



**2012-2013 Annual Business Plan**

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# 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.

The most fundamental element of the corporation's role, derived from the LCA, is that the NSLC is solely responsible for the receipt, distribution, regulation, 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: the controls governing the products, the efficient and effective regulation of the products, the provision of suitable financial returns to the shareholder, and to ensure a high level of service to Nova Scotians.

It is important to note that the licensing and regulation of all bars, restaurants, pubs, and lounges permitted to sell beverage alcohol rest with the Alcohol and Gaming Division of the provincial department of Service Nova Scotia and Municipal Relations.

## ***Legislated Responsibilities***

Since 1930, the NSLC has been the only organization in Nova Scotia with a legislated mandate specifically regarding beverage alcohol. The NSLC is charged with deciding how the sale of this restricted product should occur in the province and balancing that with the public's demand for access to it. The NSLC manages the balance between two perspectives, that of the temperance and prohibitionist advocates, and that of those who desire unrestricted private-sector competition.

The Nova Scotia model (and that employed in most Canadian provinces) for the control and sale of beverage alcohol mandates that the NSLC use the retail price in an effort to help moderate the harm to society from excess consumption of beverage alcohol (low prices increase consumption and the impact on health, according to most studies, including the World Health Organization).

To help achieve the NSLC's objectives, Social Reference Pricing (SRP) has been the rule in Nova Scotia since 1991. Following SRP guidelines, the NSLC sets a minimum

price under which the product cannot be sold and reviews and adjusts this SRP and minimum pricing annually. Since the NSLC started as a commercial corporation in 2005 to actively manage the SRP, inflation has risen by 9.3 per cent and alcohol inflation by 12.4 per cent. On an annualized average basis, the Consumer Price Index (CPI) in Nova Scotia has grown by 1.8 per cent and alcohol inflation by 2.4 per cent (source: Statistics Canada).

The NSLC recognizes that the higher the content of alcohol in a drink, the greater the chance of harm. As a result, NSLC pricing reflects the approach that higher alcohol beverages should cost more than lower alcohol beverages.

Beer with the lowest alcohol content by volume has the lowest pricing mark-up. Spirits with the highest alcohol content by volume have the highest mark-up. Wine is priced in between. The NSLC classifies those beers with the highest alcohol levels as spirits and charges the highest mark-up as a result.

The NSLC also uses regulatory powers to control the legal manufacturing, distribution, and retailing of beverage alcohol. Under this mandate, only manufacturers, distributors, and retailers permitted or contractually signed by the NSLC can be legally involved in this business.

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" is a statement that 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

The NSLC follows a continuous planning process, ensuring that the Five-Year Strategic Plan is reviewed each year as the NSLC works toward its goals for the final year of the plan in 2015.

The Annual Business Plan outlines the major projects and priorities that the NSLC will focus on and deliver in the current year of the Five-Year Strategic Plan.

## ***Strategic Plan***

The NSLC's *Five-Year Strategic Plan 2010–2015* outlines the NSLC's continued journey and informs its employees, stakeholders, and shareholder of its strategic development and direction. The plan covers lessons learned, customer insights, and evolving trends in the NSLC's business environment and communities going forward.

The theme of the NSLC's *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

Visit the NSLC's website [myNSLC.com/Business\\_Plans](http://myNSLC.com/Business_Plans) to review the *Five-Year Strategic Plan 2010–2015*.

## ***Annual Business Plan***

The NSLC's Annual Business Plan provides an overview of the business operations and goals of the organization for the current year. The plan is produced annually and is updated to reflect retail changes and shifts in NSLC customer preferences. These detailed annual goals help the organization achieve the long-term objectives outlined in the *Five-Year Strategic Plan 2010–2015*.

This year's business plan represents the third year of the NSLC's current strategic plan.

## ***NSLC Market***

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 customers in the future.

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 beverage alcohol. Therefore, the NSLC customer base consists of approximately 550,000 people, most of whom visit an NSLC store at least once a month.

