Management Tools For Creating Government Responsiveness:

The Liquor Control Board of Ontario as a Context for Creating Change

David Barrows and Rosemary McInerney

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Introduction

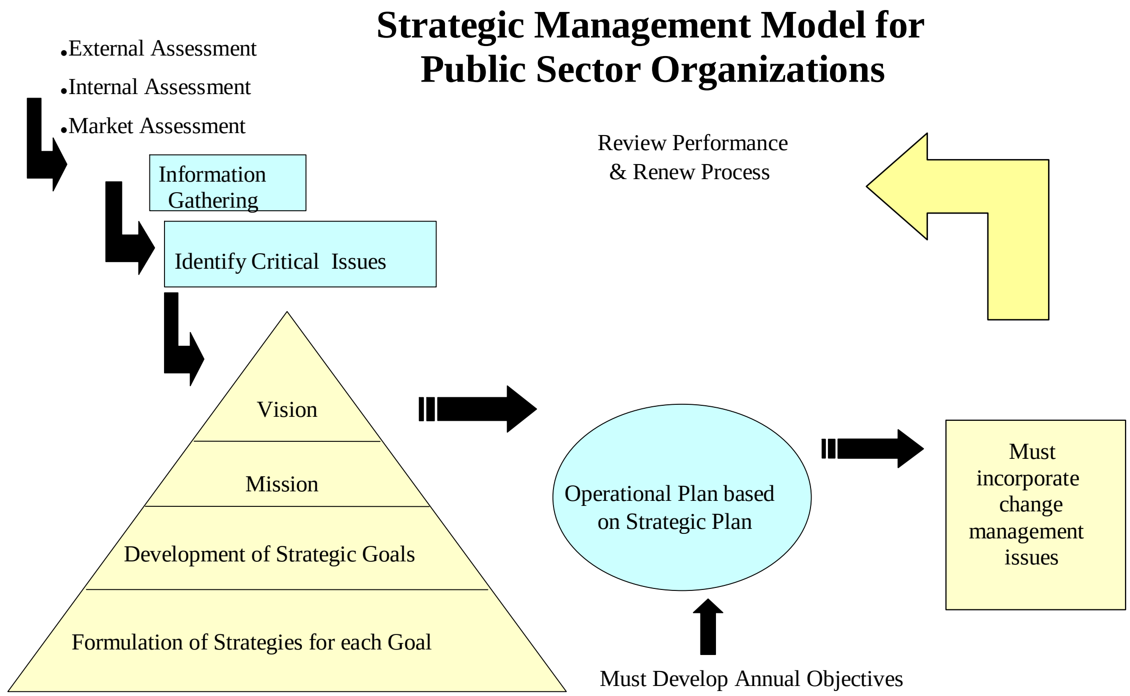
New approaches to management in the public sector are imperative as governments enter the new millennium. Market dynamics have created challenges for public organizations, with the emergence of the global economy, advances in technology, increased societal demands, and the need to provide more social services with fewer resources.[1] As well, a widespread desire for increased organizational scrutiny has increased the pressure for change, given more accessible globalized information systems and heightened media attention critical of government inefficiencies in service delivery. Response mechanisms have emerged within the private market to meet these recent challenges but government organizations have been slower to respond. This is understandable, given fiscal constraints and the bureaucratic process axiomatic to governments. However, a new approach, which incorporates modern strategic management tools, is necessary for the public sector to achieve improved performance and overall service quality.

While current public policy models have certainly started to reflect a shift away from traditional thinking about organizational design and public management, a systematic process for creating and sustaining improved performance that reflects changes in the environment is clearly absent. Evidence does exist to suggest change is affecting the public sector, and this change is manifest in the metamorphosing structures and processes of many public organizations. It is within this context that this case study is presented.

The guiding principles in any strategic management process, whether in the public or private sector, are about understanding what changes are needed, how to implement and manage these changes, and how to create a roadmap for sustaining improvements that lead to better performance. The difficulty in strategic management is the challenge of laying a foundation for success in the future while meeting today's challenges.[2] The primary tools available to organizations - for understanding, implementing, delivering and managing services and change – are outlined in Diagram 1. This diagram is a brief overview of a common public sector strategic management model[3] (with the addition of change management tools) used in the strategic planning process. This provides a dynamic method - not just a planning model - for evaluating the success of public sector organizations in meeting customer demands in the new public management.

[1] K. Kernaghan & D. Siegel, *Public Administration in Canada*. ITP Nelson: Canada, 1999. P. 3
[2] Liam Fahey & Robert Randall, The Portable MBA in Strategy. John Wiley & Sons: U.S., 1994. P. vi.
[3] Sections of the diagram taken from Bryson, John M. *Strategic Planning for Public and Nonprofit Organizations.* San Francisco: Jossey-Bass Publishers, 1988.

Diagram 1: Strategic management Tools for Public Sector Organizations



The application of this model helps to identify the components for success and the capabilities of an organization in its strategic management planning. As illustrated, the first step is information gathering, which identifies key market, industry and internal organizational trends and opportunities that will impact the organization. Where "market", in the public sector contexts, refers to all relevant stakeholders. The organization's ability to respond to these critical strategic issues and challenges is manifest in their vision and the mission statement describing what they do, with/for whom they do it, their distinctive competence and why they do it.[4] The strategic goals and specific strategies for achieving these goals should be formulated in an operational plan that also addresses change management issues. From this point, a review of this process and performance should be ongoing.

In the overall context of these new issues and challenges, this paper presents a case study of the Liquor Control Board of Ontario (LCBO) as an example of a government service organization that has been relatively successful in utilizing this managerial approach to assist with the achievement of stated organizational vision, mission and goals. The LCBO is a crown corporation established to control the sale of liquor and to promote responsible drinking within the province of Ontario. The LCBO is an excellent case study for several reasons. First, it has incorporated many of the policy objectives in the new public sector model and new market dynamics into its strategic management processes leading to improved performance levels and customer service. Secondly, the LCBO is recognized as the largest buyer of alcoholic beverages in the world, with 1999 sales totaling approximately $2.5 Billion. Thirdly, the LCBO's operations have drawn attention in both the public and private sector. The LCBO exemplifies the possibilities for change in the public sector. The private sector Retail Council of Canada named the LCBO Innovative Retailer of the Year in 1997 and 1998. The case study examines best practice benchmarks, and four related areas -

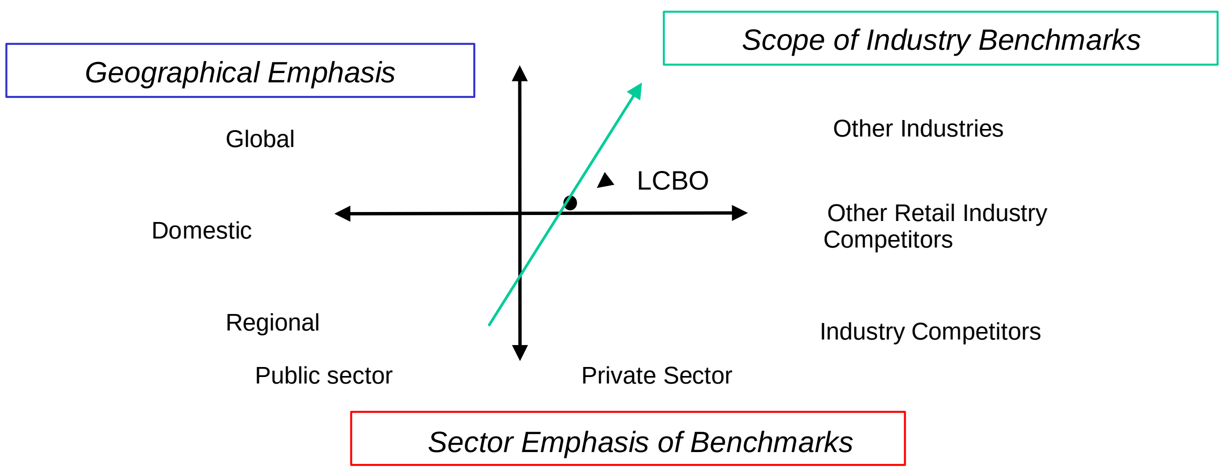
[4] Centre for Public Skills Training Report, p. 4.

industry analysis, stakeholders, service performance, and change management – to determine overall value creation in the LCBO's performance.

