



**2007-2008 Annual Business Plan**

## **MANDATE**

The NSLC is governed by the *Liquor Control Act* (LCA) of Nova Scotia. This act mandates the responsibilities of the NSLC to our shareholder - the people of Nova Scotia. The most fundamental element of the NSLC's role derived from the LCA is that the NSLC is solely responsible for the receipt of all beverage alcohol available throughout Nova Scotia. In order to ensure the safe and responsible consumption of alcohol, any products sold through NSLC stores, Agency Stores, Private Wine and Specialty Stores (PWSS), licensees, and private importations must be received through the NSLC. Through this mandate, the Government ensures that the product is available only to Nova Scotians of legal drinking age. The legislation also describes four other key responsibilities of the Corporation:

- Attainment of acceptable levels of customer service
- Promotion of social objectives regarding responsible drinking
- Promotion of economic objectives regarding the beverage alcohol industry in Nova Scotia
- Attainment of suitable financial revenue for the Government of Nova Scotia.

The NSLC has developed, based on its legislated mandate, a statement of purpose to guide all employees over the coming years. The NSLC's Purpose, Vision and Culture statement goes beyond the legislated requirements to describe and inspire our people as to the type of business we wish to become.

### ***Purpose***

Bringing a world of beverage enjoyment to Nova Scotia.

- *We aspire to this through our:*

### ***Vision***

- To be recognized as a superb retailer - known for our business performance, customer focus and vibrant shopping experience eliciting the pride and enthusiasm of Nova Scotians.
- *Living our Purpose and Vision entails a:*

### ***Culture***

- That encourages innovation and creativity.
- That engages employees in achieving success.
- That is driven by customer needs.
- That demonstrates respect and dignity in all we do.
- That is a fun place to work.
- That advocates intelligent consumption.

## **PLANNING CONTEXT**

The NSLC, as a modern retail business, is competing against private sector retail businesses that are vying for the entertainment dollar of the consumer. The NSLC is competing directly for a share of that discretionary income. Successful retail businesses are providing customers with a complete shopping experience not just product on a shelf. This means constantly evolving store design, improved staff knowledge, product variety, value offers, and personalized service.

The NSLC's future success depends on its ability to respond to these realities and provide shoppers with a retailing experience that meets and exceeds their rapidly evolving needs. The long-term earnings growth resulting from focusing on customer expectations will be achieved through on-going investments in all aspects of the business.

### *Customer Base*

The population base of Nova Scotia declined over the past two years by 0.2%. There are significant changes occurring within the population of the province that impact current and future business practices of the NSLC. Population shifts, in particular, impact the delivery of our retail offering: urban/rural shifts and changes to the age of the population. According to Statistics Canada, Nova Scotia's population growth is occurring primarily in the Halifax Regional Municipality and the median age of the population is increasing.

Statistics Canada reports show that seventy-seven percent of the Nova Scotia population is of legal age to consume beverage alcohol. NSLC surveys indicate that twenty six percent do not shop for alcohol. This means the NSLC customer base is about 535,000 people with most visiting an NSLC store once a month. Forty percent of NSLC customers visit an NSLC store 2 to 3 times a month. Provincial Government statistics indicate that the number of potential NSLC customers above 45 years of age grew last year by 0.4% (8,395) while the number from 19 to 45 declined by 1.7% (5,681). Those 45 years of age or above represent an opportunity for the NSLC since they generally have more disposable income than their younger counterparts. NSLC research also shows a distinct change in consuming patterns for those 55 and over where wine becomes the beverage of choice.

The NSLC customer base increases with seasonal variations. These include the substantial increase during summer months resulting from the province's tourism industry. With almost half of the tourism visits in Nova Scotia occurring over the four month summer season of June, July, August and September the NSLC is particularly impacted in these months. With 16% of every tourism dollar spent on shopping, the NSLC continues to focus on serving these customers in high periods. The NSLC also has a modest increase from September to May as a result of the return of students to college and university. This is particularly so in the HRM, Wolfville, and Antigonish markets.

The 2,100 licensed establishments in Nova Scotia (restaurants, bars, hotels, and lounges) represent 14% of the NSLC's gross sales. The NSLC is a wholesale distributor of beverage alcohol to these establishments. Private Wine and Specialty Stores and NSLC Agency Stores represent another 4% of the NSLC's wholesale business.

