



2011-2012 Annual Business Plan
April 5, 2011

Business Plan 2011–2012

Contents

Mission

Mandate

Planning Context

Organizational Elements

Strategic Plan

Priorities for 2011–2012

Strategic Enablers

Risk Factors

Performance measures

Budget Context

Mission

To bring a world of responsible beverage enjoyment to Nova Scotia.

Mandate

The NSLC is governed by the Liquor Control Act (LCA) of Nova Scotia. This act mandates the responsibilities of the NSLC to its shareholder (the Province of Nova Scotia) and the people of Nova Scotia. The most fundamental element of the corporation's role derived from the LCA is that the NSLC is solely responsible for the receipt, distribution, and control of all beverage alcohol in 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, specifically:

- 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 strives to balance its legislated mandate among the control aspects of the products, providing the necessary financial returns to its shareholder and ensuring a high level of service to Nova Scotians.

The NSLC exists, from a public policy perspective, to prevent the sale of beverage alcohol to minors and to limit the harmful impacts of irresponsible behaviour relating to the misuse of beverage alcohol. The NSLC has well-trained employees dedicated to preventing the sale of beverage alcohol to those under the legal drinking age. The NSLC also tries to mitigate potential harm to society through the use of its pricing policies. A social reference or minimum price is applied to all products to ensure that excessive discounted pricing, which could encourage harmful consumption, is not used. It also tries to mitigate the potential harm to society through the use of pricing policies.

Through all retail channels, the NSLC is focused on ensuring that the product is sold only to those of legal drinking age and on delivering a message that reinforces the need for safe and intelligent consumption. Externally, in fulfilling its legislated mandate, the NSLC focuses on advocacy, raising awareness of the impact of irresponsible behaviour regarding alcohol consumption. The NSLC is mandated to provide the government with strategic public policy advice on the regulatory aspect of the Liquor Control Act and the economic development of the Nova Scotia beverage alcohol industry, providing opportunities for Nova Scotia beverage alcohol producers to optimize the sale of their products.

It is important to note that the licensing and regulation of all bars, restaurants, pubs, and lounges permitted to sell beverage alcohol rests with the Nova Scotia Alcohol and Gaming Division of the department of Labour and Advanced Education.

The NSLC has developed, based on its legislated mandate, a statement of purpose to guide its employees in what is expected from them and what they can expect from the corporation. The NSLC's Purpose, Vision & Culture statement goes beyond the legislated requirements to describe and inspire its people as to the business the NSLC aspires to be.

Purpose

To bring a world of responsible beverage enjoyment to Nova Scotia.

Vision

To be a superb retailer recognized for sustainable business performance and engaging customer experience, eliciting the pride and enthusiasm of Nova Scotians.

Culture

- Encourages innovation and creativity
- Engages employees in achieving success
- Is driven by customer needs
- Demonstrates respect and dignity in all we do
- Is a fun and healthy place to work
- Advocates intelligent consumption and responsibility

Planning Context

Since becoming a Crown corporation in 2001 with a new commercial mandate, the NSLC has undergone a profound transformation to become a customer-centric, leading retailer in the province. During this time the NSLC has achieved remarkable sales growth of 55 per cent, delivering a 63 per cent increase in net income to our shareholder. This amounts to approximately \$2.0 billion in net income (2000–2001 to 2010–2011 forecasted) for the shareholder to improve the lives of Nova Scotians.

Successful retailers provide their customers with a complete shopping experience that engages them with new and modern store designs, inviting atmosphere, wider product selection, offers that deliver value, and knowledgeable, well-trained employees who offer personalized service.

The NSLC's continued success depends on its ability to respond to the realities of the market by providing shoppers with a customer experience that meets and exceeds their evolving needs and expectations. The long-term earnings growth resulting from focusing on customer expectations will be achieved through ongoing strategic investments in all aspects of the business.

A key strategic priority for the NSLC's Five-Year Strategic Plan 2010 – 2015 is

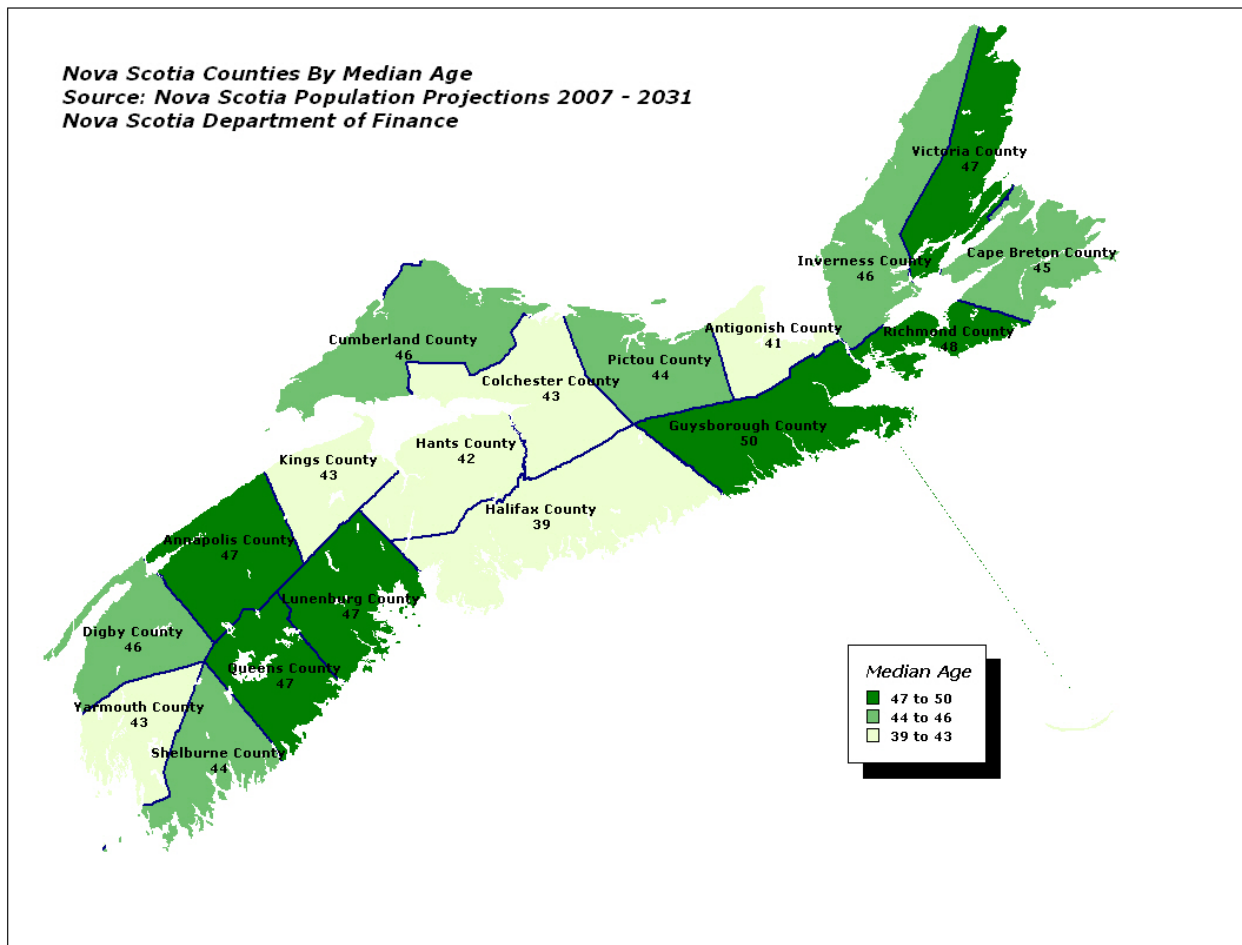
creating the right customer experience for the right market.

