



**2013-2014 Annual Business Plan**

**March 18, 2013**

Nova Scotia Liquor Corporation

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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 among the control aspects of the products it sells, efficient and effective regulation, and providing the necessary financial returns to its shareholder and ensuring a high level of service to Nova Scotians.

Since 1930 the NSLC has had significant regulatory powers to control and audit the legal manufacturing, distribution and retailing of beverage alcohol in Nova Scotia. Under this legislated mandate, only manufacturers, distributors and retailers permitted or contractually authorized by the NSLC can be legally involved in the beverage alcohol business in Nova Scotia.

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 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 of temperance/prohibitionist advocacy agencies and those that 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 to moderate consumption and the harm to society from beverage alcohol (low prices increase consumption and the health impacts according to most studies, including the World Health Organization).

A fundamental part of exercising its legislated mandate in this regard is the use of pricing to reduce the potential harms on society that beverage alcohol can cause if misused. Since 1991 the use of Social Reference Pricing (SRP) has been the instrument in Nova Scotia (and 8 of 10 provinces) to ensure that excessively low-price alcohol is not sold in the province. Under the SRP the NSLC sets a minimum price under which the product cannot be sold. The NSLC reviews and adjusts this SRP price annually. Since the launch of the NSLC first Five-Year strategic plan in 2005 the NSLC has actively managed SRP, the inflation Compound Annual Growth Rate (CAGR) has been 2.1 per cent and alcohol inflation CAGR has been 2.3 per cent. Annually, Nova Scotia CPI grew by 2.0 per cent and alcohol inflation grew by 1.9 per cent in 2012 (source: Statistics Canada).

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 approach that higher alcohol content beverages should cost more than lower alcohol content 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 in the middle of both. NSLC classifies the highest alcohol beers as spirits and charges a higher mark-up as a result.

*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 eighth place in the country, just behind NWT/Nunavut. Yukon Territory, Newfoundland and Labrador, and Quebec continue to have the highest per capita consumption in the country.

	<b>RTD</b>	<b>Spirits</b>	<b>Wine</b>	<b>Beer</b>	<b>Total</b>
Yukon	10.29	11.86	17.24	146.9	186.3
Newfoundland and Labrador	3.6	9.3	8.62	103	124.6
Quebec	1.35	3.28	23.11	95.4	123.1
Alberta	5.6	8.43	12.22	90.4	116.6
Saskatchewan	6.11	8.53	7.25	85	106.9
Manitoba	3.37	7.24	10.04	85.9	106.5
NWT/Nunavut	6.57	17.5	13.11	69.2	106.4
Nova Scotia	4.27	6.72	11.48	83.6	106.1
British Columbia	7.08	6.51	16.68	73.2	103.4
Prince Edward Island	4.38	6.55	10.73	80.1	101.7
Ontario	3.63	5.44	12.05	77.4	98.6
New Brunswick	4.46	4.86	8.85	78.8	97.0

\*Please note that all per capita data have been revised to reflect Statistics Canada revisions  
 Source: Brewers Association of Canada 2011 calendar year

The NSLC looks for growth opportunities while balancing one of the NSLC’s key strategic responsibilities - to promote social objectives regarding responsible drinking. It is important to note, that counter to public perception, the actual volume of product sold by the NSLC at the retail level and at the wholesale licensee

level has declined in each of the past four years.

### **Mission**

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**

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 its shareholder of its strategic development and direction. The plan captures lessons learned, customer insights and evolving trends in the NSLC's business environment and communities.

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/BusinessPlans) 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 changes in retail and the NSLC customer needs. 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 fourth 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 them 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 of Canada. 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 age.

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

Global economic forecasts indicate that economic uncertainty is expected to persist into next year. Canada depends on trade to generate economic growth and unfortunately, the future of the world economy is uncertain with a tentative U.S. recovery and Europe still expected to be in a recession. Closer to home Nova Scotia has seen announcements for future regional economic performance with shipbuilding, the new convention centre and offshore oil exploration, but is also now experiencing declines in forestry production. As the NSLC enters the fourth year of its five-year strategic plan, the global economic forecasts for the coming year are showing little if any signs of improving with a great deal of variability in actual economic performance and consumer confidence.