The vendors and agents of those companies that manufacture the products the NSLC retails and wholesales are critical stakeholders in our business. There are 73 beverage alcohol agencies in Nova Scotia with 135 registered representatives. The NSLC sells 2,600 to 3,000 products from more than 50 countries.

### *Economy*

The NSLC's gross sales are projected to increase by 3.6% for the 2006/2007 fiscal year of which 2.0% is real growth. For 2007-2008 the NSLC projects gross sales to increase by 4.2%.

The Nova Scotia Finance Department projects Nova Scotia retail sales to grow 4.9% in calendar 2007 and 4.4% in 2008.

The Nova Scotia Department of Finance projects that Nova Scotia's real Gross Domestic Product to grow by 2.3% in 2007 and 2.4% in 2008. Nova Scotia personal consumer spending on goods and services is expected to grow by 4.9% in 2007 and 4.2% in 2008, in nominal terms.

Retail sales comprise 52% of personal consumer spending on goods and services. Nova Scotia personal disposable income (after deduction of income taxes), is expected to increase 3.4% in both 2007 and 2008.

Nova Scotia employment is expected to increase 0.2% in 2007 and 0.4% in 2008. Retail sales growth in Nova Scotia in 2006 is estimated to be 6.9%.

Tourism plays an important role in NSLC seasonal sales. According to the Nova Scotia Department of Tourism, total visits to Nova Scotia were flat in 2006 compared to 2005. In 2004 and 2003 we saw robust cumulative growth of 13%.

### *Labour Relations*

Forty-two percent of all NSLC employees are unionized with 81% of full-time employees being unionized. NSLC has three groups of unionized employees each with its own collective agreement. All three groups are represented by the Nova Scotia Government and General Employees Union (NSGEU). Unionized employees include select head office staff, all permanent part-time and full-time Store Clerks; Store Managers and Assistant Managers; as well as maintenance staff and most employees in the Distribution Centre. All three collective agreements expire March 31, 2007.

## *Business Planning*

The NSLC introduced a new Five Year Strategic Plan in 2005. The continuous planning process the organization will follow will see this Plan revisited each year as the NSLC works towards its goals for 2010. This Annual Business Plan outlines the major annual projects and priorities the NSLC will be focused on delivering in the current year of the five year plan.

## **RETAIL ENVIRONMENT**

According to the Retail Council of Canada (RCC) the retail industry is the largest employer in Nova Scotia accounting for 13.5% of the labour force and more than \$10 billion in annual sales.

All retailers are vying for a larger piece of the disposable income of Nova Scotians. The NSLC is no exception. It competes with all retail businesses for this income. NSLC sales are estimated to represent 2.4% of personal consumer spending on goods and services. Retail sales (of goods only) in 2006 are estimated at \$11.3 million, of which NSLC sales represent 4.6% of retail sales.

The Nova Scotia Department of Finance estimates that Nova Scotia personal disposable income (after deduction of income taxes), is expected to increase 3.4% in both 2007 and 2008. This foundation provides the NSLC with its opportunity for growth.

The NSLC measures its reputation and customer satisfaction against all other retail businesses in the province. This rating includes top of mind customer impressions of which are the top retailers in the province; which retailers offer the best shopping experience; and a ranking of retailers by actual shopping experience. This is driven by 23 factors behind these impressions.

The NSLC has successfully implemented a strategy that has gained an increased share of disposable income over the past four years. In addition to the increased and improved product offering, the NSLC has made it much more convenient to shop for beverage alcohol. During the past three years, the NSLC has increased access through retail channels by 77% with an expanded number of stores, increased hours of operation and an expansion of the Agency Store Program. The co-location of half the store network to a major grocery retailer has dramatically improved the shopping convenience for customers and increased customer satisfaction to the point where the NSLC is now viewed by Nova Scotians as one of the top six retail businesses in the province.

In addition to the increased customer satisfaction generated by the execution of our Strategic Plan, the return to our shareholder in terms of growth has been unparalleled in the NSLC's 76 year history. Since 2002, the NSLC's net sales have increased by 29% (\$112 million annually) and net profits by 31% (\$44 million annually).