Market

Statistics Canada's 2009 population data indicate that 79.8 per cent of the Nova Scotia population is of legal age to consume beverage alcohol. NSLC surveys indicate that 26 per cent do not shop for alcohol. Therefore, the NSLC customer base consists of approximately 550,000 people, most of whom visit an NSLC store at least once a month.

Population growth in Nova Scotia is relatively flat and it is aging. An aging population combined with a lack of growth (i.e., fewer younger residents) means that the NSLC customer base will grow older, as well. This will drive changes in consumption patterns and product demand. Research indicates that consumption tends to decline as the population ages; however, customer demand for some premium products might also increase with age, somewhat balancing the impact of lower consumption in some categories.

Another population trend in Nova Scotia is movement of population between counties in the province



In general, the more urban counties in the central part of the province (Kings, Hants, and Antigonish) have lower median ages than the more rural counties.

There is a significant range of median ages between counties, HRM having the youngest (39) and Guysborough the oldest (50). This variation in the composition of the population across the province is reflected in the makeup of the NSLC's customer base, the implication being that a one-store-fits-all approach in terms of design, format, and merchandising is not the most appropriate approach. The NSLC has endeavoured to understand the constituency of each store and to align store experiences, products, and service being offered accordingly.

The NSLC customer base also changes with seasonal variations. These include the substantial influx of people during the summer months resulting from the province's tourism industry. In the fall, the return of students to university affects the HRM, Wolfville, Antigonish, and Sydney markets.

While the return of students in the fall is assured, the number of tourists visiting the province each year is not always as stable. To the end of June 2010, the Nova Scotia Department of Economic and Rural Development and Tourism reported that there were 816,000 visitors to the province, a 4 per cent increase from the same period the previous year. Cruise ship activity increased in both Halifax, up 15 per cent, and in Sydney, up 37 per cent. The cruise ship numbers are not reported in the total of visitors, as they do not stay overnight.

The vendors and agents representing product manufacturers and wholesalers are critical stakeholders in the beverage alcohol industry. There are 38 beverage alcohol manufacturers in Nova Scotia (including wineries, microbreweries, distillers, and brew pubs) with approximately 280 registered representatives and agents. The NSLC manages more than 6,500 products in the market and has introduced 1,500 new products in the last two years. To keep the product offerings fresh and vibrant, the plan is to add 300 to 500 new products this year.

Nova Scotia per Capita Consumption

Data on per capita consumption rates of beverage alcohol by product category in Nova Scotia indicate that 2008 consumption levels of beer and wine continue to be below the national average. In contrast, per capita consumption of spirits in Nova Scotia remains modestly above the national average. The data also reveal that per capita consumption of coolers continues to rise in Nova Scotia, while on a national level cooler consumption has waned in recent years.

Consumption of Alcoholic Beverages Per Capita, LDA and Over By Category Nova Scotia vs. Canada (litres, 2003-2008)						
	2003	2004	2005	2006	2007	2008
Spirits (excludes coolers)						
CANADA	5.5	5.58	5.56	5.72	5.82	5.88
Nova Scotia	6.85	7.01	7.11	7.07	6.92	6.97
Coolers						
CANADA	3.19	3.15	3.09	2.98	2.97	3
Nova Scotia	3.11	3.53	3.45	3.69	4.05	4.3
Wine						
CANADA	12.57	12.99	13.23	13.72	14.57	15.06
Nova Scotia	8.16	8.43	8.93	9.37	9.73	10.43
Beer						
CANADA	90.06	90.58	89.61	90.48	90.51	91.23
Nova Scotia	84.34	86.52	84.23	86.28	86.68	87.42
Total						
CANADA	111.32	112.3	111.49	112.9	113.87	115.17
Nova Scotia	102.46	105.49	103.72	106.41	107.38	109.12

*Please note that all per capita data have been revised to reflect Statistics Canada revisions

Source: Brewers Association of Canada 2008 *Annual Statistical Bulletin*, p. 35

The chart above gives the total litres of beverage alcohol (by spirits, coolers, wine, and beer) consumed by the average person of legal drinking age (LDA) and above in each of the years from 2003 to 2008. The LDA is 19 years of age across Canada, except in Quebec, Manitoba, and Alberta, where it is 18.

In terms of total consumption of alcohol, Nova Scotia represents a moderate consumption environment consistently below the national average.