As a result, customers 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, which have had a difficult number of years, will likely continue to be affected negatively over the coming 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 is developed.

The following are key economic factors influencing future conditions based on the Department of Finance December 13, 2012 forecast:

#### *Gross Domestic Product*

The Nova Scotia Department of Finance is forecasting real GDP growth of 1.8 per cent in 2013.

#### *Employment*

The Nova Scotia Department of Finance expects employment in Nova Scotia to decline by -0.1 per cent in 2013.

#### *Personal Income and CPI*

The Nova Scotia Department of Finance projected Nova Scotian compensation of employees to grow by 3.0 per cent in 2013.

The Consumer Price Index (CPI) is expected to grow at a rate of 1.5 per cent in 2013.

#### *Nova Scotia Population/Demographics*

Nova Scotia's 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 of those over 55 will mean major changes in consumption patterns for Nova Scotians. Indeed, the Nova Scotia Department of Finance projects the population of Nova Scotians aged 55 and over to increase by 9 per cent by the year 2017, while the number of Nova Scotian residents aged 19 to 54 will decline by 5 per cent over the same period. These changes will affect all NSLC product categories, putting increased pressure on beer and spirits and contributing some 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.

## **2013-2014 BUSINESS PLAN**

The NSLC plans its business around the five pillars of its strategic plan:

1. Stewardship
2. Customer
3. People
4. Reputation
5. 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 through the support and development of the local beverage alcohol industry.

### *Governance*

The NSLC gives considerable attention to the area of board governance. During the past fiscal year the board was expanded by two members to bring a greater diversity of views, expertise, and representation to the board. During the coming fiscal year the board will continue to focus on board learning and education to improved board committee operations.

Also for this fiscal year an ad hoc Business Development Committee of the board will be formed to review additional business opportunities and growth strategies.

To support the further development of local industry in this fiscal year the NSLC will assist with funding for both the wine and craft brewers associations, working with each of these boards more directly to help advance industry development.

### *Corporate Social Responsibility*

The NSLC takes a balanced approach managing profit generation with its corporate social responsibility efforts. Corporate social responsibility is managing the business with a focus on improved performance that includes sustainability and community.

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

NSLC Corporate Social Responsibility focuses on the following:

1. Environment: The environmental impact the NSLC's business has from its carbon footprint through to its operating standards;
2. Community: Making a difference for the better in the communities in which the NSLC operates;
3. Social: The NSLC's legislated mandate for the control of beverage alcohol and the promotion of responsible consumption;
4. 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 [myNSLC.com](http://myNSLC.com).

### *Environment*

The NSLC is dedicated to help minimize and eliminate its impact on Nova Scotia's environment. Zero liquid waste, zero solid waste and reducing energy consumption efforts are already underway. Through product breakage or damage, the NSLC incurs liquid waste with an estimated 13.5 per cent alcohol content by volume. This liquid waste is collected monthly at each NSLC store and is processed through a treatment facility and safely released into the environment. It is estimated that the



NSLC will recover more than 300,000 litres of this liquid waste in fiscal 2014.

The NSLC defines zero waste as the diversion of 95 per cent of its solid waste materials from Nova Scotia landfills. The NSLC has implemented programs at its head office, distribution centre and eight stores. Plans are in place to roll out the Zero Waste program to all stores in Halifax Regional Municipality in 2013-2014.

Through energy conservation programs, NSLC saved approximately 4 million kilowatt hours last year and anticipates saving an additional 2 million kilowatt hours compared to last year's usage. These savings will continue to accumulate in future years and will grow as programs are expanded.