For the remainder of our Strategic Plan taking the NSLC to 2010, the Corporation continues to identify communities and customer segments that are being underserved. Some smaller communities in remote areas are often some driving distance from the closest NSLC store; the NSLC will expand its efficient Agency Store channel by up to 20 before the summer. Expansion beyond these additional 20 communities will be considered in the context of market saturation versus incremental sales potential. Twenty-three more NSLC stores will be considered for renovation.

In addition, the NSLC is a wholesale distributor of beverage alcohol to the 2,100 licensed establishments in Nova Scotia (restaurants, bars, hotels, and lounges). This business has traditionally represented 14% of the NSLC's gross sales. According to the Canadian Restaurant and Food Service Association sales in this sector has declined in overall sales in 2005 when compared to 2004 by 10.4%. NSLC sales to these establishments declined by more than 3% during the same period and remained flat in 2006. The NSLC will increase its focus on serving this segment of its business.

## **BUSINESS FOCUS**

The NSLC has five key elements to its business: 1) Supply Chain; 2) Retail; 3) Wholesale; 4) Corporate Services; and 5) Regulatory.

### *Supply Chain*

Like all retail businesses, the backbone of the NSLC is an effective and efficient supply chain. The logistics of getting the product from its point of manufacture anywhere in the world to the Halifax Distribution Centre in Bayer's Lake and then out to retail stores is an enormous undertaking which speaks to the efficiency of the business. In addition, the Supply Chain work of the NSLC must also meet the needs of licensees, Agency Stores and Private Wine and Specialty Stores in order for them to meet their customer needs.

### *Retail*

Once the product is in Nova Scotia, the NSLC is responsible for retailing beverage alcohol to the consumer. It does so through 108 retail stores that range from the traditional NSLC store and the higher-end Port of Wines store, to the NSLC Winebasket offering, and a new small store format offering all four product categories. The NSLC is constantly examining retail market patterns to ensure that the store network is best designed to meet the constantly evolving needs of the consumer.

A key element to retail success is the knowledge, experience and talents of retail store staff. The NSLC employs over 1,300 people in communities across the province and strives to support and enhance their skills to deliver superior customer service in a vibrant retail environment.

### *Wholesale*

With the exclusive responsibility in Nova Scotia to acquire and distribute beverage alcohol, the NSLC also serves as a wholesaler. The wholesale market makes up approximately 18% of NSLC revenue. The NSLC's wholesale market involves supplying the province's licensees (restaurants, bars, lounges and hotels licensed to sell beverage alcohol); NSLC Agency Stores; and Private Wine and Specialty Stores (PWSS) with beverage alcohol products.

### *Corporate Services*

The NSLC has a number of corporate services that enable the supply chain, retail and wholesale functions to operate efficiently and effectively. These include the choice of products offered; the marketing and promotion of those products; the financial management of the business; meeting the human resource needs of the NSLC; the development and maintenance of the NSLC's facilities and store network; the use of information technology to improve the efficiency of the business and facilitate the shopping experience;



and the transparent communication of the goals of the organization both internally and externally.

### *Regulatory*

The NSLC is responsible for aspects of the *Liquor Control Act* relating to regulating the activities of manufacturers, their representatives, and non-consumer (commercial/industrial/institutional) uses of alcohol. Every manufacturer or their agent must be authorized by the NSLC to represent and/or market particular products and brands.

A major part of the NSLC's regulatory obligations includes activity related to wineries, breweries and distilleries manufacturing products within Nova Scotia. The NSLC recognizes the value that these local manufacturers add to the Nova Scotia economy, and the great potential that their products offer in markets both local and worldwide. All local producers are able, once permitted by the NSLC, to operate a retail outlet at their place of manufacture. In addition, the NSLC issues special permits for some of these producers to retail their product in areas such as farmer's markets.

## **THE NSLC CUSTOMER**

The key to any successful retail organization is to know who the customer is; what their needs are; how to meet these needs; and anticipate how best to serve them in the future. Traditionally as a monopoly, the NSLC viewed its customer to be everyone in Nova Scotia. But this is not the case. For many reasons approximately 26% of legal drinking age Nova Scotians do not shop in NSLC stores. The result is that the NSLC customer is different in both profile and need from the general population.

