadvantage for Queens Liquor Store and poses as a threat for the company's growth. The company's resources provides little value or support in its value chain. In the next chapter the store's value chain will be analysed to further evaluate the business.

3.2 Queens Liquor Store's Value Chain Analysis

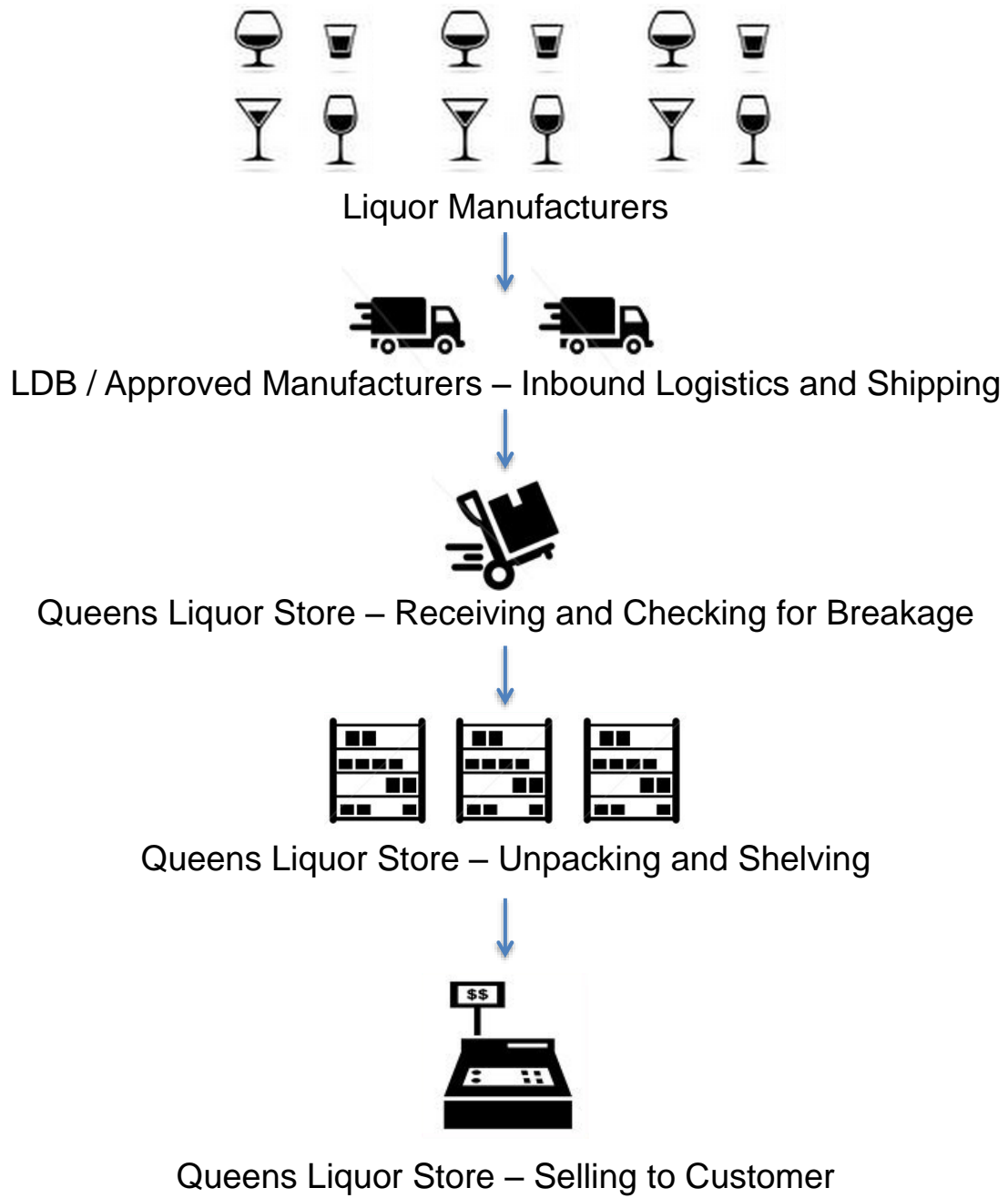
This chapter focuses on the flow of goods through Queens Liquor Store from their suppliers to their customers. The value chain analysis is used to understand how the store adds value. These activities are evaluated to determine the competitive advantage of the firm. The value chain framework consists of four steps to perform this analysis (Boardman et al., 2004):

- 1.) Draw internal flow of goods diagram identifying primary activities
- 2.) Describe what the firm does at each activity
- 3.) Explain how the firm adds value
- 4.) Evaluate activities

3.2.1 Internal Flow of Queens Liquor Store

The first step in the value chain analysis is to identify the primary activities with a flow of goods diagram. For Queens Liquor Store this is the flow of goods from the liquor manufacturers to when the customer purchases the item in their store. Figure 3.2 below shows the product flow for Queens Liquor Store.

Figure 3.2 *Queens Liquor Store's Flow of Goods*



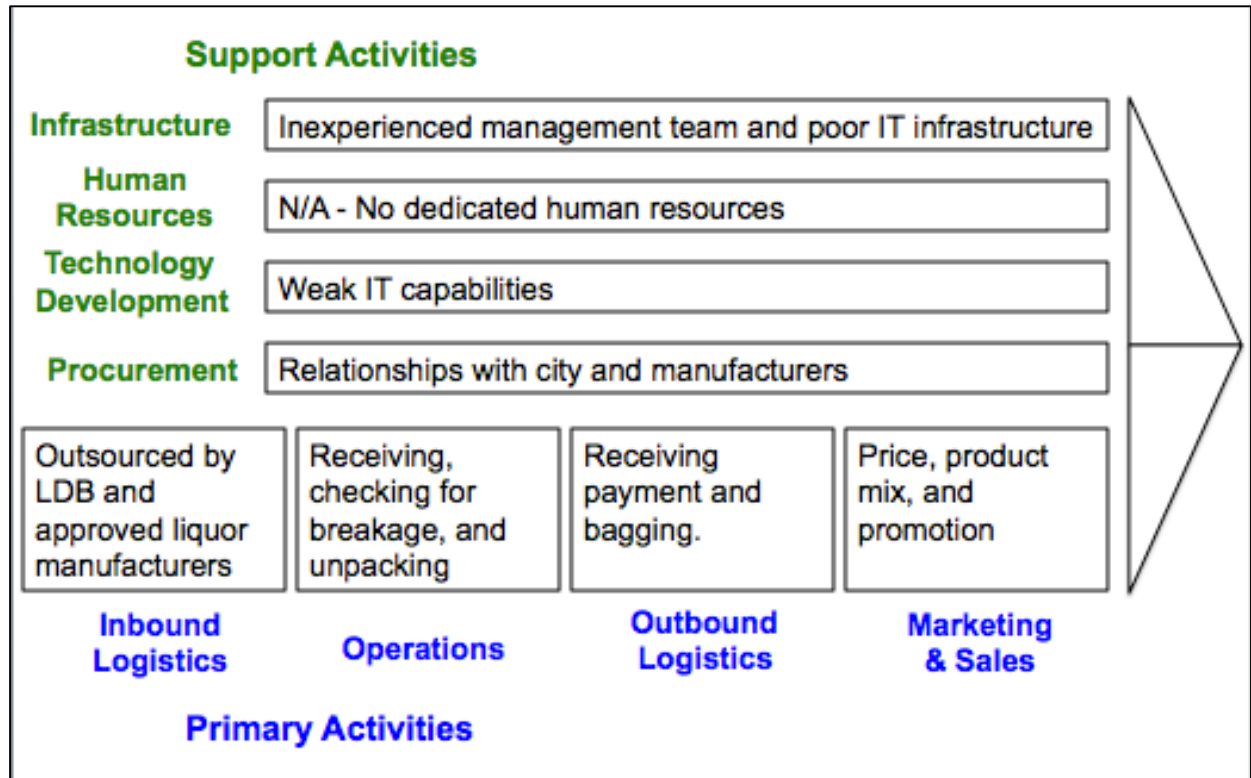
Developed by author based upon information provided from Queens Liquor Store