Total per Capita Consumption of all Alcoholic Beverages by Province and Canada (litres, 2003-2008) LDA & Over						
	2003	2004	2005	2006	2007	2008
Total						
CANADA	111.32	112.30	111.49	112.90	113.87	115.17
Yukon Territory	180.22	180.76	180.20	172.76	173.70	176.58
Newfoundland	120.85	120.12	117.28	118.71	120.62	124.99
Québec	119.71	119.65	121.26	120.93	121.27	124.36
Alberta	114.71	116.56	115.78	116.68	122.49	121.07
Ontario	110.75	111.22	109.26	112.05	111.34	112.46
Prince Edward Island	102.80	104.89	104.60	106.11	107.09	109.23
Nova Scotia	102.46	105.49	103.72	106.41	107.38	109.12
British Columbia	103.86	106.24	106.48	106.65	108.55	108.75
Saskatchewan	98.08	101.58	96.53	98.46	101.50	105.14
Manitoba	98.52	100.84	97.16	100.33	104.51	104.89
New Brunswick	101.22	103.32	103.03	104.29	104.60	104.33
N.W.T. & Nunavut	111.27	105.07	92.93	92.60	92.54	96.96

*Please note that all per capita data have been revised to reflect Statistics Canada revisions

Source: Brewers Association of Canada 2008 *Annual Statistical Bulletin*, p. 35

As illustrated on the chart above, Yukon Territory, Newfoundland & Labrador, and Quebec have the highest per capita consumption in the country, followed by Alberta and Ontario. Nova Scotia falls in eighth place, just slightly behind Prince Edward Island.

The NSLC looks for growth opportunities while balancing one of the NSLC's key strategic responsibilities—to promote social objectives regarding responsible drinking.

Economy

All organizations from profit businesses to non-profit charitable groups, from governments to Crown corporations are affected by the swings in the economy. The recession did not hit Nova Scotia as severely as it did other parts of Canada; nonetheless, the impact was felt. The North American recovery is expected to be slow by historical standards, and risk and uncertainty remain as a result. This reality is a major consideration of this business plan.

Retail Sales

The Nova Scotia Department of Finance is forecasting retail sales to grow by 1.8 per cent in 2011.

Gross Domestic Product

The Nova Scotia Department of Finance is forecasting real GDP growth of 1.2 per cent in 2011 and growth of 0.6 per cent in 2012.

Employment

The Nova Scotia Department of Finance expects employment in Nova Scotia to grow by 0.3 per cent in 2011 and to grow by 0.5 per cent in 2012.

Personal Income and CPI

The Nova Scotia Department of Finance projected Nova Scotians' personal income to grow 1.7 per cent in 2011 and to grow by 2.2 per cent in 2012.

The Consumer Price Index (CPI) is expected to grow at a rate of 1.8 per cent in 2011 and to grow at a rate of 2.0 per cent in 2012.

Labour Relations

Most NSLC employees are unionized and are represented by the Nova Scotia Government and General Employees Union (NSGEU). Those in bargaining units include all full-time and part-time store clerks, all store managers and assistant managers, maintenance and warehouse employees, and some office clerical roles. Recently, most casual store clerks and warehouse employees have been added to the same bargaining unit as full-time and part-time store clerks.

All three of the NSGEU collective agreements were in effect until March 31, 2010. Collective bargaining commenced during the fiscal year 2010–2011. The new collective agreement will be signed and implemented during the 2011–2012 fiscal year. The expected economic climate and the addition of casual employees to the bargaining unit has added greater complexity to this round of bargaining.

The overall labour climate continues to be characterized by a generally open and collaborative relationship, relying on a problem-solving approach to address workplace issues as they arise. The NSLC has a positive labour relations climate, and this will provide a solid foundation for upcoming collective bargaining.

Business Planning

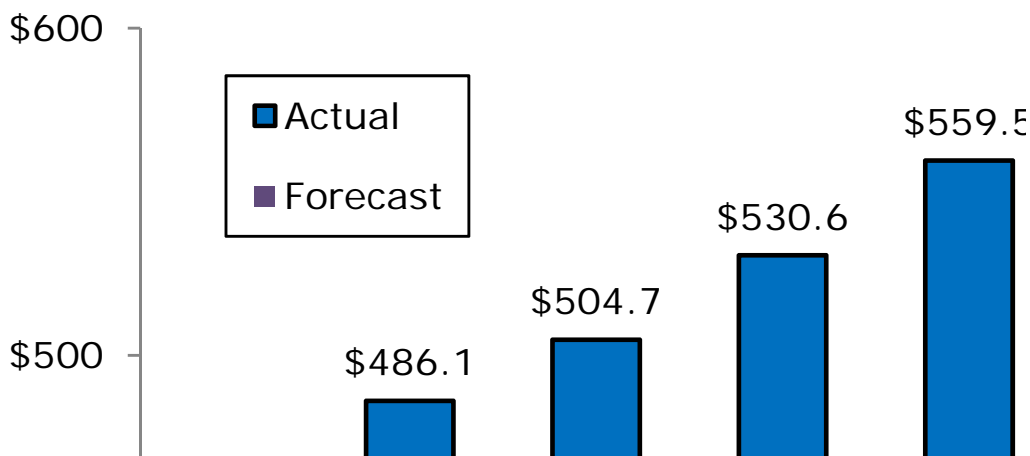
The guiding force to successfully meet and exceed NSLC business objectives is the annual business planning process and five-year strategic plan. These two documents provide the tools for the board, executive team, management, and all employees to implement strategies that ensure that the individual targets of each business unit and the overall financial goals of the NSLC are met or exceeded.

This year's business plan represents the second year of the NSLC 2010–2015 strategic plan. The organization follows a continuous planning process, ensuring that this plan is reviewed each year as the NSLC works toward its goals for the final year of the strategic plan in 2015.

The annual business plan outlines the major annual projects and priorities that the NSLC will focus on and deliver in the current year of the five-year strategic plan.

The planning process has worked well. The NSLC has experienced positive sales growth over the last six years, growing by 29.38 per cent to a forecasted \$583.5 million, producing a compound annual growth rate (CAGR) of 4.4 per cent.

Performance - Sales (Million)



Retail Environment

The lingering impact of the global recession is a continued change in consumer behaviour when compared to the previous decade. Consumers are more value conscious than ever before. However, this does not mean they are seeking lower-quality goods; they are still willing to pay premium pricing if there is a strong value proposition. They are staying closer to home due to pressure on disposable income, economic uncertainty, and a desire to maximize value. Grocery stores and one-stop-shopping locations benefit, whereas out-of-home entertainment and restaurants had a difficult year. This trend is likely to continue over the coming year.

The NSLC's monopoly status as the province's retailer of beverage alcohol does not remove it from the necessity to compete for a share of Nova Scotians' discretionary income. The NSLC is fundamentally in the retail business. Like all other retailers across the province, from chains to independents, the NSLC needs to provide customers with a proposition that includes convenient locations, a broad range of products, friendly and helpful employees, product value, and product promotions.

Over the last number of years, the NSLC has made changes to all facets of the organization that reflect these retail realities. These changes, and the response they have elicited from its customers, have contributed significantly to its financial performance.

