

# THE BACKBONE OF CANADA'S LEGAL CANNABIS MARKET

How Domain Logistics, a Legacy Supply Chain Company,  
Supports the Evolving Needs of the Ontario Cannabis Store

**Since its opening in 2018, Canada's legal recreational cannabis market has had a rapid growth trajectory, quickly becoming one of the largest in the world. Evaluated at \$2.6 billion CAD in 2020, the market is projected to reach \$8.62 billion CAD by 2026. The market has also undergone significant changes, including a dramatic increase in the total number of stores. In Ontario alone — Canada's largest province — there are now over 1,400 legal cannabis stores serving a market of close to 15 million people, with up to 30 new stores approved each week.**

In order to accommodate this market growth and satisfy consumer demand, provincial governments have established Crown corporations to oversee the sale of recreational marijuana. The Ontario Cannabis Store (OCS) is one such agency. OCS, which is solely owned by the Province of Ontario and reports to the Ministry of Finance, provides safe, responsible access to recreational cannabis and is the only online retailer and wholesaler of legal recreational cannabis in Ontario.

## CHALLENGES

When OCS first opened up shop, it faced many of the same challenges as any other new business, with one pretty major exception: It operates in a controversial and highly politicized market.

Canada's decision to legalize recreational cannabis in 2018 was met with mixed reviews, with some groups expressing concern that it would encourage use among minors and others questioning how the Canadian government would ensure product quality for safety purposes. To address these concerns and promote the responsible consumption of cannabis, OCS knew it would need a third-party logistics (3PL) provider capable of designing and implementing strict controls and ensuring 100% chain-of-custody security.

OCS also recognized the incredible growth potential of the legal recreational cannabis market early on and, as a result, made it a priority to find a partner with the capacity and agility to accommodate this growth. Finally, OCS knew that it would need to add new products to its catalog over time to satisfy consumer demand and, therefore, required retail and eCommerce fulfillment services with the flexibility to support this growing catalog.

The Liquor Control Board of Ontario (LCBO) sent out a request for proposal to multiple 3PL companies in an effort to find the ideal provider to serve the future Ontario Cannabis Store's needs. After reviewing multiple proposals, LCBO selected Domain Logistics, a Legacy Supply Chain company, as its 3PL partner, citing our familiarity with retail and B2C supply chains in North America, our systems expertise, our prior experience working with large organizations and, of course, the flexibility and versatility we offer.

## SOLUTION

As is the case with all Legacy Supply Chain customers, creating a solution tailored to the unique needs of their business is essential. In this instance, Legacy established an entirely new subsidiary company — known as Domain Logistics — dedicated solely to providing high-service solutions for OCS.

Built on Legacy's foundation of nearly 40 years of 3PL experience, Domain Logistics is a fully tailored solution designed to meet the needs of OCS in the high-growth, rapidly evolving legal cannabis industry. Domain delivers critical support and service across three key areas:

# SECURITY

**Safety and security are paramount for OCS, which is why Domain implements strict supply chain controls to ensure 100% chain of custody security at the unit level from the distribution center all the way through to final delivery.**

These controls, designed to support the requirements of a highly regulated and dynamic market, are as follows:

- **Supplier Controls:** All OCS suppliers are required to pre-book inbound appointments to Domain's distribution center following strict process guidelines. On the day of an appointment, supplier vehicles are vetted by security personnel before being admitted into a separate, secure yard fully equipped with CCTV cameras. Delivery driver interactions with the site take place over intercom and are managed by security personnel. Once the shipment is verified, dock doors are opened for shipment intake. These dock doors are continuously guarded by security personnel.
- **Distribution Center Controls:** Every touchpoint within Domain's distribution center is verified and documented with our warehouse management system (WMS), creating an audit trail of how product flows through our facility. Using hundreds of high-resolution CCTV cameras, we're able to monitor every square inch of the building, which enables us to create a detailed record and investigate every aspect of fulfillment, right down to which barcodes are placed on boxes.
- **Licensed Producer Controls:** Domain has implemented product scanning requirements during each touchpoint and inventory controls, including monitoring for packaging deficiencies.
- **Technology Controls:** All of Domain's networks and servers have multiple layers of protection, including bank-level encryption for data at rest and in transit and multiple layers of off-premise redundancy, in addition to security staff-maintained tracking systems for equipment. Online customer payment information does not flow to Domain Logistics through OCS's enterprise resource planning (ERP) platform, and online shipping information meets all Canadian national privacy standards and auditing requirements.
- **Employee Screening/Training:** All Domain employees are screened prior to employment and trained in-class and on-site in the warehouse. Domain also provides ongoing development and safety programs, leading to reduced turnover and enhancing product safety. Finally, all employees (and visitors) entering and exiting Domain's distribution center must pass through airport-style X-ray screening for security clearance.
- **Outbound Retail Shipment Controls:** Domain is in complete control of all outbound freight and is responsible for all deliveries to all of Ontario's 1500+ (and growing) retail stores.