PUBLIC SECTOR STRATEGIC BENCHMARKING

To evaluate the LCBO's processes, activities and performance, it is useful to benchmark the practices of competitors (both within and outside of their sector of commerce) that have become leaders in their businesses. Examining a range of other benchmarks provides a basis for evaluation and also helps to create a method for tapping into potentially transferable organizational learning strategies. Of course, there are additional factors to consider (i.e. purpose, stakeholders, etc.) since the LCBO is a government organization. The LCBO regulates the pricing and distribution of alcoholic beverages in Ontario, together with the Ontario Alcohol and Gaming Commission. Most provinces within Canada have this type of regulating organization, with the recent exception of Alberta. Diagram 2 is a continuum that illustrates a three-dimensional range of best practice possibilities for benchmarking the LCBO.

Diagram 2: Organizational Benchmarking Continuum



The LCBO's position in the diagram illustrates the derivation of their organizational benchmarks:

- The LCBO looks beyond the government public sector to incorporate private sector benchmarks;
- The scope of their benchmarks extend somewhat beyond their industry (alcohol beverage industry) to include the larger retail industry; and,
- The geographical focus of their benchmarks tends to be more domestic than global.

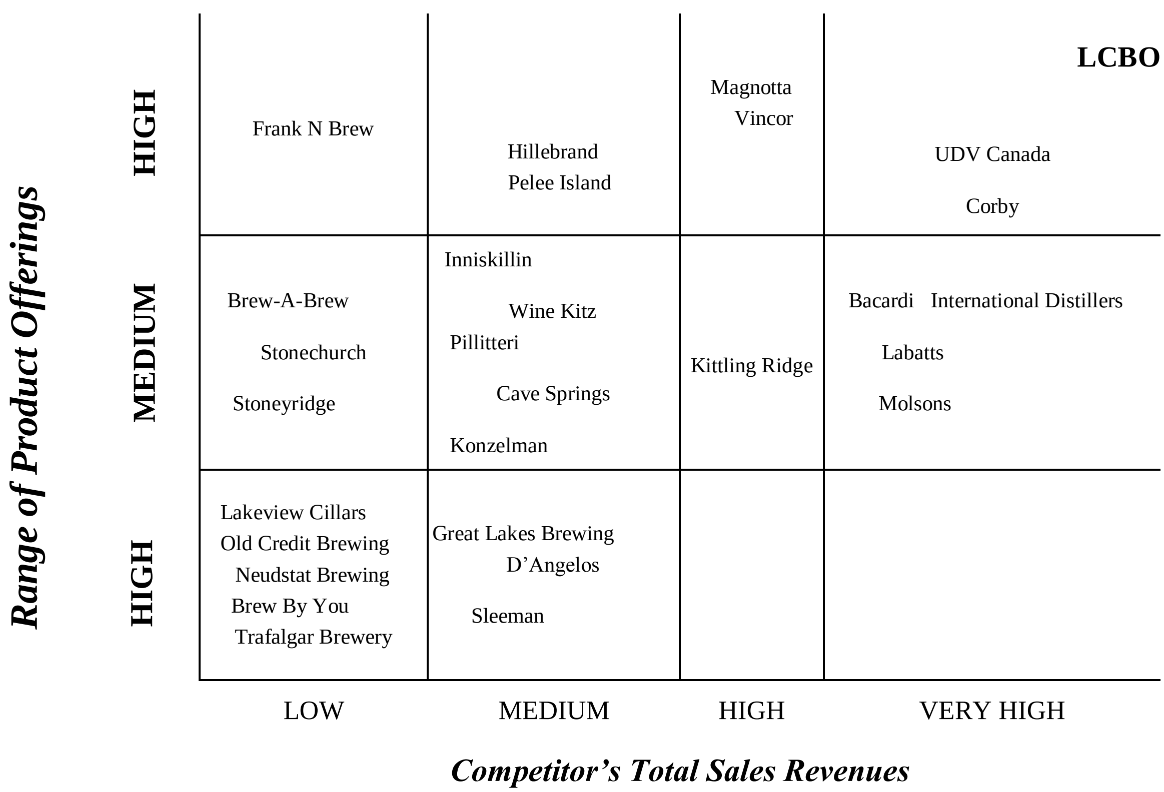
The significance of these findings is twofold: the LCBO is targeting best practices that are not limited to the government sector and their immediate industry, and this increases it's potential to learn from other organizational strategies. This study does not suggest that success lies in setting targets stemming from the private sector; instead, it suggests that much can be gained by moving beyond traditional boundaries for learning. While there are numerous barriers and impediments to any organizational change, a greater scope of consideration when setting benchmarks could help the LCBO to become more successful.

Key Success Factors

The LCBO is uniquely positioned because it acts as a regulator and a retailer in the alcohol beverage industry. While competing for customers and market share against other wineries, breweries and distillers, it also functions in two other capacities: working with industry associations to help retailers forge access and growth in export markets, and collecting taxes from alcohol sales. As a wholesaler, the LCBO participates in secondary customer segments, collecting license fees and regulating the activities of Brewers Retail (beer distribution), Agency Stores, Duty Free Operations (i.e. border crossings), Private Stock and Classics Private Stock, and Classic Catalogue shoppers.

Chart 1 provides an evaluation of competitor positioning in terms of capitalization base and product offerings. The horizontal axis uses the following ranges: low is under $1 M, medium is $1-10 M, high is $10-100 M and very high exceeds $100 M. The vertical axis uses increments as follows: low is less than 10 different labels or product types, medium is greater than 10 but less than 50 and high is over 50. While the chart lists only a small sampling of competitors in the marketplace, it is clear that the LCBO dominates the Ontario market with respect to both range of product offerings and sales revenue.

