



Purchasing and Merchandising Policy (2008 revision)

Web Broadcast

Société des alcools du Québec

Wednesday, July 2, 2008

Schedule for the Web broadcast

Schedule for the broadcast

- Pre-recorded presentation
- Question period
 - Submit your questions anytime during the presentation by clicking on the icon that appears at the bottom of your screen
 - Personnel from the Procurement and Merchandising division will be pleased to answer your questions at the end of the presentation
- After the Web broadcast:
 - Presentation available at www.saq-b2b.com
 - You will have the option to go directly to a specific section



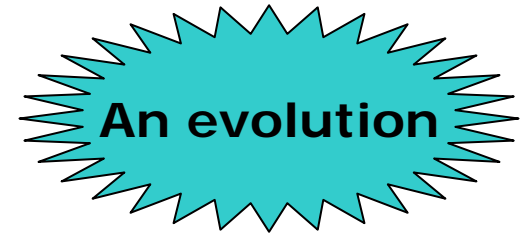
Agenda

- Introduction
- Revised policy
 - Section-by-section
 - Clause-by-clause
- Calendar
- Question period

Introduction

Improvements and adjustments:

- Recommendations from the Auditor General
- Internal consultations
- External consultations
 - Discussions
 - Workshops
- Updating our procedures



Revised policy - Clauses

Minor changes

- Formulation
- Lighter text
- Clarifications

Major changes

- New directions
- New definitions

Priorities:

- Management of specialty products
- Selection of new products
- Distribution of regular products
- Quotas



Section 1

The SAQ – Business enterprise

The SAQ – Business enterprise

Minor changes

- Clause 1.1 Mandate
- Clause 1.2 Exclusivity of Merchandising



Section 2

General management rules

General management rules

Minor changes

- Clause 2.1 Transactions with suppliers
- Clause 2.2 Electronic communications*
- Clause 2.5 Consultations
- Clause 2.6 Sales and inventory statistics
- Clause 2.8 Business ethics
- Clause 2.9 Applicable laws*
- Clause 2.11 Products marketed in grocery stores*

* No changes

General management rules

Major changes

- Clause 2.3 Product promotion
- Clause 2.4 Agents (*New!*)
- Clause 2.7 Business relationships (*New!*)
- Clause 2.10 Regular and specialty products

Clause 2.3 Product promotion

Proposal:

- Specify the role of the agent

Amendments:

- Distinction between the concepts of “product promotion” and “role of the agent”
- **New clause 2.4 Agents**

Clause 2.4 Agents

A supplier may retain the services of a third party (an “agent”) to carry out promotional activities in connection with its products.

A supplier may also hire an agent as a representative in dealing with the SAQ for specific purposes. In order to do so, the supplier must appoint the agent in writing, using the *Power of attorney* form that is available online.

A supplier must notify the SAQ’s Procurement and Merchandising Department of the name of its agent and any change with respect to its agent immediately, and in writing. This notification must indicate which products are affected, and the date when any change comes into effect.

In terms of dealings with the SAQ, the supplier is responsible for the actions and behaviour of its agent. The SAQ will not intervene in any dispute that may arise between a supplier and its agent.

A sample *Power of Attorney* form and instructions are available online at http://www.saq-b2b.com/policy_and_standards.htm



Clause 2.7 Business relationships

Proposals:

- Define our expectations with respect to suppliers and agents
- Emphasize the importance of a climate of cooperation

Amendment:

- Addition of a clause

With respect to its business relationships with suppliers and their representatives, the SAQ expects them to be polite and courteous at all times, and to act in a cooperative manner, taking into consideration the interests of both parties.

Clause 2.10 Regular and Specialty Products

Proposal:

- Revise the definition of “specialty product”

Amendment:

- New definition of specialty product
 - Clarifications
 - Application

Clause 2.10 Regular and Specialty Products

The term “specialty product” designates:

Former definition

- Any high-end alcoholic beverage, any alcoholic beverage that is purchased in small quantities and marketed during specific campaigns
- Condition:
 - Superior line = +25%

New definition

- Any alcoholic beverage that **complements** the line of regular products and that features a specific characteristic that is associated with:
 - Superior quality
 - Notoriety
 - Rarity
 - Discovery

Clause 2.10 Regular and Specialty Products

Clarifications

- The concept of **complimentarity** of one or all of the elements comprising notoriety, rarity, discovery, or superior quality involves potential price differences
- The needs that are included in calls for tenders will take into consideration the criteria involving complimentarity
- **Discovery:** In order to allow the consumer to benefit from products from emerging regions, the SAQ may acquire new products at lower prices

Clause 2.10 Regular and Specialty Products

Application:

- **Weekly** merchandising committee
 - Composition
 - Merchandising: Jean Chouzenoux, Benoit Beaudet, Alain Smith and others as necessary
 - Purchasing: Gilles Goulet, Sébastien Leblanc and others as necessary
 - Administration (occasional): Ghislaine Yergeau
 - Mandate
 - Validate the specific needs of calls for tenders
 - Validate the pre-selection choices
 - Validate the final selection choices
 - Validate purchases as they are made
 - Validate requests for renewal
- By ensuring complementarity with the regular product offer
- By respecting the “right to purchase”, allowing for the attainment of stock rotation objectives

Clause 2.10 Regular and Specialty Products

Application:

- Products that are non-compliant with respect to the new definition
 - Transfer to the regular product catalogue
 - Products that attain 1.5 times the quotas
 - 5 products already transferred
 - Transfer of 8 products anticipated in January 2009
 - Other products
 - Ongoing discussions; a number of scenarios are being considered



Section 3

Management by category

Management by category

Minor changes

- Clause 3.1 Principles
 - Shorter text
- Clause 3.2 Categories
 - Clarifications added

Clause 3.2 Categories

Proposal:

- Insert the methods of application into the text

Amendment:

When a category is created, it must contain a minimum of **eight (8)** products, and it must attain a minimum of **five million** dollars (\$5,000,000) in annual sales.

Application:

- Categories are updated every 18 months in order to reflect market trends
 - Changes will be published in September 2008



?

The list of categories is available online at
http://www.saq-b2b.com/policy_and_standards.htm



Section 4

Product selection

Product selection

Minor changes

- Clause 4.1 Principles
- Clause 4.5 Refusal of product offer*

Major changes

- Clause 4.2 Product offers
- Clause 4.3 Selection process for product proposals
- Clause 4.4 Acceptance of a product proposal
- Clause 4.6 Product substitution

* No changes

Clause 4.2 Product offers

Proposals:

- Allow flexibility in order to take better advantage of business opportunities
- Explain the selection process outside of calls for tenders

Amendment:

The SAQ publicly solicits proposals for new products. In **the case of specialty products**, the SAQ may also solicit proposals by invitation, or it may negotiate **directly with a supplier**.

Clause 4.2 Product offers

Application:

- Products in high demand
- Products classified by recognized magazines as being exceptional
- Products that receive extensive media coverage in Québec
- Products that are acquired for *SAQ Signature*, *Courrier Vinicole*, *Cellier*, and specific campaigns



The list of magazines/outstanding mentions is available online at http://www.saq-b2b.com/policy_and_standards.htm

Clause 4.3 Selection process for product proposals

Proposals:

- Revise and refine selection grids in order to better adapt to the market
- Take into consideration any efforts deployed by supplier with respect to sustainable development

Amendment:

- If a proposed product contributes to attaining the objectives for its category, it is assessed based on its **quality**, reputation, and sales potential. Any efforts deployed by suppliers with respect to **sustainable development will** also be considered in the assessment of proposed products.

Clause 4.3 Selection process for product proposals

Application:

- The revised grids will come into effect with the launch of the next version of Web tools, slated for early 2009
- The selection of products is validated by the merchandising committee
 - Specialty products: weekly, as mentioned
 - Regular products: with each call for tenders
 - Composed of product directors and the vice-president of Procurement and Merchandising. Other members will join them as required



Selection criteria are available online at
http://www.saq-b2b.com/policy_and_standards.htm

Clause 4.3 Selection process for product proposals

Clarifications – Selection criteria

(1) Performance potential

- Investment in SAQ promotional programs
- Performance of the supplier (specialty products only)
 - Turnover rate of supplier's inventory
- Sales objective (regular product only)
 - Formerly: minimum 1.5 times the quota for the category
 - **New: 2.0** times the overall applicable quota at the time when the Call for tenders is published in October 2008 (see Clause 7.3)

Weighting varies depending on whether the product is a regular product, a specialty product, or a regular spirits product

Clause 4.3 Selection process for product proposals

Clarifications – Selection criteria

(2) Notoriety

- Prizes, medals, media
 - Significant increase in the number of recognized publications
 - Product: recognition awarded to the proposed product
 - Supplier: recognition awarded to the supplier
 - Brand: recognition awarded to other products of the same brand and identifiable as such by the consumer

Weighting varies depending on whether the product is a regular product, a specialty product, or a regular spirits product



A list of magazines, contests/notoriety criteria is available online at http://www.saq-b2b.com/policy_and_standards.htm

Clause 4.3 Selection process for product proposals

Clarifications – Selection criteria

(2) Notoriety

- Product
 - Product volume on other markets
- Brand
 - Volume of the commercial brand on other markets
- Supplier (regular only)
 - Supplier's volume in Québec

Weighting varies depending on whether the product is a regular product, a specialty product, or a regular spirits product