As the NSLC enters the second year of its five-year strategic plan, the economic forecasts for the coming year are showing signs of improvement but also indicate a great deal of variability in actual economic performance and consumer confidence. As a result, modest NSLC growth is forecasted for this business-planning year.

To help develop its financial forecasts, the NSLC performs economic analysis of the Nova Scotia economy. Using more than 30 years of NSLC sales history and economic statistics for the province, a predictive economic model has been developed for financial planning. One of the key economic indicators considered is the inflation rate. The latest projections by the Nova Scotia Department of Finance suggest that the consumer price index (CPI) will increase at an annualized rate just over 1.8 per cent for Nova Scotia in 2011. The CPI affects discretionary income and the amount of real revenue increase the NSLC can achieve. Through examining eight economic factors such as these, the NSLC is able to more accurately project its business performance.

NSLC research into customer behaviour suggests that for people to spend more money when shopping, the NSLC needs to design a customer experience that

- increases the amount of time customers spend in the store
- increases the customer interaction in the store with employees and with merchandising displays

All retailers are vying for a larger piece of the customer's disposable income. The NSLC is no exception and is well positioned to offer affordable luxuries for every occasion.

The NSLC has successfully implemented strategies that have competed for a share of the customer's disposable income over the past five years. In addition to the increased, varied, and improved product offering, the NSLC has made it more convenient to shop for beverage alcohol. This has been accomplished by the redesign and location changes of NSLC stores, the introduction of agency stores, extending hours of operation, Sunday store openings, and the co-location of approximately 50 per cent of the store network with grocery retailers. These initiatives have improved customer shopping convenience and increased customer satisfaction to the point where the NSLC is viewed by customers as one of the top retailers in the province.

The future of retail over the next few years will see customers expecting more

customized and personalized shopping experiences. The rapid growth of social media is changing all business, including retail. As all customers expect more from retail through both their interactions on the web and through smart phones, retailers need to work to provide these enhanced customer experiences. The “net generation” of 19- to 34-year-olds represents 27 percent of NSLC customers. According to studies, this group tends to represent 32 per cent of beverage alcohol sales. Therefore, it is an important aspect of the NSLC’s business planning to respond to this group’s shopping requirements in a meaningful way.

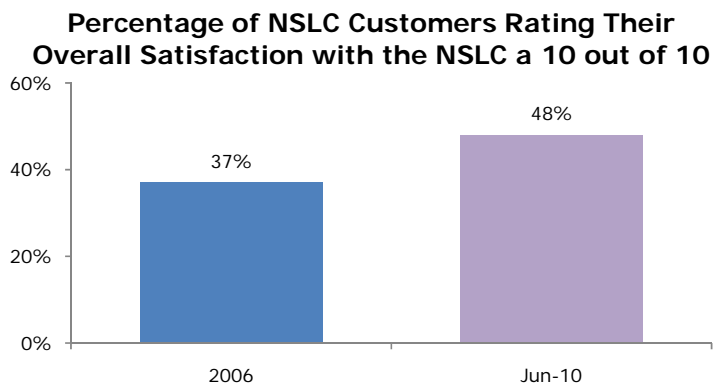
Customer Satisfaction

Since 2006, the NSLC has measured customer satisfaction and also conducted an annual survey of Nova Scotians to examine their views of the NSLC as a retailer compared to the shopping experience provided to them by other retailers in the province.

Successive waves of this study have consistently demonstrated that NSLC is ranked among a small number of retailers that routinely provide an excellent shopping experience. This year’s results were no different, giving the NSLC a ranking that ties it for second place overall in the province.

The NSLC has measured customer satisfaction with the key elements of its current five-year strategic plan for the past four years. Since then, NSLC’s performance has increased three percentage points, from 84 per cent in the spring of 2006 to 87 per cent in June 2010.

NSLC customer satisfaction surveys measure a number of evaluations of the retail performance. One of the key measures tracked is customers overall satisfaction. The chart below indicates that since starting this tracking in 2006, the number of customers that give NSLC a perfect 10 out of 10 score on its 0–10 performance rating scale has grown from 37 per cent, to 48 per cent, an 11 percentage point increase.



Beyond measuring overall satisfaction levels, NSLC tracks customer evaluations across 23 separate aspects of its retail service operations. The analysis of these 23 items reveals that they can be grouped together and distilled down into 11 broad retail performance factors. The table below summarizes these 11 factors. Since 2006, NSLC customers have become increasingly satisfied with virtually

all of these attributes, most notably those related to evaluations of NSLC employees (helpful staff, proactive staff, and knowledgeable staff). The first four factors in the table are items that drive or cause a disproportionate share of customers' overall satisfaction and as such are items the NSLC monitors closely in managing the business.

Drivers of Satisfaction	March 2006	June 2010	Percentage Point Change
SKU alignment and availability	70%	72%	2 pts
Store layout & checkout speed	77%	78%	1 pt
Retail shopping experience	80%	88	8 pts
Preferred product	79%	79%	0 pts
Helpful staff	76%	84%	8 pts
Knowledgeable staff	73%	78%	5 pts
Proactive staff	65%	76%	11 pts
Product sales and promotions	43%	45%	2 pts
Sampling	47%	52%	5 pts
Store accessibility	74%	77%	3 pts
Cool zone / Chilled beer	75%	79%	5 pts

Corporate Social Responsibility

The province's Sustainable Prosperity initiative states that Nova Scotians are looking for businesses to meet today's needs while not compromising the province's environment. For the NSLC, corporate social responsibility is more than just being responsible environmental stewards. All NSLC stakeholders expect high standards in community involvement, social responsibility, employee matters, ethics, transparency, and sustainable growth.

The NSLC is developing all aspects of its business and future planning to ensure sustainable prosperity with its Corporate Social Responsibility plan (CSR). The NSLC Sustainability Report outlines the organizations commitment to improving all aspects of its corporate social responsibility role and reports on how it is doing against its goals.

The NSLC's environment efforts included the completion of its second Greenhouse Gas Inventory (carbon footprint), providing a solid baseline to measure progress as it implements efforts to reduce its environmental impact. The NSLC also initiated an environmentally friendly method of managing its liquid waste. Through routine product handling, the NSLC incurs product breakage or damage resulting in liquid waste throughout the store network and at its Distribution Centre.