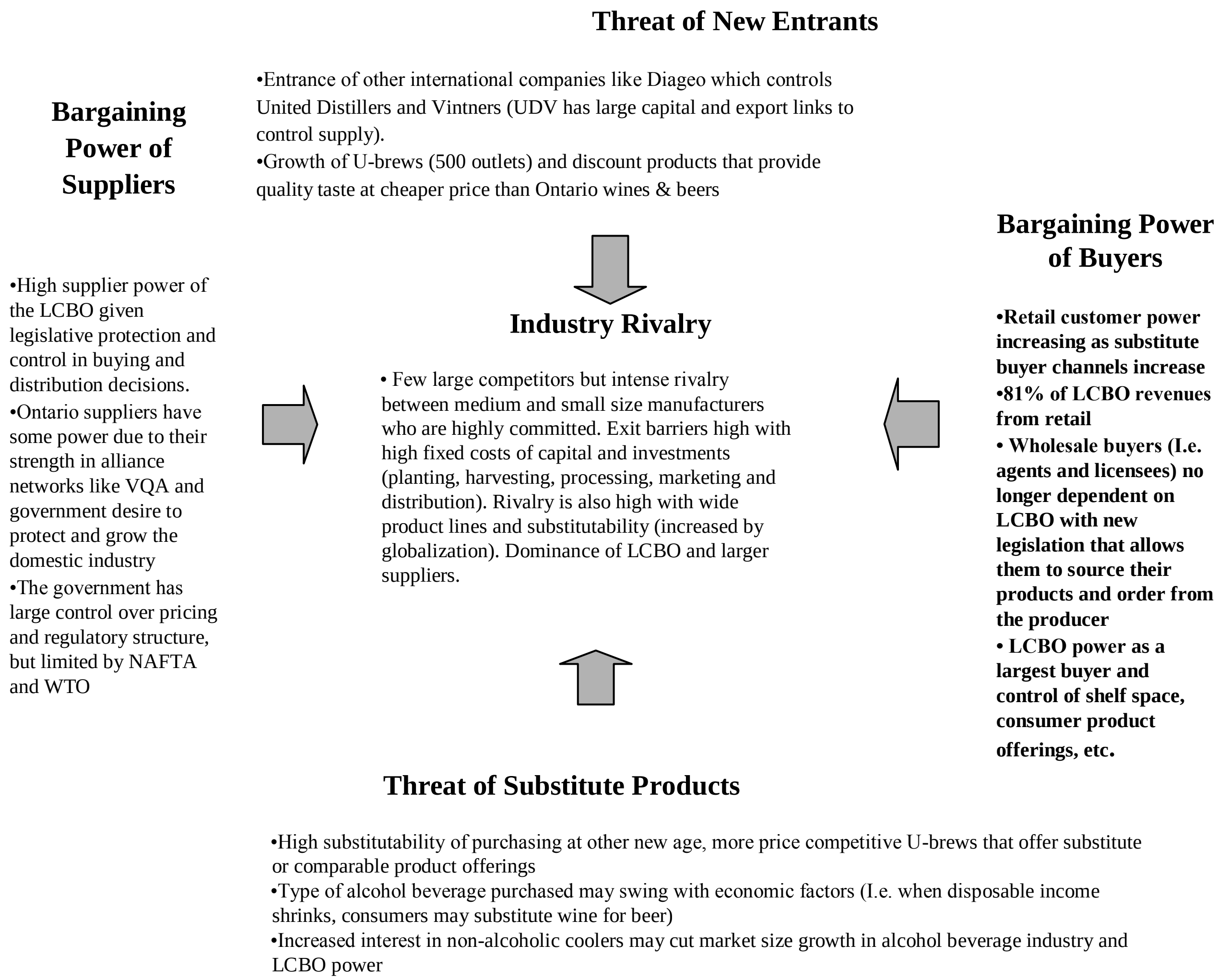
Chart 1 Comparative Chart of Competitors



As an industry leader and extended arm of the government (acting as an arm's length service provider), the LCBO transferred an unprecedented dividend of $800 Million to the provincial government in 1999. Its channel power as a controller in the supply chain, its access to government capital and its position as a regulator provides valuable strengths within the industry. It should be noted that some industry competitors claim that this is dual function as regulator and retailer provides an unfair advantage over competitors.

The intensity of competition faced by organizations can provide a valuable strategic management tool for identifying forces that determine competitive positioning and/or barriers to optimized performance levels. The application of Michael Porter's "Five Forces Model"[5] provides a useful analysis of the alcohol beverage industry in Ontario. Diagram 3 demonstrates the intense competitive pressures from all of the five forces. For example, on an international level, takeovers among global industry players in the distillery business (e.g. the U.K.'s Diageo) have provided liquor producers with a greater capital base and increased bargaining clout.

Diagram 3: Five Forces in Alcohol Beverage Industry



The LCBO must respond to this dynamic and anticipate changes that may result (i.e. lobby legislative changes in LCBO's regulatory scope). Likewise, this highlights the forces of globalization and the increased the appeal of wines from countries like Australia and New Zealand, which may adversely affect the sales or revenues from domestic products. The fall of world trade barriers has already eroded the ability of the Canadian government to protect its domestic alcohol beverage industry.

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[5] David Aaker, *Strategic Market Management*. John Wiley & Sons: U.S., p. 85.

The complex effects of these dynamics have resulted in many new customer demands, which the LCBO must address if it is to improve performance and continue to add value as a government organization. For example, there has been a proliferation of new products within LCBO stores, as consumers are increasingly interested in accessing new flavours. Interest in the growing market of u-brews (stores that help consumers produce and bottle their own beer) and u-vints (consumers produce and bottle their own wine) has increased, as these outlets provide new flavours of discount wine and beer and threaten the traditional supply channel control of the LCBO.

The LCBO has tried to incorporate an analysis of these dynamic forces into their strategic planning process on both a short and long-term basis. The LCBO uses a long-term planning process with a five-year time horizon and annual strategic reviews. Weekly "roll out" meetings among senior management staff are used to check quantitative and qualitative performance measurements against organizational targets.[6] In addition, private sector practices such as the outsourcing of market research have been used to continually gather and reassess industry information about retail consumers and competitors.

The LCBO has included in its strategic plan:

- A customer-focused approach – how to provide higher customer value;
- A branding vision and whole branding strategy;
- An explicit identification of the LCBO's strategic competitive advantage through knowledge acquisition; and,
- Quantifiable performance measurements as a "retailer" (this is a very progressive accountability measurement and perspective for servicing in the public sector).

Despite its progressiveness, however, the LCBO largely uses industry-specific and internally-driven benchmarks from what it calls a "Strategic Scorecard".[7] The scorecard measures four key information sources: financial, customer research, competitive analysis and employee research. The performance measurements from information gathering sources (i.e. Customer Service Survey and Employee Survey) have set performance benchmarks at ratings from 8 to 10 (out of a total of 10). While the best external benchmark is the competitive analysis that looks at other industry competitors, other industries (with the exception of the retail industry) and global retailers are not considered.

The benchmarks set by the LCBO are high but it would be beneficial to look at best practice benchmarks by giants such as Walmart or Chapters (the Canadian chain of retail bookstores), who strive for 100% satisfaction in the retailing industry. If a customer is not satisfied with a product or service, refunds are issued and these companies try to understand and learn what can be done to prevent this in the future. While this benchmark appears at first to be too costly, the relationship building and customer retention rate may translate into huge dividends in customer loyalty and future sales growth.[8]

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[6] Unfortunately, these measurements were not made available.

[7] Based on interviews with senior management at the LCBO head office.

[8] Joiner, *Fourth Generation Management*. RR Donnelly & Sons: U.S., P. 80-81.

While the LCBO does not appear to have any organizational benchmarks for measuring communication and information flows across organizational departments, communication systems have been computerized much more than most other government organizations (with the exception of the Ontario Lottery Corporation).[9] In 1990 and 1991, stores and warehouses were linked by computer to head office and a computerized network of inventory and sales was added; as of 1999, approximately $80 million has been spent on IT systems. An Intranet linking head office departments and bigger stores is operational and future plans to extend this to all stores and to wholesalers is underway.

Notwithstanding the benefits of these technological communication systems, overall communications are somewhat weakened by the limited use of cross-functional teams. Cross-functional teams help to improve communication flows by building in layers of redundancy that are important to prevent a real or perceived lack of information sharing. For example, there is a recognized need to include the Social Responsibility Department in most activities and programs and the department's prestige is growing (evidenced by its increasing budget and reporting directly to the CEO). However, the department's size is surprisingly small relative both to other departments (i.e. fewer personnel, smaller budget, etc.), and the large role it plays in fulfilling the LCBO's mandate to promote the responsible use of beverage alcohol. Systemic policies or processes have not been established to ensure growth in this area.

Benchmarking practices to stimulate growth through cross-functional team efforts (i.e. measure number of teams, percentage of employee participation, percentage of employee driven initiatives, etc.) would certainly help to further organizational learning practices, build innovation and foster a greater shared culture. By allowing for new systems to grow outside the formal organizational architecture (i.e. committees or task forces developed in response to a need or issue), communications will increase and emerging strategies will germinate.

STAKEHOLDER ASSESSMENT

Understanding the interests of stakeholders is extremely critical in public sector management. Government responsiveness to these interests and the interests of society as a whole are fundamental to service delivery and performance. Information gathering is crucial and must be ongoing. Diagram 4 illustrates the various LCBO stakeholders, and their proximity to the centre depicts their relative importance to the LCBO's success. The key drivers for positioning stakeholders in this chart were their importance to the LCBO's growth, their threat if interests were not met, and their importance given the LCBO's rationale/mandate for existence.