Atlantic Canada has the most challenging demographics of any region in the country. 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, product demand, and store locations. Research indicates that consumption tends to decline as the population ages; however, customer demand for some premium products might also increase with consumer age, somewhat balancing the impact of lower consumption in some categories.

## ***Nova Scotia per Capita Consumption***

In terms of total consumption of alcohol, Nova Scotia represents a moderate consumption environment, consistently indexing below the national level. Indeed, Nova Scotia falls in sixth place in the country, just behind Ontario. Yukon Territory, Newfoundland and Labrador, and Quebec continue to have the highest per capita consumption in the country.

<b>Total per Capita Consumption of all Alcoholic Beverages by Province and Canada (litres, 2004-2009) LDA &amp; Over</b>						
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Total</b>						
<b>CANADA</b>	<b>112.30</b>	<b>111.49</b>	<b>112.90</b>	<b>113.88</b>	<b>115.15</b>	<b>114.40</b>
Yukon Territory	180.76	180.20	172.76	173.65	176.74	173.06
Newfoundland	120.12	117.28	118.71	120.61	125.31	129.20
Québec	119.65	121.26	120.93	121.26	124.33	125.15
Alberta	116.56	115.78	116.68	122.46	120.92	119.65
Ontario	111.22	109.26	112.05	111.34	112.43	110.71
<b>Nova Scotia</b>	<b>105.49</b>	<b>103.72</b>	<b>106.41</b>	<b>107.42</b>	<b>109.38</b>	<b>110.07</b>
Prince Edward Island	104.89	104.60	106.11	107.09	109.52	109.64
Saskatchewan	101.58	96.53	98.47	101.48	105.35	107.06
British Columbia	106.24	106.48	106.64	108.68	108.60	106.56
Manitoba	100.84	97.16	100.33	104.50	105.09	105.60
New Brunswick	103.32	103.03	104.29	104.59	104.32	103.58
N.W.T. & Nunavut	105.07	92.93	92.60	92.49	95.75	95.69

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

Source: Brewers Association of Canada 2009 *Annual Statistical Bulletin*

The NSLC looks for growth opportunities while balancing one of the NSLC's key

strategic responsibilities—to promote social objectives regarding responsible drinking.

### ***The Nova Scotia Economy***

The North American recovery has been modest, tempered by a number of recent global events following the recession (i.e. natural disasters, inflationary shocks, geo-political uncertainties, and the European sovereign debt crisis).

Risks for further global deterioration remain elevated. Despite this elevated uncertainty, conditions in North America continue to improve at a modest pace. However, there is potential for further spillover from the European crisis, particularly for business and consumer confidence.

The Bank of Canada recently noted that growth in Canadian household spending could be weaker than projected. High household debt levels in Canada could lead to faster than anticipated deceleration in household spending.<sup>1</sup>

Slower growth, a recent spike in global inflation, as well as erosion of financial market wealth following the recession, may constrain disposable income growth for some people. The International Monetary Fund (IMF) has noted that weak income and employment growth, combined with wealth losses related to housing and stock markets, as well as higher price levels, could continue to constrain domestic output in advanced countries like Canada.<sup>2</sup>

To help develop its financial forecasts, the NSLC performs an 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 is developed.

The following key economic factors influence future conditions:

#### **Gross Domestic Product**

In its December 2011 fiscal update, the Nova Scotia Department of Finance projected real GDP growth of 1.7 per cent in 2012 and 1.8 per cent in 2013.

#### **Employment**

The Nova Scotia Department of Finance expects employment in Nova Scotia to grow 1.1 per cent in 2012 and 0.7 per cent in 2013.

#### **Personal Income and the Consumer Price Index (CPI)**

The Nova Scotia Department of Finance projected that Nova Scotians' personal income would grow 2.9 per cent in 2012 and 3.0 per cent in 2013.

The CPI is expected to grow at a rate of 1.8 per cent in 2012 and 2.1 per cent in 2013.

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<sup>1</sup> Bank of Canada, Monetary Policy Report, January 2012

<sup>2</sup> International Monetary Fund (IMF), World Economic Outlook, September 2011

## ***Nova Scotia Population/Demographics***

Nova Scotia's a declining and aging population base is a key risk factor influencing future economic conditions. The potential reduction of population under 55 years of age, combined with the growth in the number 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 difficult to maintain for the NSLC.