The NSLC has been measuring its carbon footprint by analyzing its greenhouse gas emissions for the past two years. The NSLC has taken a leadership position by measuring both the direct emissions, such as oil and other fuel consumption in stores, and indirect emissions caused by supply-chain transportation requirements. In 2008–2009 the NSLC’s carbon footprint was 27,000 tonnes, 74 per cent of which is represented by NSLC buildings. In 2009–2010, the NSLC saw a reduction of 494 tonnes in its carbon footprint.

The NSLC will continue its effective advocacy campaigns aimed at reducing the harmful behaviour that can result from the misuse of beverage alcohol. Keeping beverage alcohol out of the hands of minors is a valuable service the NSLC provides to communities across the province. The NSLC “WE ID” program requires that the NSLC ask for age verification for anyone who looks to be under 30 years of age.

The NSLC’s Sustainability Report analyzes the NSLC’s environmental and corporate social responsibility efforts. It outlines the NSLC’s commitments in the communities it operates, the environmental impact of the business, the economic sustainability of the organization, and the social responsibility aspects of the NSLC’s legislated mandate. The Sustainability Report sets the business targets in these areas over the next few years and reports on progress against those targets.

NSLC Customers

The key to any successful retail organization is to know its customers, their needs and expectations, how to meet these needs, and how best to serve them in the future.

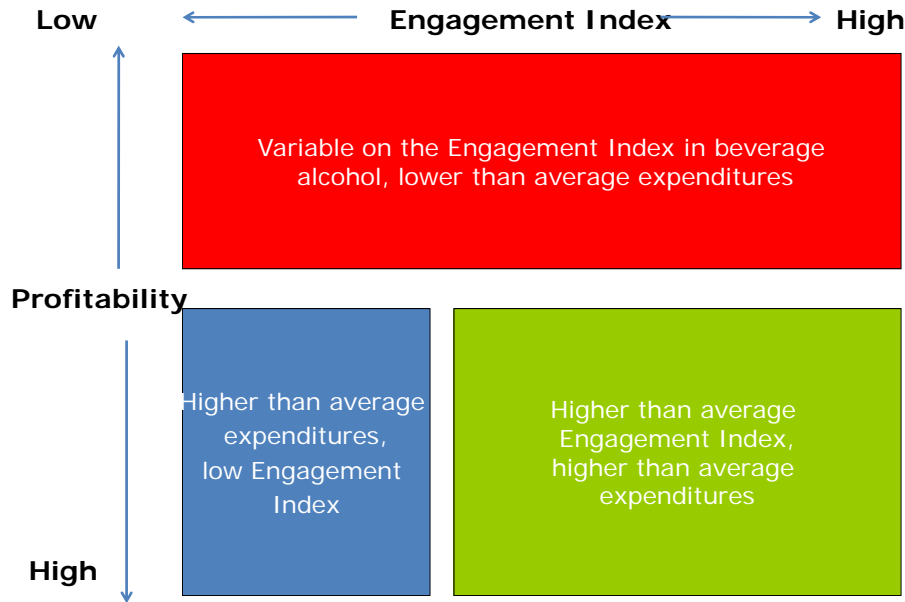
Through both quantitative and qualitative research, the NSLC has identified and segmented its customer base in order to offer a better retail shopping experience. Driving this segmentation is a behavioural approach that recognizes that NSLC customers buy products for specific occasions. The NSLC customer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

- **Celebration:** For holidays and special occasions
- **Socializing:** With groups of friends, relatives or colleagues
- **Simple Pleasures:** At home or after a meal
- **Weekenders:** Socializing on weekends
- **Savouring:** Before and during the mealtime experience
- **Unwinding:** At the end of the day, through the week, alone time

These different occasions capture why NSLC customers purchase products. To fully understand customer needs and expectations, the NSLC also has to understand who is purchasing for these occasions, what they are purchasing for each occasion, when they are buying and how much are they spending.

The new NSLC customer segmentation approach combines customers’ expenditures on beverage alcohol with their propensity to experiment in and across categories. This two-dimensional approach to segmenting customers reveals that in each category there are three distinct customer segments.

Conceptual Framework for NSLC Customer Segmentation



The chart above summarizes the NSLC's approach to segmenting the market. The top block depicts the portion of the market whose expenditures at the NSLC are well below average. This group does run the full engagement scale with regard to their interest in product variety and trial of beverage alcohol. This segment typically comprises half of the customers who are active in any given category. The customers represented by the bottom left block spend higher than average amounts on beverage alcohol but are less interested than the bottom right segment when it comes to their desire to change what they buy and discover new items.

Customers represented by the bottom right block are like those in the bottom left portion in that both spend more than average on beverage alcohol. However, they are less likely to say that a particular category is their favourite. What really distinguishes the bottom right group from the bottom left group is their interest in product variety and trial. The bottom right segment exhibits a combination of attitudes and behaviours that makes them significantly more engaged in discovery of brands and types of beverage alcohol.

Responsible Retailing

Since 1930, the public policy choice by most governments in Canada in how to regulate the sale of beverage alcohol has been to control the sale of beverage alcohol for societal reasons through government entities. The reasons for this choice include the fact that this product, if abused, can have negative health impacts on individuals and society. As such, the most effective manner to moderate the negative health impacts on society and also ensure to the greatest extent possible that minors do not have access to the product is through government-controlled enterprises. In fact, this is also the chosen policy route in 19 U.S. states. By doing this, government institutions use the retail price to moderate the harm to society from beverage alcohol (low prices

increase consumption and the health impacts according to most studies, including the World Health Organization). This is a delicate balance, since excessive use of price can send consumers to the black market to obtain the product. Balancing these aspects of pricing is a challenge. There are many advocates on the health-promotion side that believe NSLC pricing is still too low and some customers who believe that NSLC pricing is too high.

In 2009, the World Health Organization (WHO) proposed a strategy suggesting a wide range of measures to tackle excessive drinking. The draft WHO document offers to governments several policy options on pricing identified as effective ways to tackle harmful use of beverage alcohol. Minimum pricing, or social reference pricing, is one of the options.

This has long been the tradition in Nova Scotia, with the NSLC setting a minimum price under which the product cannot be sold—the Social Reference Price (SRP). The NSLC reviews and adjusts this SRP floor price annually. The NSLC also recognizes that the higher the content of alcohol in a drink, the greater the chance of harm. As a result, NSLC pricing reflects the balance that public policy desires by preventing excessively low-cost alcohol, which can harm society, while recognizing that responsible consumption is a normal part of daily life.