The five most important stakeholders identified are retail customers, taxpayers, industry associations, the provincial government and unions. Summary findings for these stakeholders are presented in Chart 2, and additional comments about areas of concern for the LCBO follow.

[9] Based on interviews with management and discussion with government sector employees.

Diagram 4: Stakeholder Chart

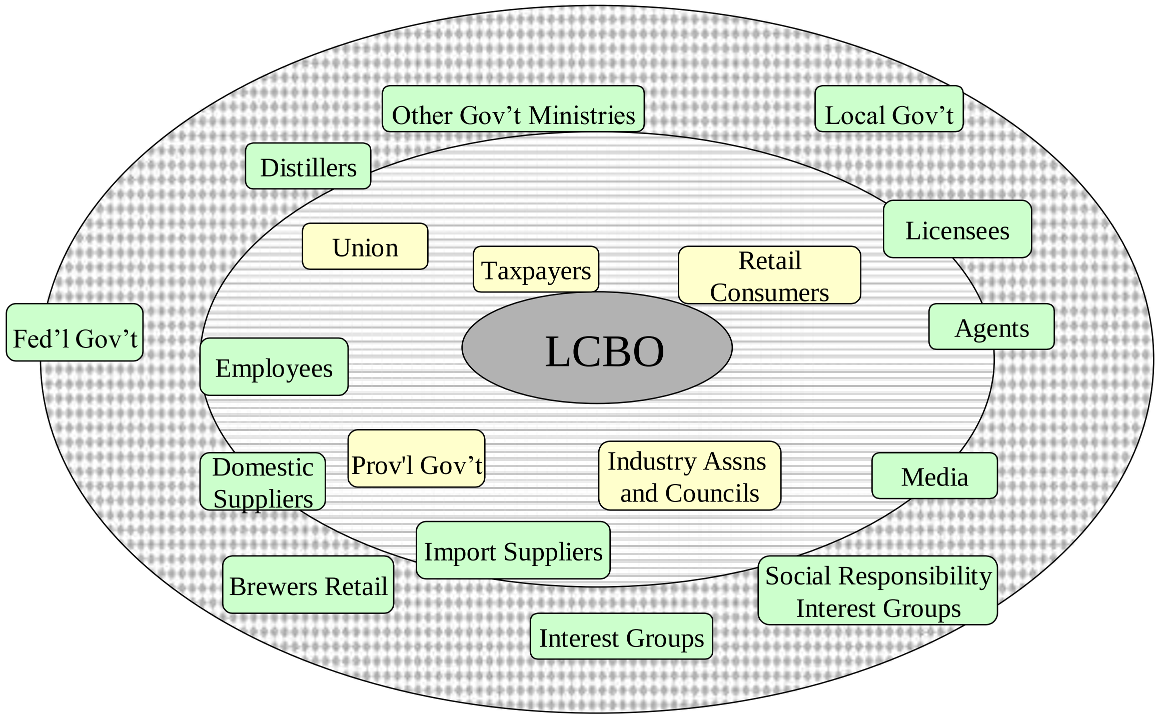

Chart 2: Summary Findings of Stakeholder Assessment

Stakeholder	Importance to LCBO Growth	Threat to LCBO if Interest Not Met	Importance to LCBO's Mandate	Overall Success
Retail Customer	Retail customers represent 81% of the LCBO's revenue and are their primary marketing target.	If customers are dissatisfied, they will buy from other competitors, and this will weaken the ability of the LCBO to control issues associated with the sale of alcohol (i.e. sale to minors).	The people of Ontario are the LCBO's mandate - to set fair prices, and regulate the sale of and distribution of alcohol.	Customer surveys indicate overall satisfaction rates that are improving annually, and the LCBO's new branding strategy (segmenting customers into 5 categories) has helped to identify more specific needs.
Taxpayer	Taxpayers fund the capital investments through taxation and their political voice.	If taxpayer interests are not met, increased media attention may be critical of the organization, which could lead to reducing funding or the threat of privatization	Taxpayers must believe that the LCBO adds value, and that the sale of liquor should be government regulated.	Taxpayers concerns - affordable quality products, quality service, and regulated responsible use of alcohol - are satisfied since they still favour government control.

Industry Assn.	The LCBO's product offering and availability is related to networks established by the Associations, who act as alliance groups to meet suppliers' interests.	Suppliers have a direct influence over product quality and are key to maintaining supply chain management and regulating health & safety issues.	Associations represent industry interests to ensure fair competition and marketing practices. This contributes to the success of the LCBO in its regulatory role.	Industry associations have not been particularly happy with LCBO's role as retailer and regulator. They are concerned over LCBO expansion into beer sales and control over many issues such as shelf space allotment.
Provincial Gov't	Since the LCBO is directly responsible to the Ministry of Consumer and Commercial Relations, its work with this office and other Ministries affects its scope of power, funding, organization, etc. which all affect growth.	If the LCBO is not successful in meeting the needs of the provincial government, the organization may be privatized or its powers and functions reduced.	The LCBO's mandate is to act on behalf of the province. Government interests are paramount, and the Premier (who acts on the influence of the people and industry associations) sets these interests.	The LCBO's success in ensuring the protection of society's interests is demonstrated on many levels. Retail initiatives (i.e. challenge and refusal to serve minors programs) and LCBO partnering with over 2000 government, corporate, and nonprofit agencies (i.e. Ministry of Transportation, Red Cross) have resulted in success and cost sharing programs.
Union	There are 5,000 LCBO employees, 85% of who are unionized. Their interests and cooperation are necessary to provide the services and delivery of products that affect the LCBO's growth.	If union interests are not met, the quality of service is weakened. The extreme case of a strike would prevent the LCBO from carrying out its mandate.	As in many Retail organizations, the workers are key in the delivery process. Employees must be vigilant in following guidelines for regulating the sale and distribution of alcohol.	LCBO commitment to employee satisfaction is manifest in continuous education improvement programs (i.e. computer training), but despite these training opportunities, employee surveys indicate that salary levels are unsatisfactory.

It is apparent from the chart that retail customers, taxpayers and the provincial government are the most satisfied stakeholders. More sophisticated marketing measures are in place to gauge the attitudes, distinctive buying patterns, product preferences and product related influences (price, benefits sought, etc.) of consumers. The LCBO's strategic plan incorporates responsive processes and internal benchmarks for gauging performance improvements to satisfy taxpayers' demands for quality, accessible and affordable products. From a financial perspective, the government's continued approval of the LCBO's budget and capital investment requests over the last decade demonstrates its confidence in the LCBO's abilities and performance. The LCBO's increasing dividend and tax payments made to the province over the last five years and the planned capital budgeting increases granting $60 million each year over the period of 1998 to 2003 are positive signs.

Unfortunately, the LCBO has not been as responsive or accountable with industry associations or union stakeholders. As mentioned in the chart, industry associations are important stakeholders because they influence factors like product quality and the LCBO's success in supply chain management. For example, organizations like the Vintner's Quality Alliance help the LCBO to regulate health and safety issues at the production level, and provide a cooperative alliance group for networking with wineries. The Association for Canadian Distillers, the Wine Council of Ontario, and the Imported Wine and Beer Association, are all industry association groups that network with the LCBO. A formalized policy process (established committee or task force) for incorporating their interests and establishing benchmarks to evaluate the LCBO's responsiveness to these organizations does not yet exist. In contrast, the Australian Wine and Brandy Corporation has many committees devoted to protecting the interests of associations, one of which includes a framework for incorporating them into the strategic planning process.[10]

While these associations all agree that the LCBO has done a much better job retailing alcohol beverages, they believe the LCBO is not responsive enough to their interests mainly because it still operates much like a monopoly.[11] The establishment of a formal joint LCBO-Industry committee or policy process to incorporate the ongoing interests and concerns of associations (i.e. to ensure that fair marketing and competition for listing beer, wine and spirits products) would be advantageous from two perspectives. It would provide a formal basis for measuring the LCBO's responsiveness to industry needs, and it would also improve external perceptions of their inclusiveness.