Liquor manufacturers that are not approved for direct distribution must go through the LDB. The LDB and approved manufacturers handle all inbound logistics, including shipping to Queens Liquor Store. When the product arrives at Queens Liquor Store, employees receive the product and check for any breakage. Breakage refers to any damage or contamination of the liquor products. The product is then unpacked and shelved for customers to purchase at the retail store through the cashier. There is little storage space to hold surplus inventory so it is ordered on a regular basis.

3.2.2 Queens Liquor Store's Activities

In this section we describe what Queens Liquor Store does at each activity. In Porter's book the "Competitive Advantage: Creating and Sustaining Superior Performance" he describes a chain of activities common to all businesses. These activities are divided into primary and support activities. Primary activities relate directly to the physical product or service, which include inbound logistics, operations, outbound logistics, marketing and sales, and services. Support activities assist these primary functions. Support activities comprise of four main sections: procurement (purchasing), human resource management, technology development, and infrastructure. Figure 3.3 below represents Queens Liquor Store's value chain activities (Porter, 1985).

Figure 3.3 Value Chain for Queens Liquor Store



Developed by author. Adapted from Porter, 1985

Queens Liquor Store's primary activities starts with inbound logistics. This is outsourced by the LDB and approved liquor manufacturers. This is due to government regulation. The only activity Queens Liquor Store is responsible for is ordering. The store manager Rosalina handles checking inventory and ordering. There is no infrastructure support due to an outdated inventory system. Rosalina regularly checks inventory herself and orders product accordingly. The orders are then fulfilled and delivered by the LDB or approved manufacturers.

The operational activities for Queens Liquor Store begins with receiving the liquor order. This includes confirming the order and checking for breakage. Occasionally orders are misplaced so it is the employee's responsibility to check and confirm deliveries. If there were any breakage or incorrect orders, a report would be filed with the supplier. The supplier would be either the LDB or an approved manufacturer. The liquor products would then be shelved accordingly. Beer, wines, and various ciders would be placed in the refrigerator. Red wines,

spirits, and remaining liquor products would be shelved. After the order is received and unpacked, any invoices and packing slips would be given to the bookkeeper Funny. Funny would then enter these orders into the inventory system. Sales are also entered into the inventory system. Overall sales and other accounting details are entered manually and forwarded off to the company's head accountant. The process of entering inbound orders and daily outbound sales is how Queens Liquor Store tracks inventory. The inventory system is not linked with the retail store, thus any discrepancies need to be communicated. For example any breakage would need to be reported to Funny. Funny would then update the inventory system and await any potential credit from the supplier.

The outbound logistics for Queens Liquor Store are similar to any retail store. This includes scanning the products at checkout in their POS system, receiving payment from the customer, and potentially bagging the product. Queens Liquor Store does have a POS system however it does not link to the inventory or accounting system. Items scanned by the system are identified and priced. The system is able to take payment via cash, credit or debit. The receipts and daily sales report are given to the bookkeeper Funny. The liquor store would also need to ask for identification to confirm age in accordance to the liquor laws. Queens Liquor Store does not deliver or distribute any product directly to customers. The inventory is tracked using a DOS-based system and requires daily entry. Pricing and cost is entered in the same system. The reports from this system are checked and consolidated with the daily sales orders and monthly inventory counts.

Queens Liquor Store's marketing activities consist of pricing, deciding which product mix to order, and promoting. The pricing is based on a general mark-up based on the type of liquor. This pricing structure is from previous management and has not changed in recent years. The pricing is based on the retail price of the products, plus mark-up as per the Table 3.1 below.

Table 3.1 *Queens Liquor Store Price Mark-up*

Type of Liquor	Price Mark-up
Spirits	~10%
Red Wine	~20%
Refrigerated products – Beer, Wine, & Ciders	~25%

Developed by author based upon information provided from Queens Liquor Store

The store manager Rosalina decides the product ordered. Product is ordered once to twice a week. Majority of the order is replacing inventory that is low. While new products are occasionally ordered, the product mix has remained relatively unchanged. The company currently does not promote outside the store. There is no liquor store website or social media streams used to market to customers. There are sales promotions that are provided by various liquor vendors. This includes monthly giveaways, or free memorabilia with the purchase of their product. Liquor vendors also provide any promotional material used in the store.

3.2.3 How Does Queens Liquor Store Add Value

The activities in the value chain can be used to understand how businesses add value. This can be done through a cost or differentiation advantage. Analysing Queens Liquor Store's activities it is difficult to determine where resources and capabilities add value. In this section, the store's activities are analysed to see if they provide value, or devalue the business. Operational, marketing, and sales activities are examined closer. Inbound and outbound logistics are not examined. Inbound logistics are mainly outsourced by the LBD and approved manufacturers. The outbound logistics for Queens Liquor Store are fairly minimal.

The operational activities for Queens Liquor Store are mostly manual. The company's IT infrastructure is weak and does not support any of the operational activities. The only automated POS system does not link to the inventory or accounting system. The daily sales must be entered

by the bookkeeper. Inventory and accounting activities are mainly a manual process. From a cost perspective, the operational activities carried out by the bookkeeper are a disadvantage. In addition the system limits any sales reports and business intelligence for the store that could be used for marketing and sales.