# **2012–2013 Business Plan**

The NSLC plans its business around the five pillars of its Strategic Plan:

Stewardship

Customer

People

Reputation

Financial

## ***Stewardship***

Goal: To deliver the stewardship entrusted to the NSLC in relation to the Liquor Control Act through leading corporate governance; a commitment to corporate social responsibility; and the support and development of the local beverage alcohol industry.

## **Governance**

Over the past year, the NSLC has given considerable attention to the area of board governance. A review of the governance structures and functions was conducted, a board competency matrix was developed, and a board evaluation was conducted. Analysis of the results is currently underway to determine the board governance areas for which further development is required. This will be an ongoing process for the board over the coming year.

## **Corporate Social Responsibility**

The NSLC takes a balanced approach managing profit generation with its corporate social responsibility efforts. Corporate Social Responsibility means managing the business with a focus on improved performance, which includes sustainability and community engagement.

The NSLC has developed a comprehensive Corporate Social Responsibility strategy that goes beyond the required elements of its operation. A fundamental goal of the strategy is to do something meaningful, something of which our employees, customers, and stakeholders can be proud.



NSLC Corporate Social Responsibility focuses on:

The Environment: The environmental impact the NSLC's business has from its carbon footprint through to its operating standards

Community: Making a difference for the better in the communities in which the NSLC operates

Social: The NSLC's legislated mandate for the control of beverage alcohol and the promotion of responsible consumption

Economic: The NSLC's sustainable financial performance

Further details of the NSLC's targets and performance can be found in the NSLC's annual Sustainability Report at

[mysnslc.com/Content\\_CommunicationsPages/Content\\_Footer/Content\\_Corporate/CorporateSustainabilityReport.aspx](http://mysnslc.com/Content_CommunicationsPages/Content_Footer/Content_Corporate/CorporateSustainabilityReport.aspx)

## The Environment

The NSLC is dedicated to helping to minimize and even eliminate its impact on Nova Scotia's environment. Zero liquid waste, zero solid waste, and reducing energy consumption efforts are already underway. The NSLC is preparing to calculate its third Green House Gas (GHG) inventory, or carbon footprint, using an operational approach. This means accountability for 100 per cent of the GHG emissions, that the NSLC has direct operational control and helps estimate, measure, manage, and reduce its GHG emissions associated with normal business operations.

## Community

Giving back to the community is an important part of being a responsible corporate citizen. The NSLC has committed to identifying and building trusted strategic community engagements in order to support vibrant neighbourhoods and strengthen the communities it serves. Charities are selected annually to participate in the NSLC's cash can program; the NSLC's Celebrate Nova Scotia Talent Program provides funding to community music festivals; and NSLC employees have a long history of showing their dedication and willingness to serve the communities they work and live in. In 2011, NSLC employees raised almost \$230,000 for province-wide charities, such as the United Way, the IWK Health Centre, and the Manulife Dragon Boat Festival.

## Social

A cornerstone of NSLC's mandate has always been about being responsible and increasing awareness concerning the beverage alcohol issues that cause social harm. The issue of harmful drinking continues to be a concern in Nova Scotia. The NSLC takes seriously its responsibility to increase awareness about issues associated with irresponsible drinking and will launch a campaign in 2012 aimed at a target audience of those between 19 and 25 years of age.

The NSLC enjoys a positive and cooperative relationship with MADD Canada. Plans for 2012 include continuing the sponsorship of MADD's multi-media campaign to 30

high schools in Nova Scotia. Under the agreement, MADD will continue to match the number of schools being shown the presentation for a total of at least 60 high schools. In addition, the NSLC and MADD are exploring options for additional awareness programs that would increase the audience receiving educational information on responsible consumption practices.

Drinking and driving is still a major alcohol-related harm in Nova Scotia, especially during the holiday season. The NSLC will continue the tradition of using the holiday theme to deliver a responsible-consumption campaign targeted to the most at-risk demographics, using a non-consequential, humorous, and positive approach to this serious message.