## OUR OUTBOUND SHIPMENT CONTROLS ARE SIMILAR TO THOSE FOR INBOUND SHIPMENTS:

- Appointments are scheduled ahead of time,
- Delivery vehicles are thoroughly vetted before being accepted into a secure yard
- Drivers communicate through a secure door
- A security guard oversees the loading of pallets into trucks
- All information is carefully recorded in Domain's internal system.

## TRUSTED DIRECT-TO-DOOR CONSUMER DELIVERY:

Once a shipment is prepared at the distribution center, it is never out of Domain's possession or control until it is delivered directly to a properly identified legal customer.

Last-mile, direct-to-door delivery is achieved through our freight management solution, Domain Express. Domain Express leverages a growing network of specialized delivery agents to provide high-service, high-security deliveries to the end consumer. The solution is enabled by our robust transportation management and execution system (TMS) built upon Manhattan TMS.

Domain's contracted parcel carriers are vetted and regulated to ensure they align with Domain

and OCS's mutual operating model that requires compliance and high security. Additionally, all deliveries are subject to protocols that ensure proper age verification via acceptable forms of government issued identification, recording of produced identification and signature verification. These protocols further ensure that there is an adult present to sign for the receipt of any delivery, with no product being left unattended.

**All of Domain's controls were designed according to federal and provincial regulations and incorporate best-in-class standards leveraged from the banking, airport and casino industries.**

## INTEGRITY

Domain's rigorous security controls not only guarantee the safe distribution of OCS's products, but also maintain the integrity of the legal market by creating an accurate account of each product's movement and ensuring that products are delivered to the correct location.

Domain is able to achieve this by leveraging advanced technology solutions, including WMS integration with OCS's online storefront and ERP solution, and a TMS-powered direct-to-door delivery solution. Domain stores all data on the Microsoft cloud through its Manhattan SCALE WMS and has implemented strict data access protocols to protect the integrity of its network and prevent any information from being shared outside the organization.

OCS's partnership with Domain has been hugely successful in not only maintaining the integrity of the legal market, but also in discouraging the purchase of recreational cannabis through illicit market channels.

According to OCS's Q3 Quarterly Review report, 58.8% of allcannabis purchases made in Ontario between October and December 2021 were linked to legal retailers, up 54.2% from the previous quarter. This is the very first time that sales made through the province's legal channels have overtaken those made through the illicit market and marks a major turning point for both OCS and the industry as a whole. Furthermore, Ontario sold more legal cannabis than any other province or territory, with nearly 40.8% of all legal cannabis sales in Canada occurring through the province's licensed retailers and OCS.ca.

## SCALABILITY

Domain supports OCS's continued growth by offering the scalability to support product line launches and the expansion of new consumer and retail sales channels. As part of that effort, Domain devised an innovative new distribution center inventory flow program to allow for a higher stock-keeping unit counter in a smaller footprint to lower inventory costs.

