P O L I C I E S & P R O C E D U R E S

Self-Serve Stores

In-store Merchandising

Policies and Procedures for displaying non-promotional beer

TBS Marketing

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Merchandising Statement

All non-promotional display of beer product and related information will be made available to the public according to a disciplined set of rules and procedures as has been TBS practice. TBS is Brewer/Brand neutral so the methodology and practices followed to merchandise beer have been designed to be objective and in accordance with the Master Framework Agreement issued by the Ontario Government on September 22, 2015.

Background

There are three types of self-serve stores at TBS:

Palletized Self-Serve (PSS) 110,

Flow Rack Self-Serve (FRSS) 10,

Express (a.k.a. Boutique) Self-Serve Stores (EXP) 4

PSS

110 TBS stores are classified as Palletized Self-Serve (PSS) stores. These stores are characterized as having a self-serve shopping area where customers have full access to brands of beer where they can shop on their own and exit to pay for their purchases.

Typically, the PSS layout consists of a ‘Power Alley’ of top-selling brands on pallets, a main-stream shopping area with beer merchandised on gondola style shelving, a singles section merchandised on shelving and a single can cooler, ICE and Related Product section near the exit. 43 PSS stores have a new format where the Empties Return Experience is isolated into a separate room.

FRSS

These are Flow Rack self-serve stores that are characterized as having long and narrow shopping area (‘bowling alley’) with gravity fed flow racks on either side, ‘bakers racks’ (metal shelving) on the ends and/or side and piled off cases on pallets or floors in the centre aisle.

EXP

There are only 4 Express stores of this type at TBS. They are characterized by having a small footprint, not accepting empty returns and being restricted to listing limited pack sizes.

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This document describes the Policies and Procedures TBS follows when merchandising beer to the public in self-serve shopping areas of PSS, FRSS and EXP style stores.

The basic principles for all three self-serve store types are the same. Where there are differences, they will be highlighted in the details provided.

All other beer merchandising policies will be covered in other policies and documentation.

Mandatory Merchandising Requirements

The following over-arching strategic directives apply to merchandising beer in Self-Serve stores:

1. Sales Data - calculations based on individual stores beer sales over the latest 12 month period.

2. SBI - a Small Brewer Index is based on local stores market conditions to ensure 20 % merchandising space for Small Brewers

3. All beer is organized and displayed into Categories.

Other Highlights:

- All re-sets are done to ensure that share allocations are periodically adjusted to reflect a brands and a brewers growth
- Re-sets….New merchandising plan-o-gram resets occurs twice a year – April and October.
- All Brewers and Brands listed in the store are provided with a minimum of one merchandised Facing (see appendix) i.e. there are no rotational brands as with ICE and Single Can Coolers (see separate Policies).

- In the event of a Brewer merging with or being acquired by another, the resulting entity will retain the Facings originally allocated to those Brewers for the remainder of the display period. After that period, the two merged Brewers will be treated as one Brewer.

Important:

The methodology, calculations and standards for calculating Facings in this report reflect an interim step using manual techniques to arrive at a merchandising plan.

While the principles will remain the same, the methodology and merchandising math will be automated so there may or may not be variations and adjustments needed for this Policy document.

Policies and Procedures

Self-Serve store Merchandising

Effective November 2017

TBS reserves the right to modify merchandising Policy and Procedures of the PSS and any Operational requirements impacting displays within 60 days written notice.

Policy

All listed Brewers in the store are given a minimum of one Facing or more, if warranted, by earning multiple facings based on adjusted share of store sales.

Procedure

Total Store sales over the latest rolling 12 months data issued just prior to a reset period are used to calculate Brewer share for the store.

Total sales include all beer sales registered for a store, including Licensees. This is in contrast to the data used for ICE and Single Can Coolers that rely on total Zone data to evaluate Facings.

Brewer share of sales in a store is calculated by taking the accumulated sales for the Brewer in the store and dividing it by the total aggregate sales of all types in that store.

Note: In the situation of a new store opening, the next nearest store of the same store type if possible in the marketplace is used as a proxy to calculate share.

For merchandising beer in Single Can Coolers (SCC) within a Self-Serve store, refer to the appropriate SCC Policy.

Policy

Small Brewers occupy 20% of the available merchandising space

Procedure

Each Self-Serve store has a distinct merchandising profile depending on the floor space and mechanical calculation of available Facings. A calculation is made on the total available Facings for the store as a whole by adding up individual fixtures and display areas assuming a fully stocked situation.

The available Facings and total merchandising space in FRSS stores use the same s a Facing evaluation used for ICE store flow racks i.e. - one standard Facing = 12 pack = 3 bottle wide X 341 ml bottle.

Small Brewer (SB) (see appendix for definition) allocation is determined by multiplying the total available Facings calculated above by a factor of 20%.
Note: Facing and merchandising values are not impacted by the depth of product on the shelf and the assumption when assigning value is that the fixture or display is fully stocked.

The remaining facings in the Store (80%) is reserved for Large Brewers and in the same way, the total reserved space is multiplied by 0.80.