## Economic

As mentioned above, the Corporate Social Responsibility plan focuses on four areas, three of which are detailed in the above section. The fourth area, Economic, which addresses the NSLC's sustainable financial performance, is represented in the various initiatives listed in the "Objectives for 2012–2013" section of this document.

### **Local Industry**

With the changes to the LCA in 2001, the NSLC has had an added mandate to assist in the growth of the beverage alcohol industry in Nova Scotia. It has carried out this mandate by changing policies, working cooperatively with the industry on business initiatives, and finding new ways to allow businesses to grow and achieve success.

The NSLC's support to the development of the local beverage alcohol industry involves maintaining a balance between measures to support local industry and respecting the various national and international trade agreements to which Nova Scotia is subject.

#### *Nova Scotia Wine Industry*

There are currently 18 farm or small farm wineries (formerly known as cottage wineries) in the province. The local winery sector has proven to be extremely vibrant in recent years with the opening of a number of new wineries and promising results both in terms of sales growth and winning national and international awards for the quality of their products. The NSLC maintains a close working relationship with the Winery Association of Nova Scotia (WANS) and the Nova Scotia Department of Agriculture, both of whom have a keen interest in seeing this sector prosper. The primary tools the NSLC uses to assist the wine industry are the promotion of these products within the retail stores; pricing policies; and marketing programs.

#### *Nova Scotia Beer Industry*

Local breweries consist of commercial brewers such as Olands/Labatt and Sleeman Maritimes Limited along with a number of microbreweries and brewpubs. The craft brewing sector of the market continues to show consistent growth and new operators continue to enter the industry.

The NSLC is working with the craft brewing sector to develop strategies that will assist the industry in long-term growth. The first recommendation of this study has already been implemented. The NSLC recently changed its policies to allow Brew

Pubs to establish retail sales of their products at their Brew Pub. During this fiscal year, the NSLC will implement additional key elements of the *NSLC Craft Beer Economic Impact Study*.

### *Distilleries*

Nova Scotia is expanding its focus on manufacturing distilled spirits. Building on the successful and well established Glenora Distilleries in Cape Breton, the NSLC has now licensed five distillers in the province, including Glenora Distilleries, Coast Beverages in Antigonish, Tangled Garden in Grand Pré, Jost Vineyards in Malagash, and Iron Works Distillery in Lunenburg.

## **Customer**

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

The NSLC's retail-store network sales account for 81.1 per cent of the NSLC's revenue and are generated by the dedication and hard work of the retail team, delivering on the NSLC's Customer Promise:

*The NSLC will provide our customers with service that*

- *aligns products, services, and events with customer needs*
- *offers vibrant, interactive and inviting Nova Scotia shopping experiences*
- *ensure discovery and personal services with friendly, professional, and enthusiastic employees*

The NSLC is unable to grow sales through acquiring a greater market share, as is the case with other retailers, and therefore must grow its sales entirely organically. This fact underlines the importance of well-trained employees, offering superb customer service combined with smart retailing practices which enable the NSLC to grow and produce more favourable bottom-line performance. Three key initiatives during this fiscal year will focus on the goal of this pillar. These include offering Air Miles; digital services, and improving the wine category experience.

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 their smart phones, retailers need to work to provide enhanced customer experiences. It is an important aspect of the NSLC's business planning to respond to customers shopping requirements in a meaningful way.

For this fiscal year, the foundational business strategy to create the personalized experiences that the NSLC envisions in its strategic plan is the introduction of the Air Miles Reward Miles program. For the NSLC this program is about two main business objectives:

- Understanding what customers actually buy and in what patterns, so we can serve customers in a more tailored and personalized manner
- Influencing sales in the retail store to generate new discoveries of products and occasionally higher dollar sales, both leading to enhanced profitability

The second phase of the NSLC's strategy to offer personalized experience is a digital strategy. This fiscal year the NSLC will focus on developing a strategy that encompasses how mobile devices assist customers in their purchase decisions, and will address digital and mobile direction at the NSLC. Integrating the NSLC's customer relationship into the digital environment will further personalize the customer experience.