Marketing and sales activities can provide a firm with a differentiation advantage. Queens Liquor Store's marketing activities have remained largely unchanged with new ownership. The pricing, ordering, and promotional activities were adopted from the previous owners and remained constant over the past years. From a differentiation advantage it is difficult to determine how Queens Liquor Store provides value to their business. The following section evaluates the activities and benchmarks how well the firm does compared to its competitors.

3.2.4 Evaluation of Queens Liquor Store's Activities

In this section, Queens Liquor Store's value chain activities are evaluated. Inbound and outbound activities are not analysed, as there are fewer activities and they do not change significantly from store to store. As marketing can provide a differentiation advantage, Queens Liquor Store's marketing activities are compared to its competitors.

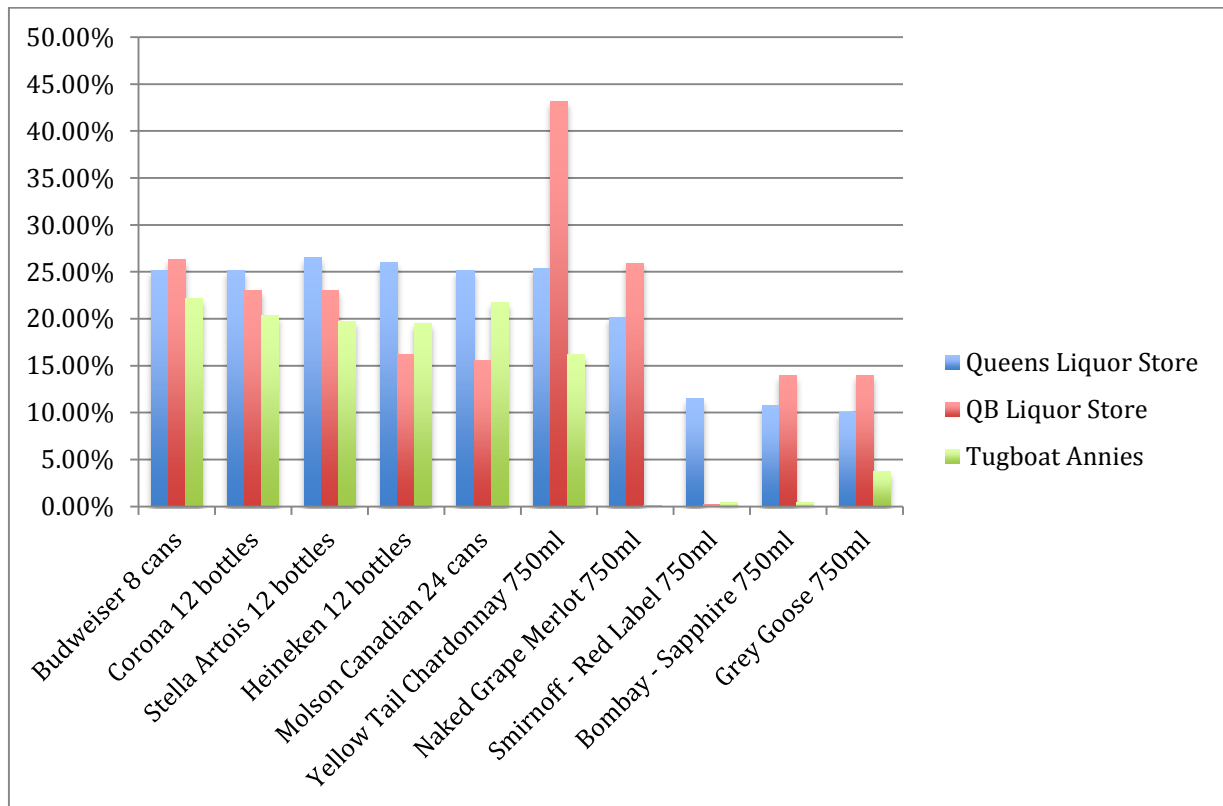
Queens Liquor Store's marketing activities are analysed by their price, product, and promotion. As per section 3.2.2 the prices at Queens Liquor Store are marked up between 10-25% depending on the type of liquor. In order to try to evaluate their prices, ten items were selected from Queens Liquor Store to compare them to the local competition and GLSs (BC Liquor Stores). Table 3.2 below shows these items and the prices charged by Queens Liquor Store and its competitors (data was collected July 6th, 2013). Figure 3.4 illustrates how much higher the prices are for the ten products compared to GLS pricing.

Table 3.2 Competitor Liquor Store Prices

Liquor	Queens Liquor Store	QB Liquor Store	Tugboat Annies	GLS
Beer				
Budweiser 8 cans	\$15.00	\$15.15	\$14.65	\$11.99
Corona 12 bottles	\$29.65	\$29.15	\$28.50	\$23.69
Stella Artois 12 bottles	\$32.25	\$31.35	\$30.50	\$25.49
Heineken 12 bottles	\$34.00	\$31.35	\$32.25	\$26.99
Molson Canadian 24 cans	\$45.90	\$42.40	\$44.65	\$36.69
Wine				
Yellow Tail Chardonnay 750ml	\$14.40	\$16.45	\$13.35	\$11.49
Naked Grape Merlot 750ml	\$11.40	\$11.95	\$9.50	\$9.49
Spirits				
Smirnoff - Red Label 750ml	\$27.60	\$24.80	\$24.85	\$24.75
Bombay - Sapphire 750ml	\$31.00	\$31.90	\$28.10	\$27.99
Grey Goose 750ml	\$55.00	\$56.95	\$51.85	\$49.99
Lowest Price LRS				

Developed by author based upon information provided from Queens Liquor Store

Figure 3.4 Competitor Liquor Store Prices vs. GLS



Developed by author based upon information provided from Queens Liquor Store

Figure 3.3 displays the range of prices the competition provides in the local market. The data confirms Queens Liquor Store's current pricing model. This includes a mark-up of 25% for beer and white wine, 20% for red wine, and 10% for spirits. Analysing the data above we can conclude:

- Queens Liquor Store does not provide the most competitive prices.
- Tugboat Annies provides the cheapest pricing for majority of the products.
- Tugboat Annies charges close to GLS prices for red wine and spirits.
- QB Liquor Store's price mark-up varies between products.