Policy ***No one Small Brewer can occupy more than 5% share of shelf space***

Procedure A Small Brewer Index (SBI) for the Store is calculated using their aggregate share to ensure 20% occupation of the fixture. Example: If all Small Brewers share for the Store is 6% then the SBI index is 3.3 (20%/6%). Each Individual Small Brewer facings is then multiplied by this factor to arrive at an adjusted share adding up to 20% for the group.

Restrictions: No one Small Brewer can occupy more than 5% of the merchandising Facings as a result of applying the SBI. If however, the Small Brewer has naturally earned more than 5% share of Facings before applying the SBI, it shall receive only those Facings it's entitled to without the benefit of the SBI factor.

If, after applying the SBI and the total Facings exceed 5%, the Brewer in question is capped at that level and any Facings in excess of 5% is redistributed to the other Brewers in the same group (Large or Small). All Facings still must add up to 20% Small and 80% Large representation in the shopping area of the self-serve store.

A Large Brewer Index (LBI) is similarly applied to each Large Brewer (after the SBI has been calculated) so the collective representation of them as an aggregate is 80%. There is no Brewer cap on earned Facings for Large Brewers.

Policy ***Brewers with Top Selling brands are assigned to the Power Alley.***

Procedure Brewers with brands that are the top-sellers in the store each earn a number of pallet positions in the entrance of the store in an area called the 'Power Alley'.

Allocation of Facings to pallets is arrived at by choosing the top selling brands in descending order up to the full pallet count for that store. Every store has a different pallet capacity so the number of brands on pallets will vary from store to store.

The highest selling brand will be given the first pallet position (first one as customers enter the store) and each will follow in line down the Power Alley in descending order of sales.

The total merchandising allocation for a particular Brewer with a Pallet in the Power Alley will have their total merchandising share of space reduced by the merchandising value of the pallet.

Policy

Layouts are Operationally Efficient and Visually pleasing

Procedure

After the Power Alley Brewers have been assigned the next step is to map the store layout by packaged products and Singles to determine the number of Small Brewer Packaged Gondolas and Small Brewer Singles Gondolas required to meet the 20% Small Brewer allocation.

The reasons for this division are for two-fold:

1. To address the physical size, weight and shape of each package type and the shelving load and height specifications.

2. To make the shopping experience better for customers by grouping the product in logical way, adjusting heights of product for easy access and finally to make the store more visually appealing.

The result will show how many gondolas/shelving need to be reserved in each area. This is a guide only as planners begin to organize the store plan-o-gram.

Policy

Each Brewers brand sku's are allotted Facings based on earned share

Procedure

The allotment of Facings for each sku is determined by listing the % share of sales by brand sku against the total merchandising space available after the SBI and LBI have been applied and the merchandising value of each pallet is deducted from user Brewers.

IMPORTANT: Brewers do not choose or direct placement of brands in PSS stores.

As all listed brands sku's have to be merchandised in the store, and since no one sku can have less than one facing assigned to it, adjustments are made when the earned Facings is less than 1 to re-assign a full facing for that SKU. The impact of this adjustment is that Facings are proportionally taken away from multi-Faced sku's to make up the difference.

New brands to the store will be given one facing in the appropriate area and category of the store until it establishes a history of sales in future re-set periods.

When possible, all sku's of the same brand and container type will be grouped together on the sales floor.

The total sum of all facings should not exceed the allotment reserved for pallets, bottles, cans and singles and brewer's representation will reflect their calculated share. All facings for Small Brewers should not exceed 20% of overall merchandising space.

Policy ***All Beer will be merchandised and visually identified by Categories and Brand Families***

Procedure

The last step in the merchandising process is to keep the assigned facings for each sku then organize them into four categories; Value, Premium, Import and Domestic Specialty within the Power Alley, packaged and Singles sections.

All Ontario Craft Beer will be grouped together as a subcategory of the Domestic Specialty category.

Each sku will be visually identified by a color coded and labelled ticket with the name of each Category or subcategory it represents.

After Beer Category organization, Brand / Brewer Family organization will be the final step, grouping brands produced/distributed by the same Brewer together for shopping convenience and operational efficiency.

Policy ***All merchandising must adhere to safety and customer shopping convenience.***

Procedure

TBS analysts will adjust packs and shelving to make sure heavier packs are on the bottom shelves and lighter packs on top. Generally speaking, 6 packs are on the top shelf, 12 packs in the middle and 24 and 28 packs on the bottom shelf.

The total height of any display, pallets, flow racks or gondolas cannot exceed 72” in height. Generally speaking, packs should not exceed 2 high on the top shelf of a gondola.

All beer should be displayed on their fixture or pallet and not on the floor that in any way would impede customer access, be a safety tripping hazard or unduly influence the allotted number of Facings for that sku. Excess inventory should be placed in the back.

All product on gondola or flow rack shelving should be fully stocked or ‘faced’. ‘Facing’ involves pulling the product to the front edge of the shelf.