Through both quantitative and qualitative research the NSLC has segmented its customer base in order to offer a better retail shopping experience. Driving this segmentation is the recognition that NSLC customers buy products for specific uses or occasions. The NSLC customer buys for one or more of the following distinct reasons:

1. Celebration: For holidays and special occasions
2. Socializing: With groups of friends, relatives or colleagues
3. Simple Pleasures: At home or after a meal
4. Letting Loose: for week-ends
5. Savouring: Before and during the meal time experience
6. Unwinding: At the end of the day, through the week, alone time

These are the NSLC's customer segments. This captures well why the NSLC customer purchases our products. In order to fully understand customer needs the NSLC also needs to answer who is purchasing for these occasions; what are they purchasing for each occasion; when are they buying; and how much are they spending when they are doing it. When the customer is buying for one of the six occasions segments the NSLC then captures the answers to the above four questions by grouping them into four customer types:

1. Adventurer: Buys different products frequently across categories
2. Loyalist: Buys the same product frequently
3. Discoverer: Buys different products across categories shopping occasionally
4. Maintainer: Buys the same product shopping occasionally.

Through understanding the needs of the NSLC customer the organization will be better positioned to ensure that *"the NSLC complements all of life's occasions."* This is the essence of the Corporation's brand positioning.

## **STRATEGIC PLAN**

In 2005 the NSLC released a new Five Year Strategic Plan for the organization that identifies the business objectives through 2010 and also outlines the customer promise.

The NSLC's Customer Promise is:

*The NSLC will provide our customers with service that:*

- *Aligns product availability and selection with our customer needs*
- *Is a vibrant, interactive and inviting Nova Scotia shopping experience*
- *Ensures discovery and personal service with friendly and professional staff*

The focus of the Strategic Plan is to "*transform the NSLC from a place to buy something into a place to shop*".

The NSLC has identified five strategic pillars to guide its operations during the period of the Strategic Plan:

- **Stewardship**  
*As a Crown Corporation the NSLC is legislated to deliver its business according to the Liquor Control Act. This pillar sets out how the NSLC will deliver on the responsibility entrusted to it by Nova Scotians.*
- **Customer**  
*This pillar outlines how the NSLC will deliver on its customer promise.*
- **Reputation**  
*The overall reputation of an organization impacts its financial success. This pillar sets out the NSLC's commitment to enhance reputation and measure progress.*
- **People**  
*Having the right people, working in an enjoyable and effective work environment drives success. This pillar sets out how, as a modern retail business, the NSLC will develop its people.*
- **Financial**  
*This pillar sets out the organization's top and bottom line performance expectations.*

Each pillar is accompanied by five-year strategies that will be the organization's focus in achieving its goals outlined in the strategic plan. Each of these strategies has alignment with the priorities of the current fiscal year. The detailed strategies can be found in the NSLC's Five Year Strategic Plan. What follows are the highlights of this year's priorities.

## **PRIORITIES FOR 2007-08**

*Pillar: Stewardship*

**5 Year Goal: To provide Nova Scotians with the Corporate Stewardship entrusted to the NSLC under the Liquor Control Act**

*2007-08 Priorities*

- Implement a new Nova Scotia Wine industry policy
- Develop an Enterprise Risk Management (ERM) plan
- Recommend updates to the Liquor Control Act
- Redesign the internal audit function to align with the new business processes resulting from SAP Retail
- Finalize and implement recommendations regarding the future of the Private Wine Store model
- Develop a Corporate Social Responsibility Plan
- Invest 0.1% of gross sales towards intelligent consumption initiatives
- Implement the Nova Scotia/Quebec Memorandum Of Understanding on beer
- Rollout to all NSLC business units the Balanced Scorecard measurement tool