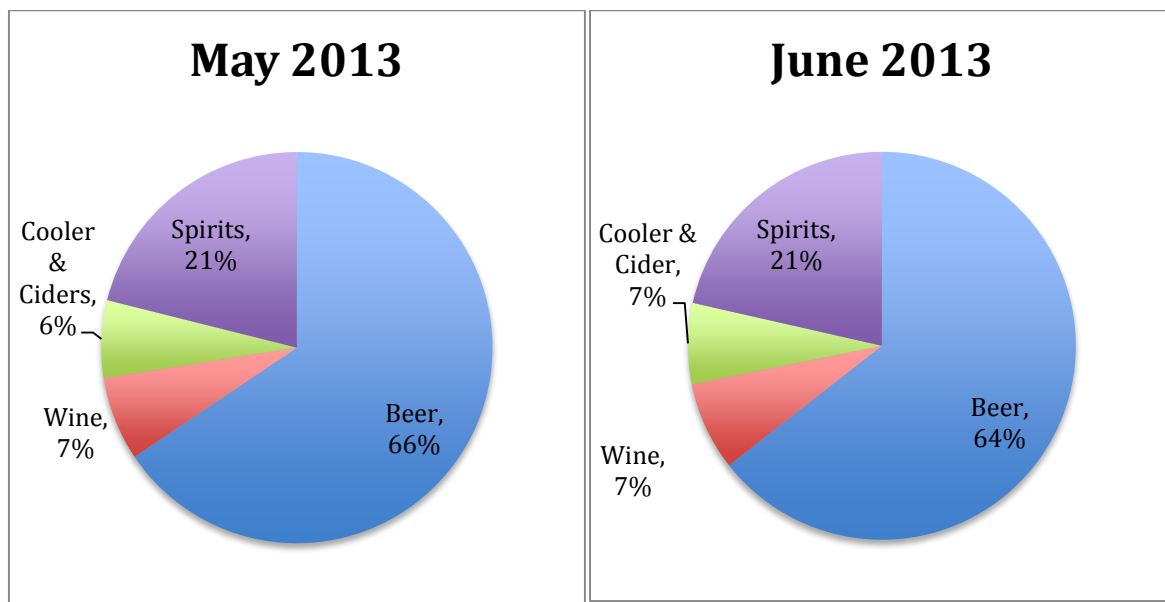
While Queens Liquor Store was aware competitors charged different prices, management was under the impression their pricing structure was consistent with the rest of the industry. Tugboat Annies charges approximately 20% and 10% less for red wine and spirits respectively. Tugboat Annies' company website states they charge GLS pricing for liquor and their pricing indicates this (Tugboat Annies, n.d.). QB Liquor Store pricing does not have a constant mark-up. For example they charge close to GLS pricing for Smirnoff – Red Label vodka, yet much higher for other spirits. Similarly their beer mark-up fluctuates as well. QB Liquor Store could use a unique pricing list. As QB Liquor Store is affiliated under Tag Liquor Stores, management may have its own unique price list across their stores. This may allow the firm to be competitive on popular items while still maintaining margin on other products. For example vodka may be priced lower as it is the best selling spirit. As of March 2013, vodka held a 32% market share for spirits according to the LDB (Liquor Distribution Branch, 2013). Overall Queens Liquor Store uses set pricing, and it does not appear to be competitive in the local market. The store may be losing potential business to local competitors and a different pricing structure may help add value.

Another marketing activity for Queens Liquor Store is their product mix. In an attempt to evaluate its product mix selection, the sales from the past two months were analysed by product categories. The liquor sales were categorized as:

- Beer
- Wine
- Spirits
- Cooler and Ciders

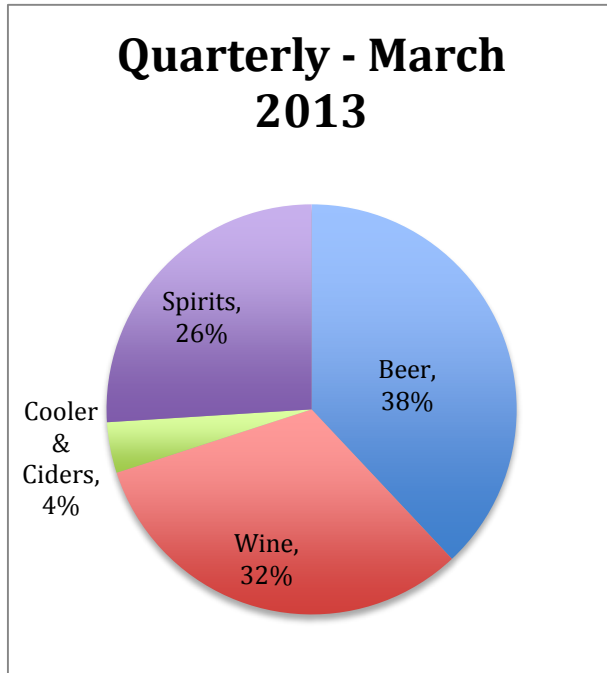
The sales from May and June 2013 were analysed. Daily sales history was manually added for each month to create this data. The data is compared against trending market sales data from LDB sources. This gives a general indication of how well the store's product mix sells versus the industry. Figure 3.5 below shows percentage of sales by product category from May and June in 2013 for Queens Liquor Store. Figure 3.6 shows the LDB's percentage of sales by product category in their quarterly review as of March 2013.

Figure 3.5 Queens Liquor Store Sales by Product Category



Developed by author based upon information provided from Queens Liquor Store

Figure 3.6 LDB Sales by Product Category



Developed by author based upon information from LDB, 2013

Queens Liquor Store's size does not allow for a great product mix. The product that is ordered has not changed significantly in recent years. Queens Liquor Store currently relies heavily on its beer sales. Currently it accounts for approximately two-thirds of their liquor business. The industry product category sales are more evenly split. Queens Liquor Store's product matrix does not seem to add value to their firm. Their store sells nearly the same amount of wine compared to coolers and ciders. The industry market share was 31% in 2011/12 for wine and sales have increased on a yearly basis since 2008 (Liquor Distribution Branch, 2012). The store is also susceptible to risk as it relies heavily on beer sales. Any deregulation by the government would threaten the company. In Quebec beer can be sold in convenience and grocery stores. If the province of B.C. were to launch a similar policy, Queens Liquor Store would be in a vulnerable position. Overall the product mix in Queens Liquor Store does not indicate it provides any additional value to the business. The store may be losing potential

business as it provides less selection to local customers. A change in the product mix may help add value to the store and increase store revenue.

Queens Liquor Store’s promotional activities are minimal. The only marketing promotions currently done through the store are from liquor vendors. A comparison of Queens Liquor Store’s promotional marketing activities to local competitors is shown in Table 3.3.