Unlike the industry associations, the interests of the LCBO employees are directly incorporated into the LCBO in several ways. Employees are protected in their bargaining process and the LCBO's strategic planning process but concerns over job security and salary have been at issue over the last decade. The potential for a strike in June 2000 was averted despite anger over salary increases of between 1 to 1 ½ percent (while management increases have averaged between 31-34% this past year[12]). To manage the discrepancy in pay increases and prevent the erosion of morale (and fall out repercussions such as lower productivity, strike threats, etc.) created from this inequity, the LCBO needs to identify creative solutions. The union structure does not permit salary bonuses but other rewards and incentives (i.e. job promotions with perks) may present viable solutions.

SERVICE PERFORMANCE

The first consideration in service performance is the LCBO's operating costs (Appendix 1). Management benchmarks operating costs from year to year, and efforts are made to reduce overall costs. While the costs of sales have increased by 10% from 1998 to 1998, sales increased by 9.4% and outpaced the 1.9% growth in the retail sector.[13] Compared to other provinces, the LCBO leads in revenue growth with Quebec ranking a distant second at 6.5%. An examination of retail stores

[10] www.wineaustralia.com

[11] Statement based on telephone interviews.

[12] Figures provided by the Liquor Board Employee's Union.

[13] LCBO 1999 Annual Report ,p. 51.

and marketing costs shows an increase of nearly $26.8 million (or 11%) over 1998, and operating expenses increased by $22.9 million (or 7%) in 1999. However, without an activity-based analysis to determine costs attached to retail and trade activities versus the costs attached to other activities such as social responsibility, it is difficult to understand the real cost structure of the LCBO. At this point, what is known is that capital investments by the provincial government each year have steadily increased and the actual return on investment based on transfer payments is steadily decreasing in size.

The LCBO's success in the delivery of products and services through a variety of channels is a second area of consideration in measuring service performance (Appendix 2). The number of channels used by the LCBO has increased and includes, for example: Vintages Catalogue, Food and Drink magazine, Classics catalogue, web site with information on the LCBO and increased opportunities for more transaction methods (i.e. telephone or fax catalogue orders to be picked up in person). These publications and channels are impressive but from a global perspective, the absence of on-line shopping is sharply noticeable. The LCBO's decision to move slowly into this area recognizes the need to balance consumer demands with the interests of social responsibility (i.e. concern for sales to minors or intoxicated persons). Future performance improvements might include an LCBO web site advertising a full range of product selections and supplementary information to educate the consumer (LCBO surveys indicate that this demand is growing). For Internet sales, the LCBO could consider the recommendations of the Wine Institute, which favours creative approaches to direct shipping to protect minors while allowing adult consumers the choices they demand.[14] Many U.S. states have legalized the direct shipments of limited amounts of wine to adult consumers from out-of-state, and even more states permit direct shipments from retailers within the state. Packaging and labeling regulations could be introduced, and web-sites like those of Australia or the United Kingdom provide ordering, pricing and delivery.[15] Australia also offers The Business Channel[16], designed to enable the business community to transact business over the Internet. The LCBO has started to implement business to business transactions (limited to larger suppliers with compatible software) but a networked system could be established for licencees or agents to improve service ordering and delivery.

A final consideration in service performance is innovation. The LCBO has become more innovative, and shares one very important commonality with private sector innovators like Visa and General Electric: it is a learning organization.[17] The existence of a Knowledge Resource Group and the creation of its own training centre for understanding market trends and finance, are just two examples of the innovative processes established at the LCBO. The LCBO's efforts to continually improve programs and processes in employee training (i.e. new teaching videos), marketing strategies (expanding into the gift market), IT, R&D (product testing), and knowledge management will certainly continue to foster innovation.

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[14] www.wineinstitute.org/communications/general/salesminors.htm

[15] See www.//winetitles.com.au/gwrds and www.//wsa.org.uk

[16] See www.businesschannel.sa.gov.au

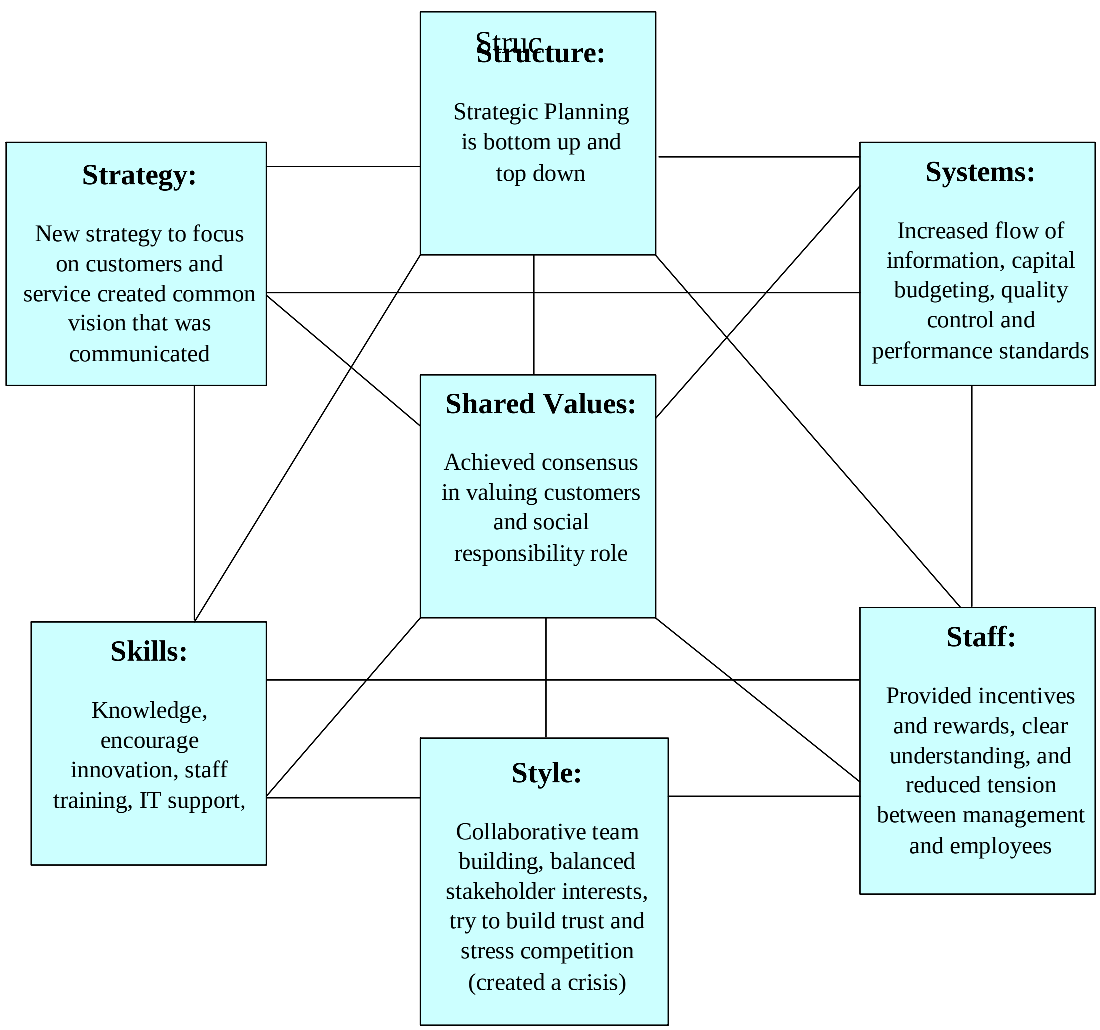
[17] The definition of a learning organization is found in: Gareth Morgan, Images of Organization. Sage Publ.: U.S., 1997, p. 86. The definition stresses the continuous process of information exchange between systems and environments.

CHANGE MANAGEMENT

A discussion of strategic management would not be complete without addressing the role of change management as a key enabler for innovation. Change management recognizes that a "multiplicity of factors influence an organization's ability to change"[18]. In this regard, a definitive strategy and structure are not enough when considering the implementation of a customer-focused approach.