The wine category is the fastest growing category of product the NSLC sells. During this fiscal year the NSLC will introduce a number of merchandising promotions and assortment changes focused on customer discovery.

## ***People***

Goal: To have an enthusiastic and engaged team recognized for excellence.

People are the heart of any retail business. For the NSLC the retail model of personalized experiences requires the NSLC retail team to be knowledgeable about the products, professional in their advice, and friendly and open in terms of service. Achieving this customer experience requires a continued investment in employees through training and a team motivated to provide high levels of service.

For this fiscal year, improving the communications and connections between all 1,500 NSLC employees spread across the province is a priority. Implementing the NSLC's new internal approach to work collaboration and interaction through "Swizzle," the NSLC Microsoft SharePoint 2010 powered platform, will be a major-change management focus.

The NSLC is committed to providing a sustainable, positive, and healthy work environment, understanding that healthy employees in a healthy workplace are essential to achieving individual and organizational success. The NSLC views a healthy workplace as a corporate performance strategy consisting of three elements: Occupational Health and Safety; Individual Health; and Organizational Health. The NSLC will continue to take a leadership role in promoting workplace safety and ensuring a healthy workplace in 2012.

Measuring employee engagement ensures the organization is moving forward in improving its targets in this area. For this fiscal year the NSLC will conduct its fourth biannual Employee Opinion Survey. The results of these surveys are discussed with various employee groups to develop action plans and are taken into consideration during our planning activities.

## ***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, maintenance and warehouse employees, and all casual employees in these classifications with 400 hours; all store managers and assistant managers; and some employees fulfilling office clerical roles. All three of the NSGEU collective agreements were in effect until March 31, 2012. Collective bargaining for three new collective agreements will commence in 2012. The expected economic climate and the addition of casual employees to the bargaining unit 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 to begin in 2012.

## ***Reputation***

Goal: To be a leading corporate citizen, building strategic community engagements.

The brand health of an organization is directly affected by the reputation it has with stakeholders. Understanding and enhancing the NSLC's reputation is part of everything it does, but it is also a key part of every annual business plan. The NSLC measures this annually through a brand health survey.

The NSLC employs Leadership in Energy and Environmental Design (LEED) standards to all new construction in its store network. This voluntary rating system evaluates environmental performance of a building over its lifecycle, providing a definitive standard for what constitutes a green building. The construction and renovation of NSLC facilities required to complete the third year of the Network development Plan will follow LEED Standards.

Reducing energy use remains key to the NSLC's environmental commitment. From installing motion sensor lighting to upgrading the automation system controlling heating, ventilation, and air conditioning and to retrofitting overhead lights, the NSLC is looking at possible ways to reduce energy consumption. The NSLC works closely with Efficiency Nova Scotia to determine upgrades towards greater efficiency.

The internet has given greater access to the purchasing of higher quality false identification. In keeping with the NSLC's commitment and legal responsibility to ensure beverage alcohol is not sold to minors, the NSLC will acquire new ID verification technology to be used at the point-of-sale.

## ***Financial***

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

Sustainable business practices with well-established financial and performance metrics are the cornerstones of a healthy business. This fiscal year will see initiatives in this area designed to improve the efficiency and effectiveness of the NSLC's processes and systems, whereby a standardized approach will be taken, allowing for better controls and monitoring. Improved cash management and operational reporting for cash and inventory are key initiatives in this regard, along with improvements to the NSLC's strategic reporting and business analytics systems, a collaborative approach will be taken in the development of a reporting roadmap aimed at supporting decision making.

## ***Objectives for 2012-2013***

The NSLC Strategic Plan is designed around five pillars of the business. 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 is aligned 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 2012-2013**

## ***Stewardship***

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

### **2012-2013 Priorities**

- Examine methods to increase support for the Wine Association of Nova Scotia (WANS).
- Implement targeted recommendations from the Craft Beer Economic Impact study.
- Continue to strengthen commitment with local winery and craft brewery associations, exploring ways to further support our Nova Scotia beverage alcohol industry.
- Produce and deliver an NSLC licensee guide focused on business procedures.
- Develop additional orientation tools for new board members and improved industry educational material for all board members.