Table 3.3 Queens Liquor Store Promotional Marketing Comparison

Promotional Marketing Activities	Queens Liquor Store	QB Liquor Store	Tugboat Annies
Company Website	No	Yes	Yes
Facebook	No	Yes	Yes
Twitter	No	No	Yes
Free Ice	No	Yes (over \$30)	Yes (over \$30)

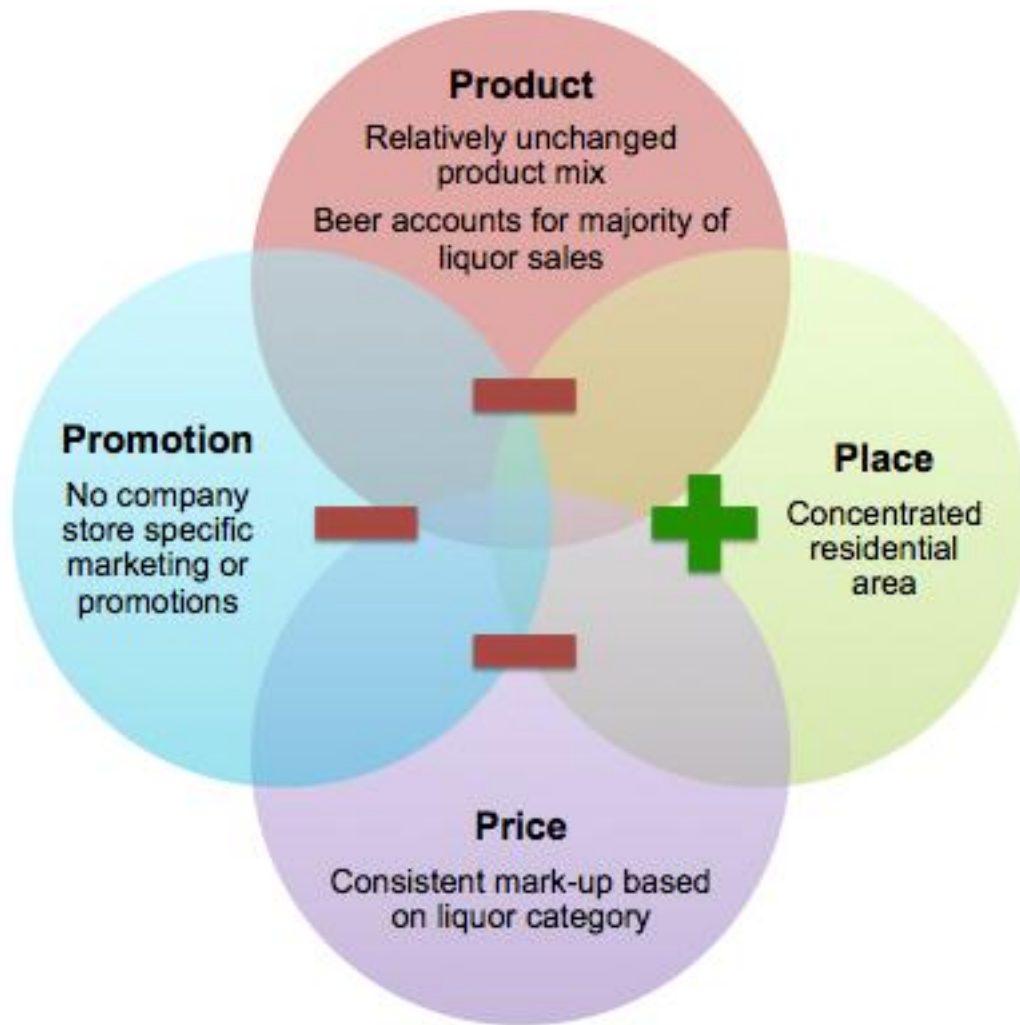
Developed by author based upon information provided from Queens Liquor Store and sources: Tugboat Annies, n.d. and Tag Liquor Store, n.d.

Queens Liquor Store currently does not provide any store specific promotional marketing activities. Both QB Liquor Store and Tugboat Annies have an online presence and provide free ice with purchases over \$30. QB Liquor Store also supports local VQA wines and even provides wine consultant services available on their website (Tag Liquor Store, n.d.). Overall Queens Liquor Store has no online presence and provides no store specific marketing activities.

In conclusion, Queens Liquor Store’s marketing and sales activities are minimal compared to their local competitors. Figure 3.7 below shows the overall marketing mix provided by Queens Liquor Store through their value chain. The company provides little value with its current pricing, product mix, and promotional activities. Queens Liquor Store’s marketing

activities have remained unchanged over the years. The company's IT infrastructure provides no sales reporting that is used in the marketing decisions regarding price and product selection.

Figure 3.7 *Queens Liquor Store Marketing Mix*



Developed by author based upon information provided from Queens Liquor Store

3.2.5 Queens Liquor Store's Competitive Advantage

Analysis of Queens Liquor Store's internal resources and value chain underlines the many weaknesses of the store. The company has many disadvantages compared to local competitors. The main competitive advantage of the store is its location. Queens Liquor Store is the only liquor store in Queensborough located in a condensed residential area. The company's remaining resources provide little value compared to competitors. Our assessment indicates the

store's resources ultimately weaken its value chain. The management team's inexperience and poor IT infrastructure provides no support across its primary activities. The weak infrastructure leads to an inefficient value chain. This not only raises the store's expenses, yet reduces the its responsiveness. Management is unable to obtain any data that may be used for sales and marketing. The pricing and product mix have remained stagnant over the past years. The store overall provides very little cost or differentiation advantages in their activities. This may cause the store to earn a poor reputation in the local market. The current operational and marketing activities are a threat for the company's growth. The next section will attempt to analyse the company's current strategies to compete in the industry.

4: Queens Liquor Store's Current Strategy

In the previous chapters, the store's external environment and the internal characteristics were examined. This chapter attempts to outline the current strategies for Queens Liquor Store. The store may go through a retail store expansion as a part of a proposed property development plan from Gilhurst Development with the city of New Westminster (please refer to Queens Liquor Store Proposed Development, **Appendix B**). This development and expansion would likely occur in 2014/15. As the store was acquired in late 2012, current management has been operating under the same strategy as the previous ownership. This section attempts to analyse Queens Liquor Store's current strategy. This is based on their positioning, competitive stance, and functional strategies (Boardman, et al., 2004).

4.1 Positioning and Competitive Stance Strategy

There are three general position strategies: product-orientated, customer-orientated, or niche-orientated. Product-orientated is tailored towards selling a few products to many customer segments. Customer-oriented relies on selling many different products to a few customer segments. Niche-orientated focuses only on a few product categories to a few customer segments (Boardman, et al., 2004). Similarly firms can provide a competitive stance strategy based on a cost leadership strategy or differentiation strategy. A cost leadership strategy focuses on reducing costs and appealing to price sensitive customers. A differentiation strategy focuses on differentiating products in order to compete. The focus strategy adopts a narrower effort on a few target markets (Porter, 1980).