This is one area in particular where senior management at the LCBO have done an excellent job in meeting the challenges of transforming this, previously slow and bureaucratic, agency of government into a more dynamic and responsive organization. The diagram below identifies the 7S model that can be used to explain why this change was so successful. By aligning the seven factors, victories in strategic management were possible. Summary highlights within each area are provided.

Diagram 4: McKinsey's Seven S Framework



[18] R. Waterman, T. Peters and J. Phillips, "Structure is not Organization", in Business Horizons. June 1980, p. 59.

The leadership of senior management staff was critical for change management, and fostered change agents that worked for a common benefit. These factors, together with continuity in management (not always possible in government) provided stability. The LCBO had time to develop and implement changes despite a change in the provincial party leadership within this decade. (The Progressive Conservatives replaced the New Democratic Party in 1994.) Over time, the President of the Employees' Union and LCBO management were able to break down historic barriers of mistrust and work toward achieving common goals.[19] An informal agreement between the CEO and the union President to keep communication lines open created new attitudes and trust.

Diagram 5: **Five Tracks Barriers to Success Model**

The Setting:

•Events and forces that can affect the survival of the organization include: government privatizes LCBO & competitors develop new strategies to control market share (E.g. industry consolidation to rival the LCBO), union workers strike and customer loyalty falls, economic downturn affecting sales and profitability, new technology or legislation allowing Internet sales from wineries and other competitors, change in party politics could hinder strategic plans.

The Organization:

•Need to reward and motivate employees in creative ways may be difficult with union structure limits IT talent pool and retention, & these systems are critical to communications and innovation

•Social responsibility role may limit profits

•Gov't approval will continue to slow organizational change

Culture of being number one could stifle customer focus imperative or may lose sense of urgency for competitiveness

Assumption that government will continue large capital investments and that what motivated employees in past will work in the future

Psyches- workers mistrust of management if interests not resolved

The Manager:

•Long history of continuity among management; concern regarding succession planning

•Management disputes with workers may increase with recent contract dispute and lead to more frequent union clashes

•Must continue to build management skills to integrate new technology and systems changes

The Group:

•There is a more team based approach to strategic planning, implementation and delivery but need to encourage more cross functional teams. This will improve the quality of information flows and increase shared values (especially between management and union)

•Vestiges of old bureaucracy still remain (I.e. head office's physical layout with big doors and sections is very closed and suits for IT workers) and create less opportunity for informal sharing

The Results:

The LCBO has achieved some success but complacency is the biggest threat; need to stay motivated.

[19] John Coones, President of the Employees' Liquor Control Board since Jan. 2000, was interviewed June 2000.

The LCBO's remaining barriers to change are illustrated using Ralph Kilman's *Five Tracks Barriers to Success Model*[20]. Diagram 5 provides a summary of uncontrollable forces (the setting, human psyches and assumptions) and controllable forces (culture, managers' skills, group approaches to decision making and problem solving, strategic choices and structural arrangements and the purpose and design of the reward system) that will affect future change management initiatives.

Each of the main factors in Diagram 6 describes potential threats to sustaining the LCBO's change management process. Given unrelenting pressures for meeting increased and new consumer demands, and the LCBO's government mandate to provide and regulate alcohol, continued change initiatives must become a way of life for the LCBO. Their successful reinvention must be continually challenged to prevent complacency. An A.T. Kearney study found that "the largest gap between companies that were good and bad at change (…) arose because some learned from change and institutionalized their knowledge, building it into their culture and performance assessment."[21] GTE - a telephone company based in Dallas, Texas - provides an excellent best practice that the LCBO could utilize to prevent complacency and institute a continuous learning and improvement program. GTE has a tradition of using quality improvement teams (QIT) and employee incentives for joining a QIT (i.e. T-shirt for first team, clock for the 11th team, etc.). In 1999, over 90% of GTE employees participated in at least one such team.[22] This practice could help solve the LCBO's lack of cross-functional teams and improve union constraints, which prevent the use of salary bonuses to reward employees.

VALUE CREATION

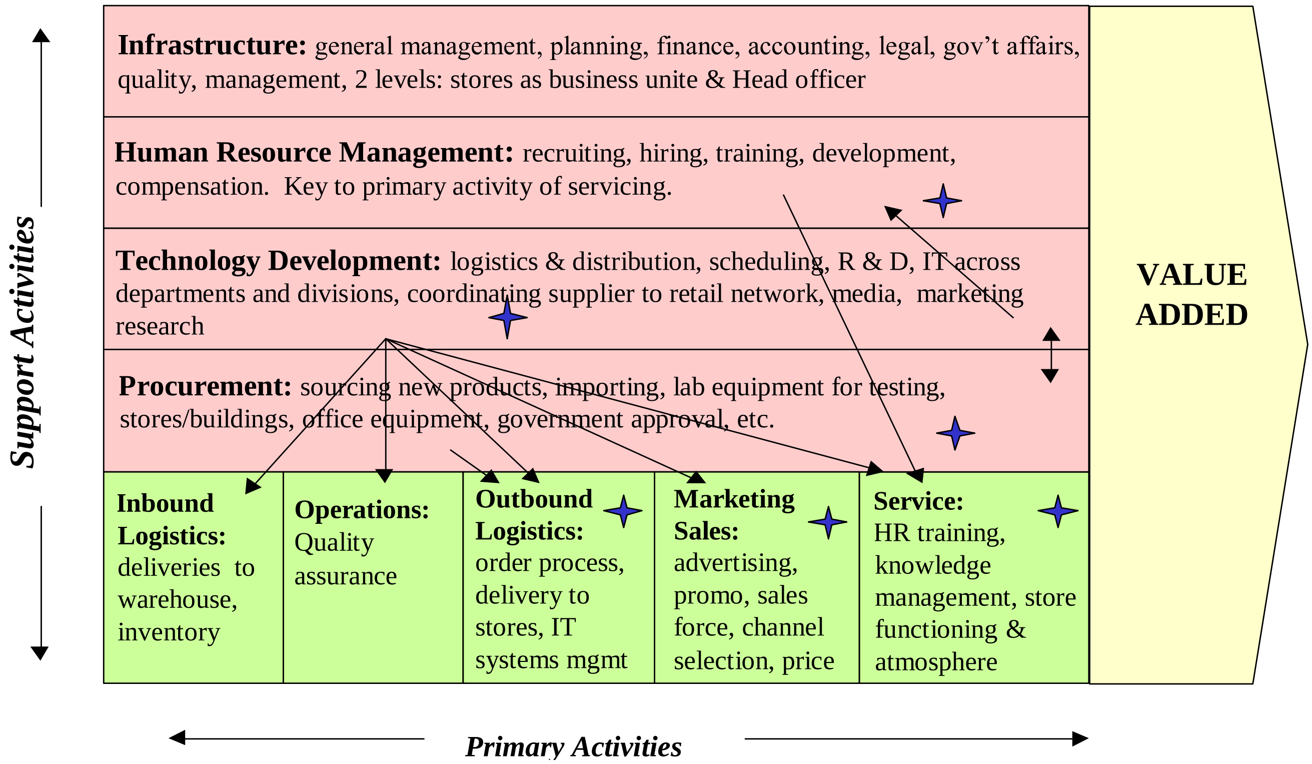
The challenging dynamics of building government organizations that are designed to be responsive, accountable, innovative and performance driven can be better understood through the concept of value creation. Michael Porter's value creation model using the *Value Chain*[23] illustrates how all the activities of an organization fit together and how capabilities can be identified and leveraged through key linkages that improve customer value, identify cost savings and provide long-term success. Thus, Porter's model is a roadmap to compliment Kilman's model, which illustrates the LCBO's potential future barriers to success.

Diagram 6, describes the main primary and secondary activities of the LCBO, and stars are used to indicate areas that are critical capabilities for success. The arrows that run across the divisions are examples of opportunities that exist for creating key linkages that will improve customer value, lower costs and improve performance success.