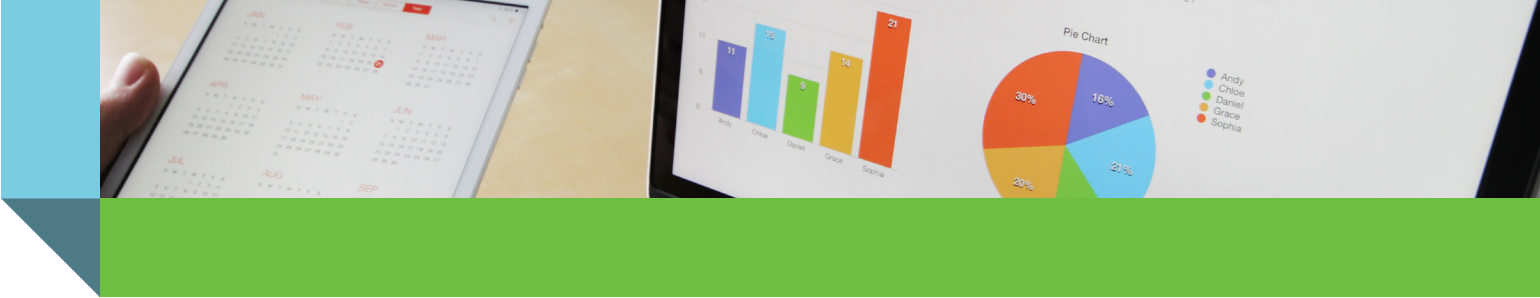
In 2020, Domain Logistics launched Domain Express, a secure, direct-to-door delivery service designed to meet OCS's surge in online consumer demand. Domain Express leverages Tier 1 supply chain technology powered by Manhattan Associates and an integrated network of vetted, professional transportation partners to ensure that every package gets to the intended consumer safely, on time and at the right cost.

Domain Express currently offers coverage for 86% of Ontario's population. Individuals living in the Greater Toronto Area are also eligible for same-day service.

Additionally, the industry saw significant product line expansion as Domain supported the debut of new "Cannabis 2.0" product categories.

Domain also recently opened a new, purpose-built distribution center in Guelph to further support OCS in the rapidly expanding Ontario retail cannabis market. This highly automated, 225,000 square foot facility provides OCS with the capacity and flexibility needed to meet the growing demands of retailers, as well as fulfill eCommerce orders from a fast-growing product catalog, including edibles, extracts and topicals.

Domain's Guelph facility is ideally located to serve the largest population segments of Ontario, including southwest Ontario, Niagara and the Greater Toronto and Hamilton Area, while also being able to serve the entire Ontario market in a timely, cost-effective manner. The central location is well-located to serve licensed producers and retailers and to provide end consumers with same-day, next-day, express and standard delivery options.