Queens Liquor Store employs a customer-orientated position strategy selling many products to a few customer segments. Majority of LRSs employ this position, as the products offered in the industry are not unique as many competitors provide them. The current competitive stance for Queens Liquor Store is a weak cost focused strategy. While the store does not provide the cheapest pricing, it focuses on keeping expenses down. The store's main weakness is its lack of a true competitive strategy. The store's current management team adopted the previous processes and strategies from the past ownership. A cost leadership strategy is to provide similar services with lower costs relative to their competitors. While Queens Liquor Store tries to, it does not employ a true cost focused strategy. With the acquisition of the property and the store, new ownership inherited the store's previous tendencies and weak strategies. The store's lack of strategy is demonstrated by its marketing activities as the store overall charges higher prices than its local competitors. Furthermore, the organization has avoided upgrades to its infrastructure, which could lower expenses and increase the efficiency of the store. The management team is in its first year of business and is relatively new. While the goal is to implement a cost leadership strategy and differentiate their services, the store continues to operate under a weak cost focused strategy.

4.2 Functional Strategy

Functional strategy is tied directly to a company's value and is the selection of processes it uses. It can be described as the operational guidelines that govern how a company functions across its different areas. Similar to its competitive stance, Queens Liquor Store's current functional strategies are undefined. The store continues to operate based on the guidelines from previous ownership, which is to maintain the flow of goods with minimal costs. Any projects including renovations or IT enhancements were avoided. The value chain analysis suggests Queens Liquor Store currently provides little operational or marketing value to its business.

Currently the store depends highly on employees performing operational activities manually including ordering, inventory control, and accounting. The store may plan to implement a new IT system in order to streamline the operational activities. This will be necessary if the company plans to expand the current retail store. The following section will look to assess the position of Queens Liquor Store in the industry. The chapter will analyse the company's current position and its expected performance in the local market.

5: Queens Liquor Store Situational Assessment

This chapter assess Queens Liquor Store's current position in the Queensborough area. The chapter evaluates if the current strategies and processes are suitable to maintain share in the market. This analysis includes: 1) a summary of the current situation, 2) an assessment of expected performance based on current strategy, 3) a statement of strategic direction (Boardman, et al., 2004).

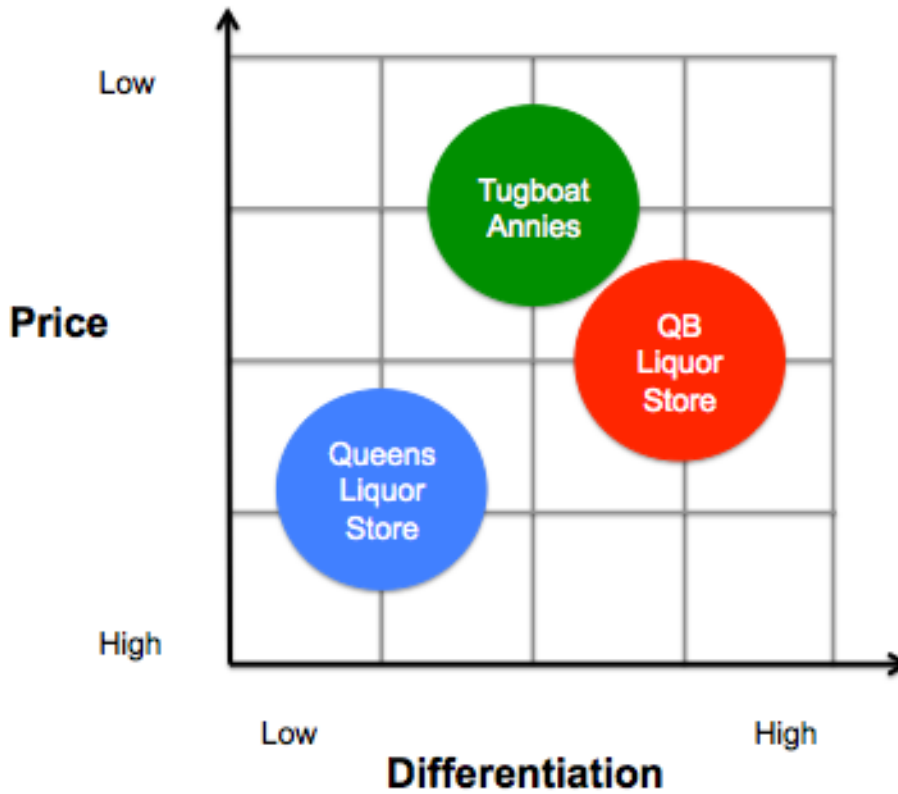
5.1 Current Situation

As discussed in Chapter 2, the retail liquor industry offers a moderate level of attractiveness. The industry is regulated by the government, which blocks entry and reduces firm concentration. While companies may compete on price, buyer power is still low as the number of liquor stores is limited. Any changes by the government in regulation could drastically shift the attractiveness of the industry.

Customers may purchase alcohol in B.C. from various establishments. LRSs provide the most convenience as they have the highest concentrations of stores and longer hours. There are three LRSs located in close proximity in the Queensborough area. As the local community continues to grow, competition between the stores has increased. Queens Liquor Store currently has a weak competitive stance and functional strategy. While the company tries to employ a cost focused strategy, it tends to be more cost conscious, and avoids expenses. Rather than being a cost leader, the company employs a very weak cost focused strategy. This has led Queens Liquor Store to neither save on cost, nor differentiate their services.

Queens Liquor Store's weak strategies are the main cause for the company's inability to add value across its business. The current strategies have created a lack of resources for the company. This has led to a weak value chain that provides no value across its operational and marketing activities. Since the store was acquired by new ownership in 2012, little has changed operationally. New management has relied heavily on the store's employees to operate the business in its first year. Queens Liquor Store currently operates with an out-dated store, weak IT infrastructure, and an inexperienced management team. These supporting resources provide little value across the store's value chain support activities. The store has generally avoided expenses due to its lack of a functional strategy. An improved IT infrastructure could reduce costs, and increase the responsiveness of the store. The store also lacks any marketing activities. Its price structure and product mix has remained stagnant for years. The store overall provides very little cost or differentiation advantages in its local market. There are two local competitors to Queens Liquor Store: QB Liquor Store and Tugboat Annies. The performance of Queens Liquor Store compared to its local competition is shown in Figure 5.1. The model has one axis showing cost and the other differentiation. Currently Queens Liquor Store provides the highest pricing and least differentiation compared to its competition.