## ***Customer***

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

### **2012-2013 Priorities**

- Improve the in-store experience with regard to self-serve wine knowledge of customers, using improved merchandising techniques.
- Implement the first year of the Air Miles Rewards Miles program, moving the NSLC towards the strategic goal of providing personalized service.
- Complete Year 3 of the Retail Network Plan.
- Expand service by offering online ordering, to provide increased efficiency and effectiveness on the overall NSLC process.
- Conduct a review of the NSLC Special Order Process, with the objective of providing an increased level of service for customers.

- Further enhance the role of the Product Specialist within the retail network to engage with the customer so as to provide personalized shopper experiences.

### ***Reputation***

To be a leading corporate citizen, building strategic community engagements.

#### **2012–2013 Priorities**

- As part of the NSLC's strong focus on preventing the sale of beverage alcohol to minors, the NSLC will introduce new technology at the point-of-sale to provide its employees with better means to verify the legitimacy of ID.
- The NSLC will continue its programs to reduce energy consumption across its retail network and facilities through new construction and lighting and system modifications.

### ***People***

To have an enthusiastic and engaged team recognized for excellence.

#### **2012–2013 Priorities**

- Develop a comprehensive organizational health strategy, building on the success of Healthy Workplace initiatives.
- Improve two-way communications between all employees, using the collaborative capabilities of the Microsoft SharePoint 2010 platform.
- Refine corporate-wide performance measurement and reporting capabilities.
- Undertake collective bargaining to renew three collective agreements.
- Conduct the biannual Employee Opinion Survey.
- Complete the implementation of the NSLC Disclosure of Wrongdoing policy by adopting a reporting mechanism that allows staff to report possible violations of the NSLC Code of Business Conduct anonymously.

### ***Financial***

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

#### **2012–2013 Priorities**

- Review the efficiency and effectiveness of organizational processes and controls, and implement solutions to improve the control framework.
- Enhance Enterprise Risk Management practices, including a review of succession planning at the senior level within the organization.
- Continue to seek margin enhancement opportunities in all categories and

lines of business.

- Explore business development opportunities that improve the NSLC's bottom-line.



# Enterprise Risk Management

Enterprise Risk Management (ERM) for organizations includes the methods and processes used to manage risks and capture opportunities related to achieving strategic objectives. ERM can also be described as a risk-based approach to managing an enterprise, integrating concepts of internal control and strategic planning. Through the use of an ERM framework, organizations can assess the likelihood and potential impact of identified risks and set a proactive strategy that allows action and monitoring of the risks to take place.

A vital goal and challenge of ERM is to improve internal identification and management of risks and ultimate business unit coordination, while integrating the output to provide an enterprise-wide view of risk for all stakeholders and improving the organization's ability to manage the risks effectively.

The Board of Directors and the Executive Team are committed to ensuring that appropriate ERM strategies and processes are in place and revisited.

The risk assessment originally conducted in 2008–2009 continues to be reviewed annually and is incorporated into the annual business planning process.

## Risk Factors

Risk is anything that threatens 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. Risk of unforeseen factors restricting the ability to achieve objectives and goals set out in the *Five-Year Strategic Plan 2010–2015* and *Annual Business Plan 2012–2013* can affect the NSLC's ability to meet its commitments.

Risk factors which have an effect on NSLC sales are very much like those of any retail business. These include weather, economic conditions, technology failure, and the clearing system for business transactions. Unique to the NSLC is the impact that public policy changes may have on its operations.

Severe weather can close stores. A cold, wet spring or summer has a dramatic impact on the beer business. Weather conditions represent a major area of vulnerability, because beer (which is 79.2 per cent of volume of product sold) can be disproportionately affected.