*Pillar: Customer*

**5 Year Goal: To match the customer experience with the customer promise**

*2007-2008 Priorities*

- *Aligns product availability and selection with our customer needs*
  - Redesign the pricing structure for all product categories
  - Broaden the selection available through the wine category through an expansion of one-time-only offerings as well as renewal of the higher-end selection list
  - Develop a spirits category rejuvenation plan focused on growing volume
  - Reduce wholesale customer costs through NSLC direct delivery of orders
  - Introduce targeted wholesale promotions
  - Create licensee only product list
  - Operationalize a new Customer Service Centre
- *Is a vibrant, interactive and inviting Nova Scotia shopping experience*
  - Expand chilled beer offering in additional corporate stores
  - Introduce NSLC regular product tasting program in-stores
  - Review NSLC stores to develop a plan to ensure they are barrier free
  - Develop an Energy Conservation and Green Building Plan
  - Develop a new "distinctly Maritimes" store design for next phase of the network development plan

- Create NSLC signature stores in major markets
- Set and measure new store operation standards including promotion execution; inventory levels; operating hours; sales floor coverage; and cash register service standards
- *Ensures discovery and personal service with friendly and professional staff*
  - Introduce a Customer Relationship Program
  - Expand marketing initiatives to include direct customer communication initiatives
  - Improve customer responsiveness through a higher level of staff training combining both category knowledge and sales skills
  - Review/renew the Port of Wines product offering in-store

*Pillar: Reputation*

**5 Year Goal: To be recognized as a leading retailer in Nova Scotia**

*2007-2008 Priorities*

- Improve NSLC performance as a leading retailer in Nova Scotia
- Provide transparent and pro-active communication of the NSLC's business success
- Focus on opportunities to gain peer recognition of NSLC business successes
- Work with other Atlantic Canada liquor boards to create an Atlantic distribution centre for imported products

*Pillar: People*

**5 Year Goals: To have a highly motivated and engaged workforce.  
To develop our workforce including our leaders to meet the evolving needs of the Corporation.  
To have a highly productive workforce.**

*2007-2008 Priorities*

- Revise new employee hiring orientation process
- Introduce Retail Leadership Program at store manager level
- Introduce a Management Development Program
- Ensure training and on-going support for employees regarding the new SAP Retail technology and improved business processes that result
- Begin new 3-level product and sales training to improve the effectiveness of retail sales skills with customer satisfaction improvements as a primary goal
- Obtain Level One recognition from the National Quality Institute regarding healthy workplace standards
- Successfully launch new SAP Retail technology
- Replace Point-of-Sale hardware and software

*Pillar: Financial*

**5 Year Goal: To reach a 4.1% annual growth rate over the next five years (ending 2010)**

*2007-2008 Priorities*

- To deliver \$523.9 million in net sales (this will produce a three year CAGR of 5.1%)
  - Enhance promotions effectiveness measures
  - Operationalize a strategic tasting strategy
  - Introduce a new retail pricing strategy
  - Review Social Reference Price and category price bands
  - Launch new point-of-sale system
  - Develop a spirits category rejuvenation plan focused on growing volume
- Introduce a Customer Relationship Management initiative to enhance sales

**5 Year Goal: To contribute \$215 million to the province by 2010**

*2007-2008 Priorities*

- To return \$197.1 million net income from operations to the shareholder
  - Enhance Gross Margin through purchasing efficiencies
  - Go live with SAP-Retail software and the resulting new business processes
  - Through effective supply chain management deliver an overall fill rate of 98% and inventory turns overall at 12, with domestic at 20 and import at 5
  - Drive Supply Chain efficiencies through the creation of an inter-provincial distribution centre for imported product
  - Develop SAP Business Analytics
- Leverage CRM to increase bottom-line returns

**5 Year Goal: To effectively use our capital**

*2007-2008 Priorities*

- Continue to decrease/eliminate unproductive inventory in both the store network and the Distribution Centre
- Develop and implement the first year of the new three year network development plan
- Utilize the Return on Investment (ROI) hurdle rate model for prioritizing capital expenditures
- Implement new SAP product ordering forecasting and replenishment processes

## **STRATEGIC ENABLERS**

Across the entire business there are a number of key initiatives that the NSLC will focus on this year that are essential elements of moving the organization forward to deliver upon its customer promise and on shareholder expectations. Five important enablers over this year are the operating expense plan, the NSLC brand, the NSLC Corporate Marketing Plan, Category Management Plans, and our business process improvement initiatives.