## VALUE & RESULTS

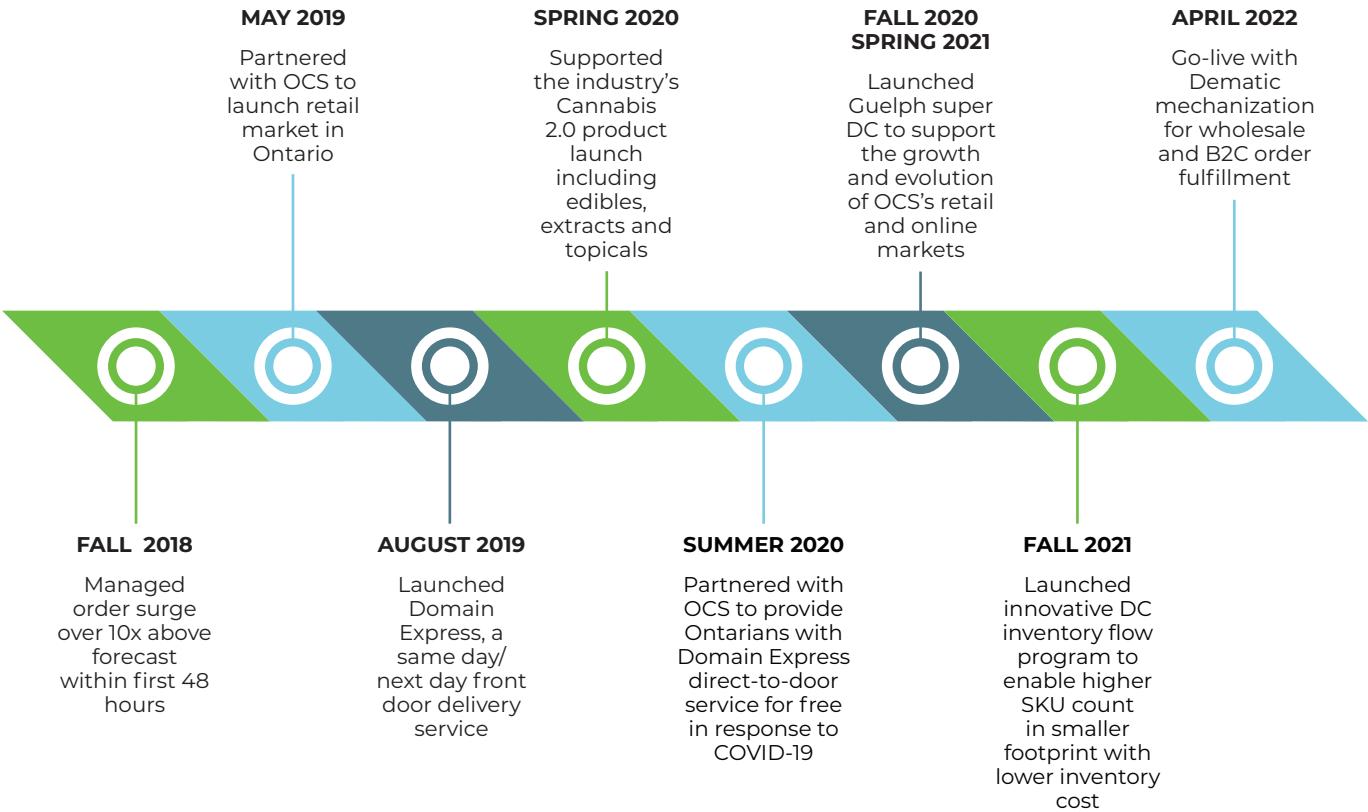
By partnering with Domain Logistics, OCS is able to better control its entire supply chain, building in an additional layer of control that extends both upstream and downstream. With this increased level of control comes operational efficiencies, lower logistics network and organizational costs, and improved communications with all supply chain stakeholders.

Domain currently ships roughly 11,000 eCommerce units for OCS each day — all at a 99%+ on-time delivery rate — for a total of approximately 1.3 million orders shipped per year and over \$750 million in annual sales volume. Domain supports a total of 1,333 authorized cannabis stores, which account for 96% of all recreational cannabis purchases.

Domain is also subject to stringent inventory gain/loss requirements which we continually exceed. Finally, as noted, Domain Logistics has played an integral role in helping OCS steadily gain market share from the illicit market, drastically increasing the number of sales through legal channels.

## SUPPORTING INDUSTRY GROWTH TRENDS

Domain has driven value for OCS since the inception of the legal cannabis industry:





## FUTURE DEVELOPMENTS

The successful partnership between Legacy/Domain and OCS has created a strong platform for growth and expansion of the Ontario market. Looking forward, there continue to be growth and expansion opportunities.

As the retail market continues to expand toward a projected 1900 stores, continuously improving the retail distribution channel is critical. In order to drive more retail throughput at a lower cost, store delivery scheduling and routing is being optimized, and a cross dock solution for retail-ready orders is in development to streamline product flows from licensed producers through the DC to retail storefronts. Additionally, investments in automation and facility pick tower infrastructure are being made to drive improved service levels to stores.

Product line expansion and customer experience enhancements are vital to OCS's growth. Investments in integration of OCS's online storefront and the Domain Express home delivery services are critical to create a more real-time experience for consumers. Distribution flow programs are continually developed to enhance speed-to-market for 100s of high-volume, fast-moving SKUs. Initiatives like these directly support OCS's plans to grow product line availability to over 10,000 unique items.

Delivery optimization helps enable market growth and also reduces carbon footprint by removing truck miles from the road. To support this, Domain/Legacy is expanding home delivery footprint into more remote areas of Ontario and leveraging advanced TMS technology to create new freight back haul opportunities.

This new market has proven to be highly successful in large part due to the supply chain controls Domain/Legacy has developed. Well-regulated supply chain controls, cost-efficient operational processes and safe, secure, high-service delivery — the legalized recreational cannabis industry is now a proven entity, and our long-term partnership continues to grow and expand.