The products the NSLC sells represent purchases made at the discretion of its customers. A deterioration of economic conditions in the province reduces sales at the NSLC and other retailers. Profitability can also be affected, because customers are less likely to purchase premium products and may trade down during times of economic uncertainty.

The NSLC has in place monitoring and performance measures to enable management to make decisions to mitigate the effects of weather and economic factors.

The NSLC is a SAP enabled business. As such, there is an inherent risk to the business if this system should fail. The NSLC has crisis planning and enterprise risk planning processes in place to manage such a situation. These systems are also dependent on the service provider's ability to run and maintain these systems.

The Government of Nova Scotia, as the NSLC's sole shareholder, can have a dramatic impact on the organization's business plan. Shifts in public policy and the public interest as stated by the government could affect the NSLC's ability to deliver on plans as outlined in its business plans.

## Key Performance Measures

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

<b>Actual 2007-08</b>	<b>Actual 2008-09</b>	<b>Actual 2009-10</b>	<b>Actual 2010-11</b>	<b>Forecast 2011-12</b>	<b>Budget 2012-13</b>	<b>5-Year CAGR</b>
<b>Net Income (millions)</b>						
\$198.7	\$212.6	\$219.4	\$223.2	\$220.5	\$224.5	2.47%
<b>Net Sales (millions)</b>						
\$530.6	\$559.5	\$579.4	\$581.6	\$589.1	\$601.8	2.55%
<b>Operating Expense Ratio (including depreciation)</b>						
15.4%	15.3%	15.3%	15.5%	16.5%	16.5%	3.93%
<b>Operating Expense Ratio (excluding depreciation)</b>						
14.0%	13.7%	13.7%	14.0%	14.4%	14.8%	3.58%

## Supporting Performance Measures

Enhancing performance measurement at the NSLC has been one of the goals in place during the current Five-Year Strategic Plan. Both management and the Board of Directors regularly review NSLC's Corporate Key Performance Indicators (KPIs). The KPIs are structured by pillar and are directly connected to both a Five-Year Strategic Plan objective and an Annual Business Plan priority. This process allows us to monitor whether the corporation is on track, to ensure maximum shareholder return while operating a modern retail business. Some of the individual metrics 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.

### ***Retail Ranking***

The NSLC established a ranking of retailers through an annual survey in 2006. This survey is designed to measure how the NSLC compares to other leading retailers in the province as ranked by NSLC customers.

### ***Brand Health***

NSLC's brand health is derived by determining the NSLC's overall reputation among stakeholders (customers and non-customers). NSLC Corporate Brand Health metrics consist of the following elements:

Customer Satisfaction

Reputation

Leadership

Performance

NSLC's challenge in taking a traditional approach to assessing brand health has been the absence of a competitive market within which to situate it. As a monopoly, NSLC has no competitors; therefore the benchmark comparisons used are the following:

- Local market comparison: how does the NSLC compare to other NS retailers based on the same criteria?
- Peer comparison: how does the NSLC compare to its beverage alcohol retailing peers?

### ***Sales Per Employee Hour***

Sales Per Employee Hour (SPEH), measures the efficiency of retail labour costs against retail sales that are produced by those costs.

### ***Inventory Turns***

The backbone of a sustainable retailer is its product delivery system or supply chain. An efficient supply chain does more than just deliver goods to stores; it also replenishes the assortment on a timely basis, orders inventory, and manages the flow from the manufacturer to the store shelves. This measures the number of times inventory is turned over in a year.

***Fill Rate Accuracy***

This measures the accuracy of store order fulfillment, as it relates to our ability to meet customer demands.

***Cases Shipped***

The efficiency of the NSLC's Distribution Centre, the heart of the supply chain operation, is best demonstrated in the growth of the volume of product shipped through the facility while meeting and exceeding our customers' expectations.