In Nova Scotia, the public policy choice by governments has been that the profits from the sale of alcohol are to be used for improving the public good, such as better education and health care. The NSLC provides the public policy balance between those who would want uncontrolled customer access in order to maximize profit and those who wish an outright reduction or ban on the products availability.

Organizational Elements

The NSLC has five key organizational 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 supply chain coordinates not only delivery of products from the NSLC's partner suppliers around the world but also manages the logistics of getting the product from its Distribution Centre to NSLC retail stores and wholesale customers.

The ongoing goal of the supply chain is to improve the speed of all deliveries and to carry a minimal level of inventory while simultaneously meeting the needs of all customers. The impact of technology has been critical in providing exceptional logistics execution to improve efficiencies and satisfy customer needs.

Retail

The NSLC is the single largest retail banner in the province. It operates 106 retail stores, ranging from the Wine Baskets located in grocery stores to the high-end Port of Wines store and 53 agency stores. The NSLC is constantly

examining market retail patterns to ensure that the store network is best designed to meet the evolving needs of the customer: the right store—with the right products—in the right location.

A key element to retail success is the knowledge, experience, and talent of retail store employees. The NSLC employs over 1,500 people in communities across the province and strives to support and enhance their skills to deliver superior customer service in a vibrant shopping environment.

Wholesale

With the exclusive responsibility to acquire and distribute beverage alcohol in Nova Scotia, the NSLC also serves as a wholesaler that makes up approximately 18 per cent of NSLC net sales revenue. The NSLC wholesale market involves supplying beverage alcohol products to the province's 2070 licensed premises (restaurants, bars, lounges, and hotels licensed to sell beverage alcohol), along with private wine and specialty stores and NSLC agency stores.

Of the NSLC's wholesale net sales revenue, licensees make up 58 per cent, NSLC agency stores 35 per cent, and private wine and specialty stores (PWSS) 6 per cent.

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

- business development and customer insights
- strategic planning
- financial management
- merchandising and marketing
- development of human resource needs
- the development and maintenance of NSLC facilities and the store network
- the use of information technology
- communications

Regulatory

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

A major component 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 both local and world markets. 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 products in areas such as farmers markets.

As part of the emerging markets development strategy, the NSLC introduced the Nova Scotia wine industry pricing policy to help accelerate the growth of this rapidly developing industry in our province. The NSLC is committed to working with industry and government in this strategic area of the business.

Strategic Plan

In 2010, the NSLC released its second Five-Year Strategic Plan 2010 - 2015, identifying business objectives through 2015 and outlining the customer promise.

The NSLC's Customer Promise is to develop customer experiences across integrated business channels that

- align products, services, and events with customers' needs
- offer vibrant, interactive, and inviting Nova Scotia shopping experiences
- ensure discovery and personal service with friendly and professional staff

The theme of the first strategic plan was:

"From a Place to Buy . . . to a Place to Shop"

The theme of the new Five-Year Strategic Plan 2010 – 2015 is to continue the journey:

"From a Place to Shop to a Personal Experience"

The NSLC has identified five strategic pillars to guide its operations during the period of the Five-Year Strategic Plan 2010 - 2015:

- **Stewardship:** To deliver the stewardship entrusted to the NSLC in relation to the Liquor Control Act
- **Customer:** To deliver exceptional customer experiences and personalized services in dynamic retail environments
- **Reputation:** To be a leading corporate citizen building strategic community engagements
- **People:** To have an enthusiastic and engaged team recognized for excellence
- **Financial:** To contribute \$1.2 billion to our shareholder over five years and \$275 million in 2015 while employing sustainable business practices

Each pillar is accompanied by five-year strategies that are the organization's focus in achieving its goals as outlined in the five-year 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 2010 - 2015. What follows are the highlights of this year's business priorities.

Priorities for 2011–2012

Stewardship

To deliver the stewardship entrusted to the NSLC in relation to the Liquor Control Act.

2011–2012 Priorities

- Produce and deliver a licensee guide in conjunction with the Alcohol and Gaming Division.
- Establish a working committee of the board to review board performance and align activities with generally accepted best practices, while improving information flow and effectiveness for the board and its committees.

Customer

To deliver exceptional customer experiences and personalized services in dynamic retail environments.

2011–2012 Priorities

- Improve marketing integration and support of category plans to effectively engage customers.
- Create a “front of cash” merchandising and communication strategy.
- Implement a digitally enabled customer insight and engagement program.
- Evolve the customer experience by improving the effectiveness and efficiency of retail signage.
- Personalize the overall wine experience for communities of like-minded customers through increased education and engagement.
- Complete Year 2 of the Retail Network Plan.
- Further evolve and enhance the beer customer’s in-store shopping experience.
- Align and evolve the store assortment plan to satisfy community needs.

Reputation

To be a leading corporate citizen building strategic community engagements.

2011–2012 Priorities

- Achieve the Sustainability Plan targets:
 - Reduction in energy consumption
 - Taking 10 per cent of the NSLC store network to Zero Waste
 - Expansion of strategic community partnerships
- Implement Phase 2 of the Responsible Retailing program aimed at

increasing public awareness of the “WE ID” program.

People

To have an enthusiastic and engaged team recognized for excellence.

2011–2012 Priorities

- Roll-out the new NSLC internal website to enhance employee communication and engagement.
- Implement and refine corporate-wide performance measurement and reporting.
- Enhance the retail employee orientation program with a stronger Loss Prevention component.
- Strengthen safety management and planning capabilities by refining safety performance metrics and corporate reporting.
- Develop and launch the NSLC Peer to Peer recognition program.
- Improve the efficiency and effectiveness of our retail hiring processes through the use of online recruitment and applicant tracking tools.

Financial

To contribute \$1.2 billion to our shareholder over five years and \$275 million in 2015 while employing sustainable business practices.

2011–2012 Priorities

- Review the efficiency and effectiveness of organizational processes and controls, and implement solutions to improve the control framework.
- Review and improve the NSLC strategic reporting and business analytics.
- Enhance Enterprise Risk Management practices.
- Further improve the efficiency and effectiveness of key internal processes.
- Create enhanced gross margin opportunities.
- Use the new NSLC customer segment approach to identify category growth opportunities.
- Install SAP version 6.0
- Explore regional beverage alcohol development opportunities with other jurisdictions that focus on improved operational efficiency and increased profit potential.