The key activities of the LCBO in the physical creation of product, sales and transfers to the buyer are manifest in outbound logistics, marketing/sales and service. Linkages between human resource management and the latter two activities ensure that "the right people are in the right place with the right attitude and skills" (the fourth strategy in the LCBO's Planning Framework). This is key for satisfying the mandate of ensuring socially responsible alcohol use.

[20] Ralph Kilman, Beyond the Quick Fix. U.S.: Jossey-Bass, 1986. P. 31-58.
[21] "Change Management – An Inside Job" in The Economist. July 15 /2000.
[22] Ib0id.
[23] Michael Porter, "The Value Chain and Competitive Advantage" in Competitive Advantage: Creating & Sustaining Superior Performance. N.Y.: N.Y. Free Press, 1985.

Diagram 6: Value Creation Analysis of the LCBO



As illustrated, technology permeates all of the primary functions and greater integration among systems will further decrease costs and increase service. The LCBO's recent decision to centralize warehousing creates this type of linkage and should realize greater logistical efficiencies. Spillover effects will result in billing and other administrative functions. As yet, a standardized platform for the LCBO to share information across these areas does not exist, and specific process objectives are not in place for taking advantage of technology systems in either the retail or wholesale levels. For example, this might involve the use of an Internet and/or Intranet based system to allow the LCBO to manage inventory, shipping schedules for re-ordering, etc. in-house and with suppliers. Likewise, a shared network platform between licencees (i.e. hotels or restaurants) would improve wait-time and coordination efficiencies when supplies are low. Agents and licencees have complained about delays to service because of business hour limitations.

Technology linkages with marketing and service are also potential opportunities for increasing sales and service performance. For example, increased channel selection can be realized through Internet promotions and knowledge services (i.e. chat rooms to discuss product offerings or web base product advice column). With the appropriate safeguards and infrastructure, product sales and services (i.e. offering wine consulting services) could be added.

Technology is already being linked with other supporting activities in areas such as human resource management. The LCBO currently uses tracking systems to evaluate store sales, employee performance, etc. It is interesting to note that many LCBO strategies recognize these linkages, and have provided capabilities in human resource management, marketing, product innovations, and R & D. Targeting end users and realizing competencies in marketing and service will ensure that the

LCBO continues to focus on those downstream activities that are critical in the retailing supply stage.[24]

Conclusion

As more government organizations are forced to justify their existence and their ability to service citizens, pressure for government responsiveness can be seen across many service sectors. In Ontario alone, huge changes to fundamental services have occurred with unprecedented speed. Massive budget cuts to hospitals, amalgamations of city districts and school boards with huge cuts to administrative overhead, and the downsizing of many federal government organizations such as the Canadian Broadcasting Corporation (CBC) illustrate this urgency for change. In a recent *Report to Taxpayers,* the Ontario government spent $780,000 in its marketing literature to justify its welfare reforms to taxpayers.[25] The new message communicated by governments is about how it can maximize services, exercise greater fiscal responsibility and improve customer value.

Amidst these changes, it is important to remember that "nothing happens in a predictable, sustained way unless you build mechanisms that cause it to happen in a predictable, sustained way."[26] As seen in this report, the LCBO is a unique example of how government organizations can utilize strategic management tools to create more customer-focussed services, despite inherent complexities within the public sector. The Ontario government established the LCBO as a monopoly provider of alcoholic beverages and enacted regulatory entry barriers to prevent competition, however, the threat of privatization has injected elements of competition. Baumol, Pangar and Willig argue that imperfectly competitive markets can exhibit competitive characteristics if these markets are deemed to be "contestable".[27] The threat of privatization has made this market contestable, even in the presence of regulatory barriers.

The challenge for government is to build customer focussed strategies that are well designed, satisfy customer needs and provide superior levels in product and service performance. While opportunities for improvement exist, the LCBO's strategic management design and processes are an excellent example of the potential for all of government organizations to become more responsive and more accountable. A modern context for change must therefore emphasize value creation through strategic management. It is both necessary and possible for public sector organizations to become dynamic learning organizations like the LCBO – competent to identify changes in customer needs and capable of meeting these changes through the delivery of innovative service mechanisms.

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www.fao.org
www.//germanwine.de/english/
www.//lcbo.com/about/business_info/licensees/
www.mlcc.mb.ca
www.//nzwine.com
www.strategis.ic.gc.ca
www.//smartwine.com
www.vinhos.online.pt/
www.//wineaustralia.com.
www.wineinstitute.org
www.//wineit/
www.winetitles.com.au/gwrdc
www.//winetech.com
www.wineToday.com
www.worldwine.com
www.//wsa.org.uk

[28] This is a bi-monthly newsletter that provides employees with management news and circulates information about recent LCBO changes, courses, awards, training plans, etc.
[29] This is a glossy seasonal magazine that features articles about vintners, food recipes, entertaining ideas (i.e. summer barbecue sauces and décor ideas). Advertisements are sponsored by wineries, tourist offices, DeBoer's furniture stores, MADD, and Fiesta barbecues.
[30] This is a publication dedicated to fine wine and premium spirits available for purchase. It educates consumers about fine wine selections from Canada and abroad, and orders can be made by fax or telephone. Orders are shipped directly to the Vintages LCBO of your choice fee of charge.

Competitor Sites:

Breweries

www.//netaccess.on.ca/~bitter
www.//sarnia.com/franknbrew/
www.//greatlakes.com
www.//kingstonbrewing.com
www.//labatt.com www.//magnotta.com
www.//molson.com
www.//crivellerbrew.com
www.//northern-breweries.com

Wineries

www.//wineroute.com/andres
www.//chateaudescharmes.com
www.//colio.net
www.//henryofpelham.com
www.//hernder.com
www.//hillebrand.com
www.//inniskillin.com
www.//kingstonbrewing.com
www.//kittlingridge.com
www.//lakeviewcellars.on.ca
www.//simcom.on.ca/~newine
www.//peleeisland.com
www.//pillitteri.com
www.//execulink.com/~quai/
www.//reifwinery.com
www.//stonechurch.com
www.//diageo.com

Distilleries

www.//bacardi.com
www.//corbydistilleries.com
www.//killtingridge.com

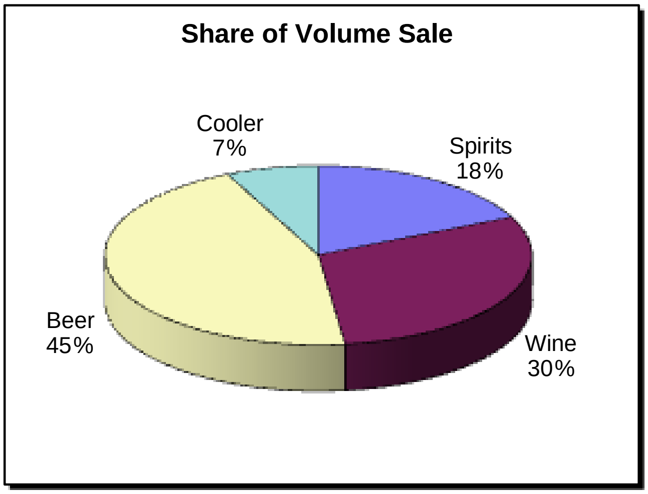
APPENDIX 1: OPERATING HIGHLIGHTS

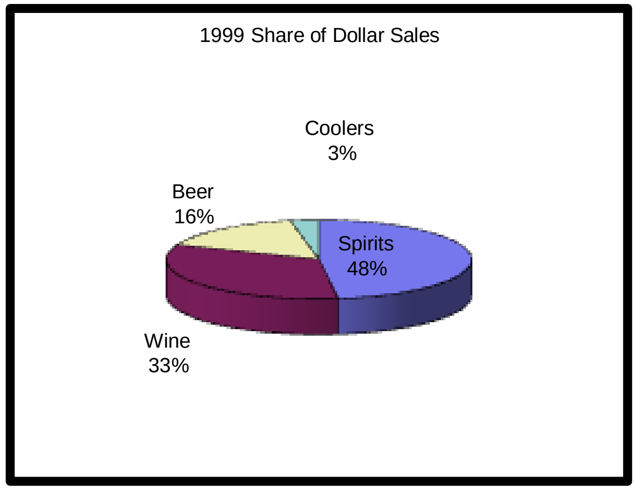
LCBO 1995-99 RETAIL REVENUES (values in $ 000s Canadian)