### *Operating Expenses*

For the twenty years prior to becoming a Crown Corporation in 2001, the NSLC's growth both top and bottom-line was impeded by the lack of investment in the business. The result was technology barely able to keep up with the demands of a modern retail business to the point that fundamental elements of the business were at risk.

The NSLC has increased expenses since becoming a Crown Corporation to invest in the long-term health of the business. These investments include capital expenditures for the replacement of the core technology that runs the business, changing from Magstar to SAP; and renewal of the store network. On an ongoing basis, the business requires operating expenditure investments to enhance the supply chain; the introduction of modern marketing and merchandising practices; improved financial reporting and analysis; and training of employees. To-date, this investment has yielded a 31% increase in bottom-line performance.

The capital investment this year in SAP will add to our depreciation and amortization over the next five years. In addition, during 2007-2008 the NSLC will make an additional major capital investment with the replacement of the point-of-sale system. This will impact the amortization and depreciation expense line beginning in 2007-2008 and continue over the following four years. The NSLC is also making a major operating expenditure in the 2007-2008 fiscal year to improve service to the licensee community. This initiative will take three years to turn a positive return-on-investment.

As the NSLC reaches a normalized level of expenditure for a retail business of this size over the next two years, we will see the operating expense ratio (including amortization and depreciation) stabilize at approximately 15%.

### *The NSLC Brand*

The effective implementation of the NSLC brand brings together all customer touch points leaving an overall impression of the organization to our customers. These include the physical store environment; staff interaction; logo; product selection and availability; promotions and advertising; impressions left by news media; events; and many intangible elements. Every place a customer can interact with your company is a touch point, and that touch point affects how you are perceived. Perception impacts a

customer's willingness to respond to a retailer's effort to get them to purchase products.

**Brand = Promise + Performance + Perception**

The NSLC recently completed rollout across its store network of a new logo, a new look, and new design standards for stores. The essence of the NSLC brand is:

*The NSLC complements all of life's occasions*

From this brand positioning for the company comes the NSLC's tagline:

*Make it a social occasion*

Building on this positioning and tagline is our marketing magazine *Occasions* and our customer segmentation approach based on occasion-based purchasing.

Moving forward, the NSLC is going to focus on improving the staff knowledge of the products we sell, and improving the overall sales message in the store. In addition there will be increased focus on providing self-education tools for customers both in-store and through our website [www.thenslc.com](http://www.thenslc.com), as well as through the NSLC's schedule of special events.

The NSLC brand will continue to evolve and move the organization closer to delivering on the customer promise.

*The Corporate Marketing Plan*

This year, the NSLC will implement the new Corporate Marketing Plan to help guide the organization on meeting its commitments under the Five Year Strategic Plan. It puts "meat on the bones" of the Strategic Plan. The Corporate Marketing Plan analyzes the business as it currently stands, and provides a blueprint as to how the NSLC will reach the goals set out in the Five Year Strategic Plan. This includes details on the customer experience; what is the sales culture the NSLC is trying to create; who is the customer; what is the NSLC's optimum product offer for profitability; and how the organization can maximize financial performance through the use of pricing and gross margin. In addition, the CMP will focus on strategies for targeting customer shift, lift, and frequency.

Multi-year Business Unit plans, the NSLC Annual Business Plan, and Annual Business Unit Plans will use the Corporate Marketing Plan to deliver each part of the business.

*Category Management Plans*

Leading retail businesses use strategic category management to drive increased profitability and customer satisfaction. This past year, the NSLC implemented its first category management plans in all four product categories. This includes strategies for which product sub-categories the NSLC wishes to grow aggressively, grow strategically, maintain, or harvest. This approach drives store layout, product space allocation, promotional



strategy, category reviews, product performance analysis, and store groupings.

These plans describe in detail the strategic choices on product, pricing, promotion, and placement, and will enable the NSLC to deliver on its Corporate Marketing Plan and the Five Year Strategic Plan.

### *Business Process Improvement*

Getting better at determining the mix of products customers desire, and ensuring that they are on the shelves when customers need them, is why the NSLC is investing considerable resources this year and next in our core technology and business processes. At the heart of our business processes are our core technologies for product ordering, financial management, human resource management, data warehousing, and the point-of-sale system.