Strategic Enablers

There are important strategic enablers that allow the NSLC to deliver on its 2011–2012 priorities in support of the five-year strategic plan and ultimately allow the NSLC to meet its customers and shareholder expectations. These important enablers are the capital and operating expense plan, customer

experience, the business planning process, and business analytical capabilities.

Capital and Operating Expense Plan

Prior to the NSLC's becoming a Crown corporation in 2001, its growth was impeded by the lack of investment in the business. The result was technology and a store network barely able to keep pace with the demands of a modern retail business.

Since becoming a Crown corporation, the NSLC has increased spending to invest in the long-term health of the business. Investments include capital expenditures for the replacement of SAP, the core technology that runs the business; a new point-of-sale system; and the renewal of the store network.

The capital investment from 2004 to 2007 in SAP has increased planned depreciation and amortization until 2011–2012. During 2007–2008, the NSLC made an additional major capital investment with the replacement of the point-of-sale system. This will affect the amortization and depreciation expense line begun in 2008–2009 until 2012–2013.

Additionally, from 2004 to 2007, the NSLC partnered with major grocery chains in many of its locations to provide a convenient and improved shopping experience. Some of the capital investment was provided by these grocery partners, and for the most part the NSLC has optimized this opportunity. In the future, the NSLC's store enhancements that are funded by the NSLC will have to meet the ROI-hurdle rate model for capital expenditures set by the executive team. The NSLC will continue to focus on store network changes with grocery partners whenever the opportunity is available.

On an ongoing basis, the business requires operating expenditure investments to enhance the customer experience at retail, manage the supply chain, introduce modern marketing and merchandising practices, improve financial reporting and analysis, and train employees.

IT Enablers

A number of key IT initiatives enable efficient and effective management of the NSLC. In the past five years, there have been significant changes and additions to the IT infrastructure. In 2011–2012, there will be a focus on updating key IT systems to ensure optimum performance and reliability. There will also be additional features added to the new myNSLC.com website and a new internal website project focused on improved communication, operational efficiency, and a new collaborative work process for employees.

Customer Experience

The NSLC brand presents an overall impression of the organization to our customers and the public through all customer touch points. Brand touch points include the physical store environment, employee interaction, the logo, product selection and availability, promotions and advertising, impressions left by news media, events, online interaction, and many intangible elements. Every place a customer can interact with a company is a touch point, and that touch point affects how the NSLC is perceived. Perception affects a customer's willingness

to respond to a retailer's effort to get them to purchase products:

Brand = Promise + Performance + Perception

Based on extensive research, the NSLC brand flows from its brand positioning statement: "The NSLC complements life's occasions, and those special times we share together." This positioning statement then leads to

Brand NSLC = Complementing life's social occasions

In becoming a leading customer-centric retailer, everything the NSLC has done, from store design and product selection to customer engagement and employee training, is a reflection of Brand NSLC. Part of the NSLC brand structure is how it expresses the brand in its tagline:

"Make it a Social Occasion"

This tagline brings the NSLC's brand to life by connecting with customers in a manner that reflects how they interact with the products and service offered by the NSLC. The NSLC retail experience has become an integral part of the customer's social occasion.

Business Planning

The NSLC has developed its business planning process to help guide the organization in meeting its commitments under the new five-year strategic plan.

The corporate business planning process analyzes the business as it currently stands and provides a blueprint for reaching the goals set out in the new five-year strategic plan. These include a vision of the customer experience, the service culture to which the NSLC aspires, definition and segmentation of the customer base, the optimal cross-category strategy for profitability, a multi-format network strategy, and how to achieve and maximize financial performance through the use of pricing and gross margin.

The annual business plan and annual business unit plans then are aligned with the five-year strategic plan to ensure that the NSLC delivers on stated objectives.

Leading retail businesses use customer research and behavioural data together with shopper marketing to drive customer satisfaction and increased profitability. Based on customer needs and performance analysis, shopper marketing will strategically define and drive product selection, product pricing, product placement (e.g., which stores, where in store, where on shelf), and product promotion.

Business Process Improvement

Technology supports key business processes such as product ordering, financial management, human resource management, data warehousing, and customer behavioural insights. These systems and the resulting new business processes improve decision making and enhance the execution of strategies and operational needs. Realizing the benefits of the SAP implementation continues to improve the NSLC's evolving business processes and provides the necessary

tools and information to help the NSLC achieve its goals and objectives.

Risk Factors

Risk is anything that affects the ability to achieve objectives. Therefore, it is important to outline the risk factors beyond the control of the NSLC that can affect its ability to meet its commitments and objectives. One factor is the impact weather can have on sales. Severe winter weather has, in past years, resulted in the closure of stores across the province, thus reducing overall sales. Unseasonably cool summers, rain, and fog also have a negative impact on sales. The beer category is particularly subject to sales fluctuations in this regard. Weather conditions represent an area of great vulnerability, since approximately 80 per cent of the volume of product sold is in the beer category.

NSLC products 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, as in any retail business.

The NSLC has put in place monitoring and performance measures to enable management to make decisions mitigating the risk associated with weather and economic factors. Major business process initiatives associated with the implementation, stabilization, and benefits realization of new technology carry inherent risk factors that can affect the business. Due diligence is performed by the NSLC during any evolving process to mitigate possible business interruption.

The Royal Bank of Canada and TD Merchant Services 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 affected.

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

Ultimately, changes in customer tastes and attitudes can also have an impact.

Enterprise Risk Management

The board of directors and the executive team are committed to ensuring that appropriate enterprise risk management (ERM) strategies and processes are in place and revisited yearly to mitigate as many risks (aforementioned and otherwise) as possible. ERM is a structured and disciplined risk management approach, considering strategy, process, people, technology, and knowledge, with the purpose of continually evaluating and managing risks to business strategies and objectives on an enterprise-wide basis.

The NSLC will refresh its ERM process this year with the goal of enhancing current practices and improving reporting and monitoring.

Economic Risk

The NSLC has taken steps to ensure that it mitigates the risks posed by the

global economy as much as possible.

NSLC's performance has been a testament to the changes in business strategy that focused on the customer experience, renewed stores, improved product selection, and, most importantly, the investment in employee training. All of which have resulted in vastly improved customer satisfaction.

The global recession affecting Canada has been more severe in other parts of Canada than in Nova Scotia. The economic recovery is expected to be sluggish by historical standards, and risk remains. The products sold by the NSLC are purchased with the discretionary income of customers. General economic conditions of the province affect discretionary income, and as in any retail business, can have an impact on NSLC sales and overall profitability.