The NSLC annually calculates its greenhouse gas (GHG) inventory or carbon footprint using an operational approach. This means accounting for 100 per cent of the GHG emissions that the NSLC has direct operational control over and helping estimate, measure, manage, and reduce the NSLC's GHG emissions associated with normal business operations. The NSLC had established the goal of reducing 2008 GHG emissions by 10 per cent by 2020. This goal was achieved in 2011-2012 and the NSLC has increased its goal to continue efforts and improve results to 15 per cent (a further 5 per cent) reduction by 2015.

### *Community*

Giving back to the community is an important part of being a responsible corporate citizen. The NSLC is committed to identify and build trusted strategic community engagements in order to support vibrant neighbourhoods and strengthen the communities it serves. With more than 300 individual cash locations and more than 1.6 million purchases in an average month, the NSLC's Cash Can program provides registered charities the opportunity to collect customers' spare change. Annually, funds total almost \$100,000 and benefit a diverse range of charities.

The NSLC's Celebrate Nova Scotia Talent Program provides \$100,000 in funding to community music festivals throughout the province. These events add rhythm to the communities where NSLC employees have a long history of showing their dedication and willingness to serve where they work and live in. Thirteen festivals will receive support through this program in 2013-2014.

The NSLC will also continue to grow its fundraising results for two key corporate causes; the Isaac Walton Killam Health Centre Fundraising Campaign and the United Way.

### *Social*

The NSLC takes seriously its responsibility to ensure that no purchase is made to anyone under the legal drinking age. Through its WE ID program, the NSLC requires its employees to request identification from any customer appearing to be under 30 years of age.

The NSLC enjoys a positive and co-operative relationship with MADD Canada. Plans for 2013 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 the major alcohol-related harm in Nova Scotia, especially during the holiday season. The NSLC will continue the tradition of delivering a holiday-themed 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 Appendix A.

### *Local Industry*

The NSLC has a mandate to assist in the growth of the beverage alcohol industry in Nova Scotia. NSLC fulfills this mandate through policy review, working cooperatively with the industry on business initiatives and finding new ways to allow these businesses to grow and achieve success. The NSLC's support to 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 wineries and craft beers are licensed to sell their products in NSLC stores and directly to the public through their outlet stores, earning a higher profit margin, which allows them to reinvest in their business and the local economy. For this fiscal year the NSLC will assist the Nova Scotia wine and craft brewers associations with funding and work more directly with each to help advance industry development.

- *Nova Scotia Wine Industry*

The NSLC maintains a close working relationship with the Winery Association of Nova Scotia (WANS) and the Nova Scotia Department of Agriculture, both of which 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.

- *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 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.

To effectively service Nova Scotia communities the NSLC's store network consists of 105 NSLC retail stores and 52 agency stores. The sales from this network of stores accounts for approximately 88.2 per cent of the NSLC's revenue and are generated by the dedication and hard work of the NSLC retail and agency stores teams.

The NSLC is dedicated to delivering on its Customer Promise *to provide customers with service that:*

- *Aligns products, services and events with customer needs;*
- *Offers vibrant, interactive and inviting Nova Scotia shopping experiences;*
- *Ensures 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. Four key initiatives during this fiscal year will be the focus of delivering on this pillar's goal: implementing NSLC retail and the digital strategy, limited expansion of the Coolzone shopping experience, development of the product specialist ambassador program, and enhancing wine discovery and education for the customer at retail.

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. In this age of mobile technology, shopper behaviours are changing more than ever, and retailers are working to respond to the customers' evolving demands.

It is an important aspect of the NSLC's business planning to respond to customers' shopping requirements in a meaningful way. Part of the NSLC foundational business strategy is to create the personalized experiences that the NSLC envisions in its strategic plan. Continuing on its journey the NSLC will implement online e-commerce and mobile digital solutions in this fiscal year. Integrating the NSLC's customer relationship marketing into the digital environment will further personalize the customer experience.

Cold beer rooms will continue to be refreshed with the new Coolzone experience which provides the customer with information and education about the different flavors and taste experiences available in this category.