In the event that a product is not in stock, staff will temporarily add facings of the adjacent product and then return to the original layout once the out of stock product returns.

All product must have price ticket clearly displayed next to it that is current and accurate.

APPENDIX

New Beer Framework Definitions

Large vs Small Brewer: A Small Brewer is one that world-wide annual production is < 400K hls (see 'Master Framework Agreement, September 22, 2015"). Large is when annual world-wide production is > 400K hls. Moosehead and Brick are deemed to be a Small Brewer when merchandising in TBS stores.

Small and Large Brewer Index: An index applied to the Small Brewer share within a store to make sure the collective share of space equals 20%. Calculated by taking the required 20% and dividing it by the collective % share earned by Small Brewers in the store to arrive at a multiplier e.g. a 6% Small Brewer share would result in a SBI of 3.3 (20%/6%). Once the SBI has been calculated and applied, a LBI (Large Brewer Index) is calculated based on an 80% limit SBI and applied to Large Brewers. Example: if the Small Brewer Index above is 3.3, the LBI is 0.85 (80%/94%). This ensures the merchandising allocation balances to 80%.

Categories: All beer merchandised in TBS stores must be organized into the following categories:

Value – all brands regardless of origin, that are >$2 below the most popular priced brand per equivalent 24 pack,

Premium – Domestic (Canadian) brands priced above Value and below Domestic Specialty.

Import - Import brands produced outside Canada and priced above Value, including imported US brands.

International – Domestic brands that have historical international origins outside of Canada and the US and are currently produced within Canada and priced >$2 above the most popular price point per equivalent 24 pack.

Domestic Specialty – Domestic (Canadian) brands >$2 above the most popular price pointper equivalent 24 pack.

Ontario Craft Beer - A sub-category within Domestic Specialty defined as Ontario Craft Beer (same definition as above with the added requirement of 70% of world-wide production is in an Ontario facility with production < 400K hls).

Merchandising Definitions

Self Serve: There are three types of self-stores at TBS; Palletized Self-Serve (PSS), Flow Rack Self-Serve (FRSS), and Boutique or Express. A PSS store is characterized by having top selling brands on pallets. The shopping area consists of pallets, gondolas and coolers. In the newest PSS stores the empties return experience is relegated to a separate room. Express stores are similar to PSS stores but there are no brands displayed on pallets and pack sizes are limited. Flow Rack Self Serve stores have both flow racks and floor displays.

Power Alley: At the entrance and leading into the shopping area of PSS stores, top selling brands are merchandised on pallets. They are lined up on both sides as the customer walks down the ''alley'.

Gondola: A display fixture consisting of a base and either 1,2,3 or 4 shelves. Typically it is 36" wide and 24" deep made of sturdy metal that can hold the weight of beer it displays.

Brewer Family: Brewers that own or have agency representation of other Brewers are considered as one Brand Family e.g.; Molson, Labatt, Sleeman and Moosehead.

Facings:

a) In General – The standard unit of measure is one 341 ml bottle. All packs are measured against this metric. A six pack bottles, 3 bottle side is therefore equivalent to 1 Facings as would a 12 pack. If a 24 pack has the 6 bottle side facing the customer it has a Facing value of 2. All merchandising math and calculation of Facings is based on this process. Cans are valued slightly differently as the width of a unit changes form 2.75 inches for a bottle to 3" on average. The weighting and value of a facing changes accordingly.

b) Merchandising Practice today – To standardize calculations all plan-o-grams are developed by considering the length and height of the containers on display and by calculating occupied space and the number of Facings assigned to each. Store merchandising audits of all self serve stores measured the visual display area of all fixtures and pallets to arrive at the merchandising opportunity. Regardless of the pack size or container type we are able to measure the total merchandising space and the relative assigned space for Large and Small Brewers.

   In the Spring and Fall re-set of PSS stores, TBS will be using sophisticated spatial planning software to make these calculations.

Resource Data and Zones

Sales: To calculate merchandising share for each Brewer the 'Total Sales in the Store' is used. Total Sales = TBS, Licensee, SOP in that store over the latest rolling 12 months just prior to the reset period. Virtual skus are not merchandised in the store but are included in the calculations of total Brewer/brand sales.

Zones: There are 7 geographic zones that all stores belong to. The defined zones reflect the amalgamation of 14 Operational Districts at TBS. The zones for calculated share and other indexes are as follows:

Zone 1 – Amalgamation of Districts #7005 Ontario NE and #7006 Ontario NW
Zone 2 – Amalgamation of Districts #7031 Ottawa and #7035 Peterborough
Zone 3 – Amalgamation of Districts #7033 Oshawa and #7034 Barrie
Zone 4 – Amalgamation of Districts #7001 Windsor and # 7002 London
Zone 5 – Amalgamation of Districts #7003 Hamilton/Niagara and #7004 Kitchener
Zone 6 – Amalgamation of Districts #7012 Brampton and #7014 GTA West
Zone 7 – Amalgamation of Districts #7013 GTA Central and #7016 GTA East