Before the most recent global recession, the previous 10 years were characterized by steady growth in the Nova Scotia economy, which in turn has provided a solid foundation for the growth in revenues and profit the NSLC has generated for its shareholder. Over the past several years, the NSLC has exceeded its financial targets and delivered even more profit to Nova Scotians than it had committed to.

Looking ahead, the economic picture is far from certain. A key risk factor influencing future economic conditions is the Nova Scotia declining and aging population base. The chart below illustrates the likely demographic shifts that will occur in Nova Scotia during the five years of the NSLC's Five-Year Strategic Plan 2010 - 2015. The potential reduction of population under 55 years of age combined with the growth of those over 55 will mean major changes in consumption patterns for Nova Scotians. These changes will affect all NSLC product categories, putting increased pressure on beer and spirits and contributing growth potential in the wine category. This shift will make continued top-line growth at the levels experienced over the past 10 years for the NSLC difficult to maintain.

Nova Scotia Population Projection by Age

Age	2006	2010	Change: 2006 to 2010	2015	Change: 2010 to 2015
All ages	938,010	937,150	(860)	926,331	(10,819)
0-18	199,110	184,587	(14,523)	170,132	(14,455)
19-24	74,234	74,249	15	66,768	(7,481)
25-34	113,941	111,085	(2,856)	110,800	(285)
35-44	142,143	124,876	(17,267)	114,825	(10,050)
45-54	150,731	156,746	6,015	142,458	(14,288)
55-64	120,098	134,083	13,985	143,774	9,690
65-74	73,053	82,785	9,732	103,689	20,904
75-84	46,068	47,759	1,691	51,173	3,414
85+	18,632	20,980	2,348	22,712	1,732

Source: Statistics Canada 91-520-SCB, Nova Scotia Department of Finance

As the NSLC enters the second year of its five-year strategic plan, it faces a stable yet uncertain economic environment. The NSLC's plan for 2011-2012 is

based on prudent estimates of growth. NSLC's budget assumptions take into account the uncertain economic conditions it now faces. Its revenue and profitability estimates are robust and realistic, given these prudent assumptions.

Performance Measures

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

Actual 2006–07	Actual 2007–08	Actual 2008–09	Actual 2009–10	Forecast 2010–11	Budget 2011–12	5-Year CAGR
Net Income (millions)						
\$188.2	\$198.7	\$212.6	\$219.4	\$221.5	\$228.1	3.92%
Net Sales (millions)						
\$504.7	\$530.6	\$559.5	\$579.4	\$581.3	\$599.1	3.49%
Operating Expense Ratio (including depreciation)						
14.7%	15.4%	15.3%	15.3%	15.8%	16.2%	5.47%
Operating Expense Ratio (excluding depreciation)						
13.7%	14.0%	13.7%	13.7%	13.9%	14.0%	3.89%

Budget Context

Financial Plan

	Actual 2006–07 (\$)	Actual 2007–08 (\$)	Actual 2008–09 (\$)	Actual 2009–10 (\$)	Forecast 2010–11 \$	Sales (%)	Budget 2011–12 \$	Change (%)
Spirits	148,457,956	153,513,558	160,878,622	162,626,486	161,926,183		164,419,846	
Wine	87,609,246	97,095,979	104,476,332	109,000,240	115,311,244		122,114,608	
Beer	251,363,331	263,737,652	276,188,679	289,325,204	286,074,834		293,312,527	
Ready-to-drink	20,536,527	21,958,794	23,899,411	25,052,820	24,932,647		25,680,627	
Non-liquor	196,624	109,955	183,477	161,100	126,519		190,000	
Total Gross Sales	508,163,684	536,415,938	565,626,519	586,165,850	588,371,427	101.22%	605,717,608	2.9%
Less: Discounts	3,445,895	5,863,669	6,111,955	6,724,575	7,067,508	1.22%	6,662,894	
Net Sales	504,717,789	530,552,269	559,514,564	579,441,275	581,303,920	100.00%	599,054,714	
Cost of Sales	242,344,875	250,065,446	261,364,917	271,175,017	268,177,476	46.13%	274,232,067	
Gross Profit	262,372,914	280,486,823	298,149,647	308,266,258	313,126,444	53.87%	324,822,647	
Less: Store Operating Expenses	47,066,297	48,844,827	49,085,992	51,397,404	51,384,247	8.84%	53,509,221	
Gross Operating Profit	215,306,617	231,641,996	249,063,656	256,868,854	261,742,197	45.03%	271,313,426	
Less: Supply Chain	5,261,682	5,994,062	4,760,762	5,144,354	5,985,381	1.03%	6,284,025	
Corporate Services	17,161,160	19,686,367	21,479,351	20,912,977	21,348,183	3.67%	23,070,405	
Other Expenses	6,130,390	5,594,455	6,000,520	6,289,763	6,507,566	1.12%	6,428,928	
Add: Other Revenue	6,320,501	5,630,063	4,521,749	4,321,872	4,437,987	0.76%	5,434,302	
Total Expenses (excl. stores)	22,232,731	25,644,821	27,718,884	28,025,222	29,403,143	5.06%	30,349,056	
Operating Inc before Depreciation	193,073,886	205,997,175	221,344,771	228,843,632	232,339,054	39.97%	240,964,370	
Less: Depreciation	4,832,930	7,325,729	8,731,567	9,481,453	10,883,278	1.87%	12,898,762	
Income from Operations	188,240,956	198,671,446	212,613,204	219,362,179	221,455,776	38.10%	228,065,608	3.0%
Total Expenses (not depreciation)	69,299,028	74,489,648	76,804,876	79,422,626	80,787,390	13.90%	83,858,277	
Total Expenses	74,131,958	81,815,377	85,536,443	88,904,079	91,670,668	15.77%	96,757,039	

Volume (hectolitres)						Change (%)		Change (%)
Spirits	51,230	51,940	52,650	52,079	51,618	-0.9%	51,463	-0.3%
Wine	72,090	77,800	81,150	83,576	85,467	2.3%	88,886	4.0%
Beer	641,640	651,990	657,120	667,581	657,026	-1.6%	655,055	-0.3%
Ready-to-drink	29,910	32,080	33,430	35,352	34,929	-1.2%	35,977	3.0%
Total	794,890	813,820	824,370	838,587	829,041	-1.1%	831,381	0.4%