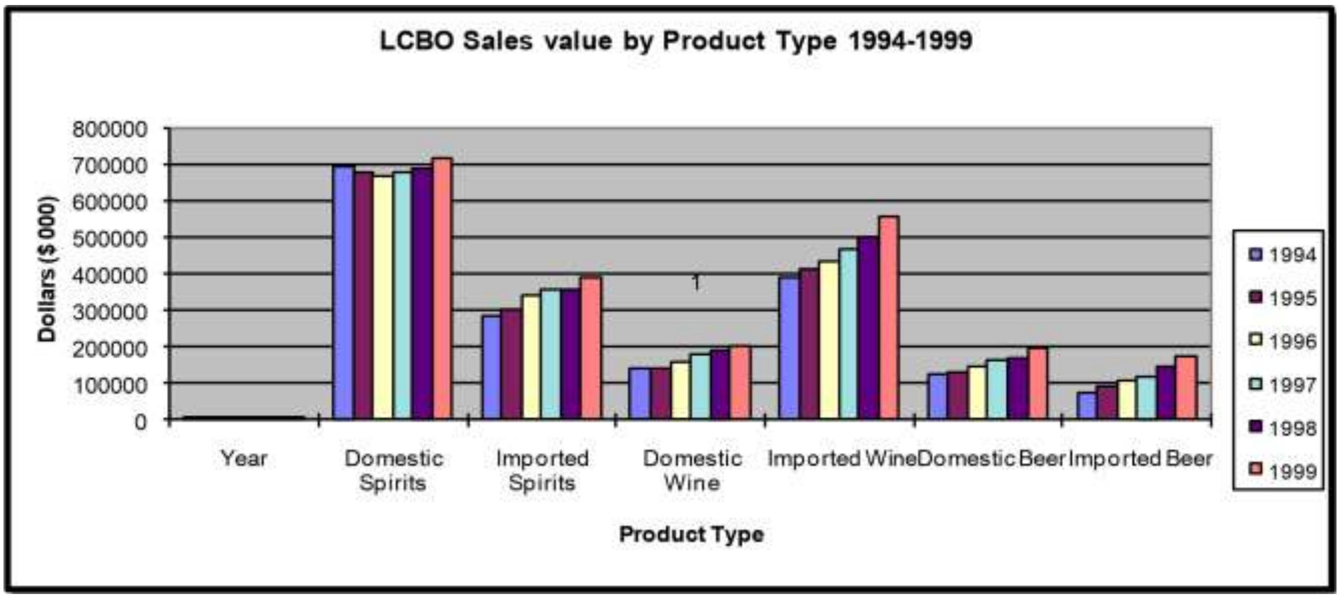
Product Type	1995	1996	1997	1998	1999
Domestic Spirits	678,101	671,080	680,092	691,165	717,270
Domestic Spirits Coolers	26,725	22,148	27,893	61,093	80,716
Imported Spirits	303,441	340,630	354,929	358,362	391,872
Total Spirits	**1,010,262**	**1,035,854**	**1,064,911**	**1,112,618**	**1,191,857**
Domestic Wine	143,105	158,888	178,563	190,809	201,723
Domestic Wine Coolers	3,739	3,347	3,209	2,612	1,976
Imported Wine	410,573	435,845	469,803	503,290	559,624
Total Wine	**557,417**	**598,080**	**651,575**	**696,711**	**763,323**
Domestic Beer	131,348	145,826	160,544	170,537	194,149
Domestic Beer Coolers	69	87	67	83	144
Imported Beer	90,143	107,275	118,567	145,326	174,284
Total Beer	**221,560**	**253,188**	**279,178**	**315,946**	**368,577**
Total Domestic	**983,087**	**1,001,376**	**1,050,368**	**1,116,299**	**1,195,978**
Total Imported	**804,157**	**883,750**	**943,299**	**1,006,978**	**1,125,780**
Non Liquor	**2,201**	**2,059**	**3,124**	**3,479**	**3,914**
Total	**1,789,445**	**1,887,185**	**1,996,791**	**2,126,756**	**2,325,672**

APPENDIX 2: ***PERFORMANCE HIGHLIGHTS***

LCBO MARKET SHARE







SALES VALUES BY PRODUCT CHANNEL

	1995	1996	1997	1998	1999
LCBO	2,101,952	2,215,523	2,342,998	2,493,935	2,725,858
Brewers Retail Inc.	1,951,825	2,060,219	2,075,664	2,114,467	2,214,918
Winery Retail Stores	99,233	113,320	126,553	136,618	133,001
Other Legal Sales	435,155	603,701	801,799	861,708	888,670
Homemade	58,206	66,612	59,945	60,918	63,567
De-alcoholized Beer	19,600	20,117	19,217	17,708	23,872
Illegal Sales	787,742	736,477	620,175	583,780	542,896
TOTAL:	**$5,455,708**	**$5,817,965**	**$6,048,348**	**$6,271,132**	**$6,594,781**

NUMBER OF LCBO PRODUCT OFFERINGS BY CATEGORY

Product Type	**1995**	**1996**	**1997**	**1998**	**1999**
Domestic					
Spirits	397	352	361	347	360
Wine	457	455	437	422	435
Beer	311	316	275	326	373
Imported					
Spirits	276	292	315	372	394
Wine	874	873	839	875	920
Beer	92	89	102	100	111
Total Regular Listings	2389	2377	2349	2442	2593
Vintages Wines & Spirits	1987	2368	2744	3037	3235
Duty-Free Listings	182	207	205	213	210
Consignment W/H & Private Stock	3515	4249	4573	5240	5241
TOTAL PRODUCT LISTINGS	8073	9201	9871	10932	11279

1999 LCBO MARGINS AND SALES

Category	**Sales $**	**% Change in Sales $**	**Sales Volume (000's L)**	**% Change in Sales Volume**	**Gross margin as % of Total Sales**	**% Change in Gross Margin since 1995**
Total Wine	$763,323	9%	79,291	4.6%	33%	+2%
Total Beer	$368,577	14%	117,242	12%	16%	+4%
Total Spirits	$1,191,857	7%	63,199	9%	51%	-5%

RETAIL PRICE INCREASES OVER FIVE YEAR PERIOD

Category	1995	1996	1997	1998	1999
Spirits	$ 20.77	$ 20.62	$ 20.65	$ 19.41	$ 18.83
Wine	$ 8.21	$ 8.45	$ 8.67	$ 9.15	$ 9.63
Beer	$ 2.89	$ 2.96	$ 3.03	$ 3.07	$ 3.14
Average Transaction Value	$ 25.06	$ 25.98	$ 26.69	$ 27.40	$ 28.07

AVERAGE % CHANGE IN PRICE

Category	1995	1996	1997	1998	1999
Spirits		-1%	0%	-6%	-3%
Wine		3%	3%	5%	5%
Beer		2%	2%	1%	2%
Average Transaction Value		4%	3%	3%	2%

CAPITAL INVESTMENTS, TRANSFER PAYMENTS AND RETURN ON INVESTMENT PER ANNUM BY THE PROVINCIAL GOVERNMENT

	1995	1996	1997	1998	1999
Capital Investments	$27.4 M	$27.2 M	$50 M	$60 M	$60 M
Transfer Payments	$630 M	$680 M	$730 M	$745 M	$780 M
Return on Investment per Annum	2299%	2500%	1460%	1242%	1300%