Figure 5.1 Queens Liquor Store Local Competition Strategic Position



Developed by author based upon information provided from Queens Liquor Store

5.2 Expected Performance

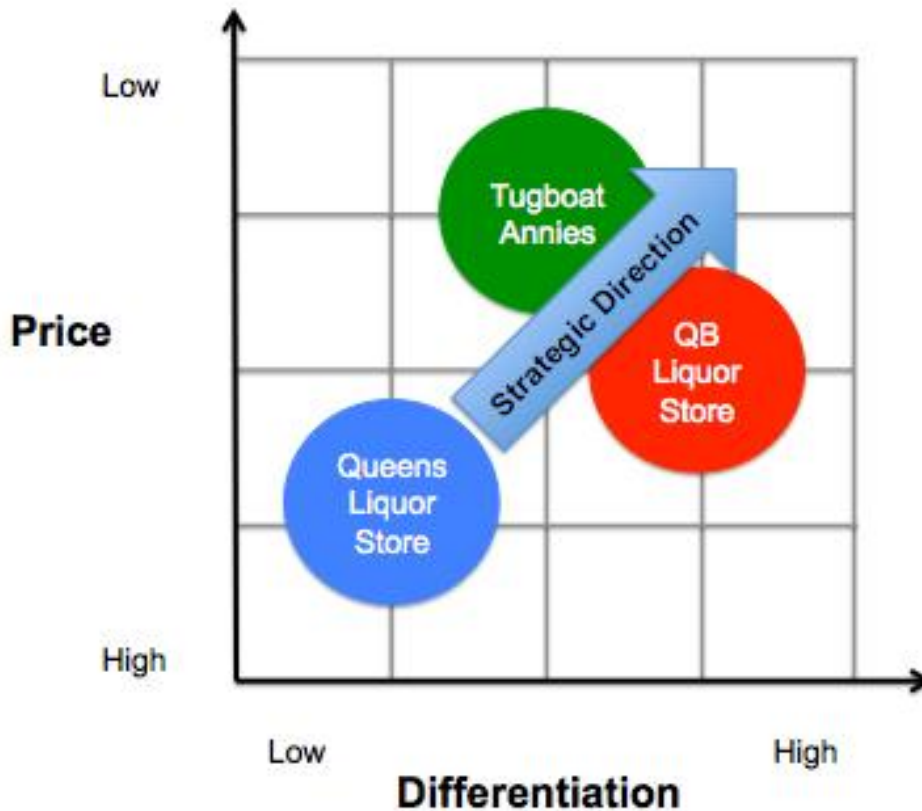
Queens Liquor Store's expected performance using its current strategies would likely decrease the company's competitive position in the local market. As discussed earlier Queens Liquor Store does not provide much value from its operational and marketing activities. Both Tugboat Annies and QB Liquor Store have larger retail stores, provide cheaper pricing, and have store specific promotions. Tugboat Annies has already adopted a cost leadership strategy as it provides spirits at GLS pricing. As the Queensborough neighbourhood grows, the rivalry between these firms will increase. Further, if any government deregulation were to occur in the long-term, these local competitors may be better suited in adapting. If Queens Liquor Store

continues to provide little cost or differentiation strategies, their expected performance in the local market will decrease.

5.3 Strategic Direction

Queens Liquor Store has been running on a status quo from the previous ownership. The current management team is in the process of a development plan for the store property. This proposal includes an expansion of Queens Liquor Store. The company may be able to leverage its store location in order to gain more market share with the store expansion. Figure 5.2 illustrates the goal for Queens Liquor Store based on its competitor's strategic positions.

Figure 5.2 Queens Liquor Store Strategic Direction



Developed by author based upon information provided from Queens Liquor Store

Queens Liquor Store would need to increase their operational efficiency in order to expand their store. The store's current resources and value chain would make any expansion difficult. The firm would need to adopt a new functional strategy in order to meet the operational demands of a larger retail store. In order to move to this strategic position the store will need to follow three key success factors:

1. Use of a pricing strategy
2. Closer monitoring of local competitors
3. Better control of inventory

Currently the company does not employ a pricing strategy. A pricing strategy may help the firm in generating more profit than their competitors. To be successful in this strategy the firm must price high turnover products correctly, and generate high margins on lower turnover products. In order to compete on price, Queens Liquor Store needs to pay closer attention to their local competitors. The firm must monitor its local competitors to ensure their prices and offerings reflect customer's demands. Lastly Queens Liquor Store needs better control of its inventory. A proper inventory tracking system would allow the firm to continuously monitor current stock levels. The store would also be able to track product sales and adapt their product mix accordingly. The next chapter outlines the strategic alternatives that are suitable for Queens Liquor Store going forward.

6: Strategic Options for Queens Liquor Store

This chapter discusses the suggested alternatives for Queens Liquor Store. The alternatives are based on all previous discussion and analysis. A standard framework is used to: 1) Generate strategic alternatives 2) Develop scenarios 3) Establish evaluation criteria 4) Evaluate alternatives (Boardman, et al., 2004). Strategic options and plausible scenarios are first developed. The strategic alternatives are then evaluated based on the evaluation criteria and different scenarios. From this a final recommendation will be made for Queens Liquor Store.

6.1 Queens Liquor Store's Strategic Alternatives

This section describes three strategic alternatives available to Queens Liquor Store. These options were chosen based on the external and internal analysis of the company. The three options are: 1) Status Quo 2) Invest in IT Infrastructure and Marketing 3) Sell and Lease Liquor Store.

6.1.1 Status Quo

The first option for Queens Liquor Store is to continue with its current strategy without making any major changes to its operations. The company would continue to run the business with its current systems and processes. They would seek to internally improve their infrastructure and marketing activities. There would be no major investments in the IT systems and marketing.

6.1.2 Invest in IT Infrastructure and Marketing

The company has the option of improving its resources and value chain by investing in their IT infrastructure and marketing activities. An external company or consultant would be hired to implement the changes to the store's systems. This option would seek to improve the accounting, POS, and inventory systems. The purpose of this strategic option would be to improve the company's operational and marketing activities. A company website would also be developed to increase promotional awareness of the store.

6.1.3 Sell and Lease Liquor Store

The final alternative for Queens Liquor Store would be to sell the store to another company. The new company could purchase the store and lease the property from Gilhurst Development. New ownership would run and operate the store.

6.2 Scenarios

This section describes the plausible paths of future events for Queens Liquor Store based on the external environment. These include three possible scenarios: 1) No store expansion 2) Store expansion 3) Change from the Government of B.C.

Two of the possible scenarios are if store expansion will or will not occur. The City of New Westminster or the LCLB may deny the proposal for the store expansion. Gilhurst Development may also postpone the expansion and focus on other development ventures. The final scenario is any change by the government. This may be partial change such as opening a GLS in the neighbourhood, or changes in licensing regulations. This could include allowing sales of beer in grocery stores or launching a full privatization model.

6.3 Evaluation Criteria

This section describes the criteria that is used to evaluate the strategic alternatives in the previous section. The analysis uses the following goals: short-term profitability and long-term profitability. Short-term profitability is defined as the company's ability to generate profit in the next two fiscal years. Long-term profitability is the company's ability to generate profit beyond two fiscal years. This evaluation criteria is used as the company's main goal is to be profitable. The analysis assumes the weight of the two goals to have different weighting. Table 6.1 below shows the goals and weighting used in the evaluation criteria. An evaluation based on these goals over the three plausible scenarios offers a sense of risk for each strategic alternative.