A major focus of the NSLC this year will be the design and implementation of business processes and technology to replace some of these legacy systems. The NSLC has chosen the SAP-Retail solution to move the organization forward in this regard. The NSLC purchased this retail software from SAP, the largest world-wide provider of business software solutions. This system is used by many of the world's most successful retail businesses. It will replace the current financial, inventory, and ordering systems used by the NSLC. Our point-of-sale (POS) system is also being replaced during the year. The new software for the POS was chosen in a competitive multi-stage tendering process this past year. The hardware will also be chosen through a competitive tendering process.

These are major projects for any business, which fundamentally change how the work gets done. The new resulting business processes and systems improve decision-making, and enhance the execution of strategies and operational needs. Over the next two years this will change how we do our business and provide the necessary tools and information to help NSLC achieve its goal of becoming a superb retailer.

### **RISK FACTORS**

The ability of the NSLC to meet these commitments can be impacted by factors beyond its control. Some of these include the impact that weather throughout the province can have on sales. Severe winter weather has in past years resulted in the closure of stores across the province reducing overall sales. Unseasonably cool summers, rain and fog also tends to negatively impact sales.

The beer segment is particularly subject to sales fluctuations in this regard. With 80% of the volume of product sold by the NSLC represented by the beer category this is an area of great vulnerability to weather conditions.

The products sold by the NSLC are purchased with the discretionary income of customers. General economic conditions of the province affect discretionary income, and could reduce NSLC sales and overall profitability.

With regard to the risks associated with weather and the economy, the NSLC has put in place monitoring and performance measures to enable management to make decisions mitigating the risk associated with these factors.

Major business process initiatives associated with the implementation of SAP carry inherent risk factors that can temporarily impact product supply and supplier payment when they first become operational. Due diligence has been performed by the NSLC in undertaking this initiative to mitigate against possible business interruption.

The replacement of the point-of-sale (POS) system is critical to the business. The NSLC has performed due diligence in choosing the hardware and software, along with the processes for activating the new system. Issues arising from the POS launch could temporarily inhibit the NSLC's ability to process transactions and report sales causing customer issues and reduced transactions.

The collective agreements with the NSLC's three unionized bargaining units expire March 31, 2007. As with any labour contract negotiation, there is risk of labour disruption if discussions are not productive. If this occurs, delivery of the 07/08 net income target will be at risk.

The Royal Bank of Canada and Moneris supply the clearing system for financial transactions used by the NSLC. These systems rarely fail even temporarily. However, if they do, the NSLC would be impacted. Mitigation strategies will be developed as part of the Enterprise Risk Management Plan.

The perspective of the Government of Nova Scotia, as the sole shareholder of the NSLC, can impact the NSLC's business plan. Shifts in public policy and the public interest as voiced by the Government could impact the NSLC's ability to deliver this business plan as outlined.

The Board of Directors and management have also committed to ensure that appropriate Enterprise Risk Management strategies and processes are implemented during this year.