# Budget Context - Financial Plan

	Actual 2007-08 (\$)	Actual 2008-09 (\$)	Actual 2009-10 (\$)	Actual 2010-11 (\$)	Forecast 2011-12 \$	Sales (%)	Budget 2012-13 \$	Change (%)
Spirits	153,513,558	160,878,622	162,626,486	162,006,339	165,896,784		168,554,223	
Wine	97,095,979	104,476,332	109,000,240	115,375,059	123,074,276		128,130,018	
Beer	263,737,652	276,188,679	289,325,204	286,327,423	284,068,911		291,191,224	
Ready-to-drink	21,958,794	23,899,411	25,052,820	24,854,261	23,605,657		22,381,377	
Non-liquor	109,955	183,477	161,100	124,028	190,000		190,000	
<b>Total Gross Sales</b>	<b>536,415,938</b>	<b>565,626,519</b>	<b>586,165,850</b>	<b>588,687,109</b>	<b>596,835,628</b>	<b>101.32%</b>	<b>610,446,842</b>	
Less: Discounts	5,863,669	6,111,955	6,724,575	7,119,868	7,749,054	1.32%	8,679,659	
<b>Net Sales</b>	<b>530,552,269</b>	<b>559,514,564</b>	<b>579,441,275</b>	<b>581,567,241</b>	<b>589,086,574</b>	<b>100.00%</b>	<b>601,767,183</b>	2.2%
Cost of Sales	250,065,446	261,364,917	271,175,017	268,349,674	271,622,331	46.11%	278,084,442	
<b>Gross Profit</b>	<b>280,486,823</b>	<b>298,149,647</b>	<b>308,266,258</b>	<b>313,217,566</b>	<b>317,464,243</b>	<b>53.89%</b>	<b>323,682,741</b>	
Less: Store Operating Expenses	48,844,827	49,085,992	51,397,404	51,588,831	53,115,446	9.02%	54,920,877	
<b>Gross Operating Profit</b>	<b>231,641,996</b>	<b>249,063,656</b>	<b>256,868,854</b>	<b>261,628,736</b>	<b>264,348,797</b>	<b>44.87%</b>	<b>268,761,864</b>	
Less: Supply Chain	5,994,062	4,760,762	5,144,354	6,075,110	6,374,595	1.08%	6,549,698	
Corporate Services	19,686,367	21,479,351	20,912,977	21,395,146	22,648,860	3.84%	24,617,350	
Other Expenses	5,594,455	6,000,520	6,289,763	6,721,387	7,424,799	1.26%	7,117,556	
Add: Other Revenue	5,630,063	4,521,749	4,321,872	4,325,078	4,674,021	0.79%	4,400,801	
<b>Total Expenses (excl. stores)</b>	<b>25,644,821</b>	<b>27,718,884</b>	<b>28,025,222</b>	<b>29,866,566</b>	<b>31,774,233</b>	<b>5.39%</b>	<b>33,883,803</b>	
<b>Operating Income before Depreciation</b>	<b>205,997,175</b>	<b>221,344,771</b>	<b>228,843,632</b>	<b>231,762,170</b>	<b>232,574,564</b>	<b>39.48%</b>	<b>234,878,061</b>	
Less: Depreciation	7,325,729	8,731,567	9,481,453	8,603,859	12,026,943	2.04%	10,427,198	
<b>Income from Operations</b>	<b>198,671,446</b>	<b>212,613,204</b>	<b>219,362,179</b>	<b>223,158,811</b>	<b>220,547,621</b>	<b>37.44%</b>	<b>224,450,863</b>	1.8%
Total Expenses (not depreciation)	74,489,648	76,804,876	79,422,626	81,455,397	84,889,679	14.41%	88,804,680	
Total Expenses	81,815,377	85,536,443	88,904,079	90,058,756	96,916,622	16.45%	99,231,878	

Volume (hectolitres)						Change (%)		Change (%)
Spirits	51,940	52,650	52,079	51,676	51,480	-0.4%	51,467	0.0%
Wine	77,800	81,150	83,576	85,568	88,259	3.1%	91,802	4.0%
Beer	651,990	657,120	667,581	656,440	636,654	-3.0%	640,607	0.6%
Ready-to-drink	32,080	33,430	35,352	34,739	32,757	-5.7%	30,841	-5.8%
Total	813,820	824,370	838,587	828,423	809,150	-2.3%	814,718	0.7%