Table 6.1 Evaluation Criteria and Weighting

Goals	Weight
Short-term Profit	0.40
Long-term Profit	0.60

Developed by author based upon information provided from Queens Liquor Store

6.4 Evaluation of Strategic Alternatives

This section evaluates the three strategic alternatives introduced in section 6.1. The analysis evaluates each option against the three plausible scenarios in section 6.2. The store expansion scenario takes into account short-term expenses and evaluates the company's ability to take advantage of long-term profits. In the scenario where there is a change from the government, it is assumed no changes would occur in the short-term. In this scenario, long-term profits are evaluated in more detail. Every alternative is assigned a numerical value from 1-5 against each goal. Each rating is multiplied by the goal's weight to determine the weight rating described in Table 6.1. Table 6.2 below shows the weighted ratings for the strategic alternatives.

Table 6.2 Evaluation of Strategic Alternatives

Goal	Weight	Alternative 1 Status Quo		Alternative 2 Invest in IT Infrastructure and Marketing		Alternative 3 Sell and Lease Liquor Store	
		Rating	Weighted Rating	Rating	Weighted Rating	Rating	Weight Rating
Scenario 1 No Store Expansion							
Short-Term Profit	0.40	3	1.2	2	0.8	5	2.0
Long-Term Profit	0.60	2	1.2	3	1.8	1	0.6
Total	1.0		2.4		2.6		2.6
Scenario 2 Store Expansion							
Short-Term Profit	0.40	2	0.8	1	0.4	5	2
Long-Term Profit	0.60	2	1.2	4	2.4	2	1.2
Total	1.0		2.2		2.8		3.2
Scenario 3 Change from the Government							
Short-Term Profit	0.40	3	1.2	2	0.8	5	2.0
Long-Term Profit	0.60	1	0.6	2	1.2	1	0.6
Total	1.0		1.8		2.0		2.6

Developed by author. Adapted from Boardman, et al., 2004

6.4.1 Status Quo

The status quo option is based on if Queens Liquor Store would continue to operate as is. Based on the current operations the company is believed to fall in long-term profits due to local competition. If the store were to expand, short-term profitability would decrease due to expenses with the expansion and renovations. The store expansion would potentially help increase profitability long-term however the increased store size would place more stress on the store. With the limited IT infrastructure, the firm would not be in a position to take advantage of a store expansion. If the government were to enter the market and open a GLS in the Queensborough neighbourhood, the store would lose long-term profits due to GLS's selection and low pricing. Government deregulation would also cause the firm to lose long-term profits

by increasing competition. As Queens Liquor Store main product category is beer, the store would also lose long-term profit if the government were to implement partial deregulation. The status quo weight ratings are used as a benchmark to gauge the other strategic alternatives.

6.4.2 Invest in IT Infrastructure and Marketing

The second strategy for Queens Liquor Store would be to invest in its IT infrastructure and marketing activities. An improved IT system would allow the firm to efficiently run the store. With a company website and the increase in marketing promotions, the store would gain more exposure. Due to the expenses associated with these enhancements, it is expected the company would drop in short-term profits across all scenarios. The company would be in a better position to improve its long-term profits, as many of the manual processes would now be automated. The company would also be in a stronger position if the store were to expand. Similarly if the government were to enter the local market or change regulations, the store would be able to adapt quickly to changes in the industry. The improved IT system would provide better inventory control and sales reporting. Subsequently, the firm would need to utilize this data to alter their price and product mix accordingly. Overall management would need to decide on their marketing strategies. With an inexperienced team, it may be difficult for the store to apply and adapt their pricing and product mix accordingly. Consequently local competitors would also adapt to any adjustments made by Queens Liquor Store. The firm would be faced with a challenging task and may not realize enough long-term profits to offset the costs associated with this investment.

6.4.3 Sell and Lease Liquor Store

The third alternative for Queens Liquor Store provides Gilhurst Development an exit strategy. The sale of Queens Liquor Store and its license provides the highest short-term profit

across all scenarios. The only long-term profits from the store beyond the sale would be from property lease payments. If the government were to enter the local market or deregulate the industry, it may reduce the value of the property for the liquor store. Conversely a store expansion and property development may allow the firm to charge a higher premium to lease the property. This would allow the firm to retain a steady monthly stream from the property. The sale of the liquor store would allow Gilhurst Development to exit the retail industry and continue to focus on urban development.

7: Recommendation for Queens Liquor Store

The recommendation for Queens Liquor Store is alternative 3; sell and lease liquor store. The first alternative is not viable based on the internal analysis of the firm. The current strategy and infrastructure of the firm limits its ability to generate greater profit. Local competitors are able to provide better pricing, product selection, and promotions. Ultimately with the current infrastructure and strategy the store does not have the capacity for an expansion.

The analysis found alternative 3 more favourable than option 2 by a small margin. The weighted rating is subjective and relies solely on short-term and long-term profit. Investing in the store's IT infrastructure places the store in a better position to expand and generate greater long-term profit. Conversely the inexperienced management team would be faced with a difficult task of adapting their value chain activities accordingly. The company may not realize the long-term profits to offset the costs associated with this investment.

Alternative 3 was found to be more attractive as it provides the least uncertainty for the firm. Selling Queens Liquor Store allows Gilhurst Development to exit the retail liquor industry and focus on urban development. The company would not be responsible for costs associated with investing in the IT systems and any renovations with the potential expansion. The firm would retain the property and continue to receive a steady monthly income stream. This option allows Gilhurst Development to continue to focus on its proposed development plan for the property.

7.1 Sub-Recommendations

Queens Liquor Store's main internal resource and competitive advantage is its store location. If the firm decides not to sell, it is recommended the company invest in its IT infrastructure and an incentive program be tied to the store manager's salary and the store's performance. Therefore the store manager will be evaluated and motivated to look after the best interests of the store. A store expansion would be very difficult with company's current infrastructure. With an enhanced IT system, the store will be in a better position if it were to expand.

While the overall recommendation is to sell Queens Liquor Store, the firm can continue to own and operate the store and use the sale of the store as an exit strategy. The firm may invest in the store's IT and move forward with the potential expansion. While there would be a costs associated with this, it would ultimately increase the value of the store. The management team would need to continuously assess the store's performance. If the firm was not able to realize enough profits to balance the costs associated with these investments, it can exit the market by selling the liquor store. Currently the business is considerably young, with a new management team operating the store for its first year. It is recommended the company quickly focus on a business strategy, as it is the determining factor for the company's future success.

Appendices

Appendix A – Queens Liquor Store Property



Source provided by Queens Liquor Store



Appendix B – Queens Liquor Store Proposed Development



Source provided by Queens Liquor Store



Appendix C – Queensborough Land Use



Modified by author. Data source: City of New Westminister, 2012

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