Clause 4.3 Selection process for product proposals

Clarifications – Selection criteria

(3) Sustainable development

- Efforts toward sustainable development
- Certifications (environmental and biological)
- Level of recycled/recyclable materials used in packaging
- Weight of the case
 - Compared to the average for the category

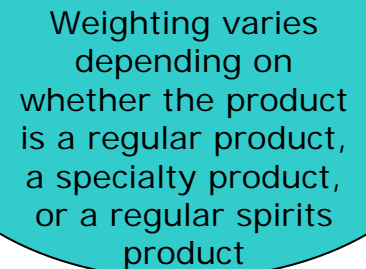
(1) + (2) + (3) = Elements considered with respect to pre-selection

Clause 4.3 Selection process for product proposals

Clarifications – Selection criteria

(4) Quality

- Organoleptic quality
- Quality/price ratio
- Visual aspect (regular products only)
- Overall appreciation



Weighting varies depending on whether the product is a regular product, a specialty product, or a regular spirits product

Pre-selection + (4) = Elements considered with respect to final selection

Clause 4.4 Acceptance of a product proposal

Proposal:

- Bring into line with product withdrawals

Amendments:

- The selection of regular products is no longer submitted to the executive committee for approval
- The commercial practices committee ensures that the PMP is respected

Clause 4.6 Product substitution

Proposals:

- Increase flexibility
- New method of application integrated into the text

Amendments:

- At the time when the request for substitution is submitted, the substitute product must have a **sales volume that is greater than twice the applicable minimum sales quota**;
- ... a supplier may replace **two of its regular products with another of its products**, subject to the terms described above... greater than 1.25 times the applicable minimum sales quota;
- The supplier must agree to respect the conditions of this policy as applicable to a new regular product;
- Regular products only.

Clause 4.6 Product substitution

Application:

- **New: 2.0** times the overall applicable quota at the time when the Call for tenders is published in October 2008 (see Clause 7.3)



Section 5

Product purchasing

Product purchasing

Minor changes

- Clause 5.1 Sales agreement*
- Clause 5.3 Price changes
- Clause 5.5 Invoicing currency
- Clause 5.6 Amounts due from a supplier
- Clause 5.7 SAQ purchase order*

Major changes

- Clause 5.2 Price
- Clause 5.4 Changes affecting a product
- Clause 5.8 Indemnity

* No changes

Clause 5.2 Price

Proposal:

- Adapt the concept of “lowest selling cost in Canada”

Amendment:

The SAQ negotiates the most advantageous terms and prices possible.

Clause 5.4 Change affecting a product

Proposal:

- Clarify our practices and requirements

Amendment:

Any changes that affect a product, and especially changes that involve the container, the label, or the format, must be submitted to the SAQ for approval.



Submit your requests for changes by email to:
selectiondesproduits@saq.qc.ca

Clause 5.8 Indemnity

Context:

- If the new regular product does not attain the **sales objective** presented in the proposal

Proposal:

- Insert method of application into the text

Amendment:

- ...This indemnity will be the greater of the following two amounts: a) an amount equivalent to five percent **(5%)** of the total purchase price of all orders of the product placed up to the end of the first thirteen (13) months since its market launch **or** b) ten thousand dollars **(\$10,000)**.

Clause 5.8 Indemnity

Clarifications – Indemnity

Sales objective:

- Sales objective for the first year
 - Must be set at a minimum of 2.0 times the minimum sales for its category
 - Presented with the submission of the proposal

Merchandising date:

- Introduced into the planogram

Calculation of sales generated:

- Analysis of product sales over 13 months
- Effective as of the revised planograms **following** the introduction phase (merchandising date)



Section 6

Product standards ([New section](#))

Clause 6.1 Labelling and packaging

- Proposal:

- Define and include the “packaging” component

- Amendment:

Packaging includes the product container and any other element that is used for the purpose of presentation, handling, storage or transportation.



Section 7

Product merchandising

Product merchandising

Minor changes

- Clause 7.2 Advertising and promotional programs
- Clause 7.4 Product withdrawal

Major changes

- Clause 7.1 Distribution
- Clause 7.3 Continued products listing
- Clause 7.5 Special withdrawal measures

Clause 7.1 Distribution

Proposals:

- Specify how the specialty products are distributed
- Optimize the distribution of regular products
 - Ensure a **common range of products** throughout the network
 - Improve **flexibility** at outlets
 - Give new products more **visibility**

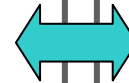
Amendments:

- Groups of outlets
- Mandatory products
- Discretionary spaces

Clause 7.1 Distribution

Regular products (no changes)

The shelf space that is occupied by these products and the positioning of products on the shelves are **determined by a planogram.**



Specialty products (clarification)

Any space that is **not covered** by the planogram is **reserved for specialty products**, which are selected by the manager of each outlet in response to requests from clients.