## Financial Plan

	Actual	Actual	Projected	Budget	
	2004/2005	2005/2006	2006/2007	2007/ 2008	Change
	\$	\$	\$	\$	
Spirits	138,031,068	146,511,096	148,885,000	151,870,000	2.0%
Wine	74,152,151	81,794,281	88,850,000	96,800,000	8.9%
Beer	224,344,466	242,597,682	250,800,000	261,210,000	4.2%
Ready To Drink	16,048,807	17,487,170	17,500,000	17,500,000	0.0%
Non liquor	633,054	295,271	175,000	150,000	-14.3%
<b>Total Gross Sales</b>	<b>453,209,996</b>	<b>488,685,500</b>	<b>506,210,000</b>	<b>527,530,000</b>	<b>4.2%</b>
Less: Discounts	2,255,353	2,601,763	3,300,000	3,600,000	9.1%
<b>Net Sales</b>	<b>450,954,643</b>	<b>486,083,737</b>	<b>502,910,000</b>	<b>523,930,000</b>	<b>4.2%</b>
Cost of Sales	216,981,780	233,107,815	241,510,000	247,530,000	2.6%
<b>Gross Profit</b>	<b>233,972,863</b>	<b>252,975,922</b>	<b>261,400,000</b>	<b>276,400,000</b>	<b>5.7%</b>
Less: Store Operating Expenses	41,993,977	45,875,122	46,630,000	49,200,000	5.5%
<b>Gross Operating Profit</b>	<b>191,978,886</b>	<b>207,100,800</b>	<b>214,770,000</b>	<b>227,200,000</b>	<b>5.8%</b>
Less: Supply Chain	5,160,908	4,834,430	5,200,000	5,550,000	6.4%
Corporate Services	13,533,774	17,401,405	16,500,000	18,350,000	10.3%
Other Expenses	4,091,659	4,875,266	5,990,000	5,010,000	-15.6%
Add: Other Revenue	4,833,735	5,741,118	6,400,000	6,500,000	2.4%
<b>Total Expenses (Excluding Stores)</b>	<b>17,952,606</b>	<b>21,369,983</b>	<b>21,290,000</b>	<b>22,410,000</b>	<b>4.1%</b>
<b>Operating Income before Depreciation</b>	<b>174,026,280</b>	<b>185,730,817</b>	<b>193,480,000</b>	<b>204,790,000</b>	<b>5.9%</b>
Less: Depreciation	3,991,970	4,475,489	5,150,000	7,720,000	49.6%
<b>Income From Operations</b>	<b>170,034,310</b>	<b>181,255,328</b>	<b>188,330,000</b>	<b>197,070,000</b>	<b>4.7%</b>
<b>Volume Growth (litres)</b>					
Spirits	5,229,430	5,223,280	5,195,000	5,220,000	0.5%
Wine	6,562,865	6,921,595	7,450,000	8,005,000	7.5%
Beer	61,922,196	63,750,549	63,970,000	64,285,000	0.5%
Ready To Drink	2,537,039	2,730,085	2,650,000	2,650,000	0.0%

## **Performance Measurement**

The NSLC will meet or exceed the following key financial performance measure for the organization:

### *Net Income*

	Actual 04-05	Actual 05-06	Projected 06-07	Budget 07-08	Year 3 CAGR
Income From Operations	\$170.0	\$181.3	\$188.3	\$197.1	5.0%

## **Supporting Operating Initiatives**

In managing the business, some of the indicators used to ensure maximum shareholder return is achieved while operating a modern retail business are outlined below.

### *Customer Satisfaction Index(CSI)*

The NSLC has redesigned the CSI in order to provide management with more specific information on how to improve the customer experience. This study takes 23 shopping attributes and distills them into 10 factors. These factors are then weighted according to what the customer reports is most important to them when they interact with the NSLC.

Baseline performance was established during 2005-2006 with the NSLC customer ranking overall satisfaction an 8.3 out of 10. The NSLC projects that for 2006-2007 the CSI ranking will be 8.5 out of 10. The primary driver for this improvement according to our customers was the shopping experience.

### *Retail Ranking*

The NSLC established a ranking of retailers through an annual survey in 2006. The NSLC ranked 5<sup>th</sup> for overall shopping experience and 7<sup>th</sup> as a top retailer in the province.

### *Balanced Scorecard*

The NSLC will introduce detail metrics for managing progress on the business. These metrics include both financial and non-financial performance ensuring alignment with the Five Year Strategic Plan. This Scorecard is the key to managing the financial measures of the Five Year Strategic Plan including the 2010 goals of a 4.1% Compound Annual Growth Rate (CAGR) on the top line and the net return to the shareholder of \$215 million in 2010.

### *Net Sales (millions)*

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET	Year 3 CAGR
03-04	04-05	05-06	06-07	07-08	
\$437.2	\$451.0	\$486.1	\$502.9	\$523.9	5.1%

*Operating Expense Ratio*

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
03-04	04-05	05-06	06-07	07-08
13.1%	14.2%	14.8%	14.6%	15.1%

*Operating Expense Ratio (excluding depreciation and amortization)*

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
03-04	04-05	05-06	06-07	07-08
12.3%	13.3%	13.8%	13.5%	13.7%

*Net Income Ratio*

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
03-04	04-05	05-06	06-07	07-08
38.2%	37.7%	37.3%	37.4%	37.6%

*Store Operating Ratio*

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
03-04	04-05	05-06	06-07	07-08
8.7%	9.3%	9.4%	9.3%	9.4%