Clause 7.1 Distribution

Groups of outlets are defined according to linear feet

Groups of outlets

| <i>Group</i> | <i>Outlets</i> | <i>Number of outlets</i> | <i>No. of mandatory products</i> | <i>No. of mandatory new products</i> | <i>Flex number</i> |
|--------------|-------------------|--------------------------|----------------------------------|--------------------------------------|--------------------|
| 1 | Express | 34 | 400 | 0 | 100 |
| 2 | 350 l.f. or less | 26 | 200 | 0 | 50-150 |
| 3 | 351 to 500 l.f. | 81 | 300 | 0 | 50-150 |
| 4 | 501 to 600 l.f. | 66 | 350 | 0 | 100-200 |
| 5 | 601 to 800 l.f. | 80 | 400 | 50 | 150-250 |
| 6 | 801 to 1000 l.f. | 53 | 500 | 110 | 100-300 |
| 7 | 1000 l.f. or more | 61 | 700 | 110 | 100-250 |
| | TOTAL | 401 | | | |

Bordeaux - Groupe 6

Sample application of the outlet group



Minimum facings for each product: 2

3 tablettes - 8 pieds
24 pieds linéaires

Clause 7.1 Distribution

Distribution of regular products

Mandatory products

- Introduction of a “common range of products”
- Number of products distributed according to the market share for each category
- Selection of best sellers in each category
- List available online (**September 2008**)

New products

- Distribution guaranteed in specific groups of outlets
- List of outlets belonging to each group available online (**September 2008**)

Discretionary products (Flex)

- Products selected by outlets from among other regular products in the same category in response to requests from clients
- Management rules and tools to come (**September 2008**)

Clause 7.3 Continued product listing

Proposals:

- Make the supply more dynamic with existing, new, or high-potential products
- Generate space for these products while managing physical capacities— same number of outgoing and incoming
- Simple rules
- Clarify the method for withdrawing specialty products

Clause 7.3 Continued product listing

Amendments:

- Change in terminology
 - “Quota” instead of “minimum sales”
- Evolution of quotas
 - Withdrawal management at outlets carried out by outlets using “flex” spaces – more effective category management
 - Withdrawal management at warehouses carried out by the SAQ based on minimum sales per **universe**
- Continued listing of specialty products
 - A specialty product will be withdrawn from the catalogue if its sales performance, turnover rate, or **purchase price** are judged to be unsatisfactory, or **if it no longer complies with the definition of a specialty product.**

Clause 7.3 Continued product listing

Application:

- Regular products
 - Definition of categories
 - Under analysis – 5 to 10 universe
 - Minimum sales by category
 - Approval by the BOD
 - Publication in September 2008
 - Application in April 2009, end of sales for P13
 - Withdrawal periods
 - During each new regular product introduction phase
- Specialty products
 - Under review (refer to clause 2.10)

Clause 7.5 Special withdrawal measures

Context:

- If the new regular product does not attain the **minimum mandatory sales** during its first two years of merchandising

Proposal:

- Introduce an action process

Amendment:

- New paragraph

If the supplier fails to respect its commitment to collect the inventory that remains in warehouses within the time provided, at its expense, it must pay the penalty mentioned in the previous paragraph.



Section – Private orders

(Deleted section)



Section 8

Reviews and complaints
(New section)

Reviews and complaints

- Minor change

- Clause 8.2 Complaints to the Ombudsman

Major change

- Clause 8.1 Review of a decision

Clause 8.1 Review of a decision

Proposals:

- Simplify the process
- Make the process more accessible

Amendments:

- 20-day deadline for submitting a request for revision
- Introduction of a review committee

...In order to exercise this right, the supplier must send a **written request** for review of the decision to the **Secretary General of the SAQ**, stating the reasons for this request. Such requests is submitted to a **Review Committee** for review. **Only one request** for review of a decision is allowed.

Clause 8.1 Review of a decision

Application:

- Review committee
 - Ad hoc committee formed whenever a request is submitted
 - Independent members
 - No direct connection with the decision
 - Comfortable with the policy and the process
 - Written reply sent to the individual who submits the request, including a list of participating members



Section 9

Final and transitional provisions

Calendar

Selection of offers (clause 4.3)

- Revised grids: early 2009
- Sales objective of 2 times the minimum per universe: call for tenders issued in October 2008

Substitution (clause 4.6)

- Required 2 times the minimum per universe: call for tenders issued in October 2008
- Flexibility of 2 withdrawals for 1 introduction: call for tenders issued in October 2008

Distribution (clause 7.1)

- Groups of outlets: September 2008
- Mandatory products: September 2008
- Products by group of outlets: September 2008
- Launch at outlets: January 5, 2009

Minimum mandatory sales (clause 7.3)

- Publication: September 2008
- Date of coming into effect: April 2009



Question period