The product specialist program will grow with the specific focus on further developing the number of retail product specialists in the NSLC's retail stores to better enhance and personalize the customer in-store shopping experience.

Finally, for the wine category, the fastest growing NSLC sales category, the NSLC will continue to take the mystery out of the bottle by launching an easy-to-use signage platform and tasting guide to facilitate wine discovery and trial to help the

customer understand the taste alternatives available in the NSLC product assortment.

## ***People***

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

People really are the heart of a 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 employee learning and development and a motivated team to provide high levels of service.

For this fiscal year, continuing to improve the communication and connection among all 1,500 NSLC employees across the province continues to be a priority. NSLC's new intranet platform for collaboration and interaction based on Microsoft SharePoint 2010 ("Swizzle") continues to be a major change management focus for the organization.

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 & 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 2013/14.

In fiscal 2014 the NSLC will review, evaluate and communicate the results of the most recent biennial employee opinion survey. Measuring employee engagement ensures that the organization is moving forward in improving its targets in this area. The results of the employee opinion survey will be discussed with various employee groups to develop action plans, and are an important input into business planning.

From a learning and development perspective, the NSLC is enhancing resources available to support employees in strengthening personal effectiveness. As well, this year there is a focus on developing management skills across the organization - in particular those soft skills related to leading teams.

## ***Labour Relations***

The NSLC has a positive labour relations climate. Most NSLC employees are unionized and are represented by the Nova Scotia Government and General Employees Union (NSGEU). Most retail employees and managers, as well as maintenance and warehouse employees are unionized, along with a variety of office clerical and technical roles. In all, more than 70 per cent of employees are represented by the NSGEU in three separate bargaining units.

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.

## ***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 is also a key part of every annual business plan. The NSLC measures this annually through a brand health survey.

A cornerstone of NSLC's mandate has always been about being responsible and increasing awareness around the beverage alcohol issues that cause social harms. The issue of harmful drinking continues to be a concern within Nova Scotia. A new anti-binge drinking campaign helped form working relationships between the NSLC and most universities in the province in 2012. The NSLC will meet with the universities in early 2013 to discuss expansion of this campaign to address additional situations where university students might be at risk for binge drinking activity. An updated version of the anti-binge drinking campaign will be offered to universities for September 2013.

The Internet has given greater access to the purchasing of higher quality false identification. The NSLC is the first liquor jurisdiction in Canada to implement an identification authentication verification system. This system provides NSLC employees with a tool to determine validity of those IDs presented. Currently in use at eight high-volume NSLC stores located close to universities, the NSLC is evaluating results and plans to examine the full technology options to improve its ID verification capabilities in 2013-2014.

NSLC is committed to environmental stewardship and is investing in further energy reduction plans for fiscal 2013-2014 which will help to realize future operational benefits. From installing motion-sensor lighting to upgrading the automation system controlling heating, ventilation, and air conditioning, and to retrofitting of overhead lights, the NSLC continually looks for possible ways to reduce energy consumption. The NSLC works closely with Efficiency Nova Scotia determining upgrades toward better efficiencies.

## ***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. In this fiscal year the key initiatives in this area are designed to reduce risk and improve the efficiency and effectiveness of the NSLC's processes and systems.

The NSLC current warehouse management system software is at the end of its life and investments will be made in this fiscal year to upgrade this software providing a sustainable warehouse management platform with enhanced functionality.

The NSLC network planning committee will implement projects and initiatives in this, the fourth year of the network plan, to improve customer experience and reduce business risk by updating and maintaining facilities and securing co-located retail space as required. The NSLC is committed to reduce its operating impact for all locations and has targeted to reduce NSLC energy usage by an additional 2

million kilowatt-hours in this fiscal year.

A review and evaluation of the current and future functionality of the NSLC point-of-sale (POS) software and hardware requirements will be finalized with the objective of evolving toward industry best practices in POS management.

The NSLC will design an archiving architecture for its current data storage that will focus on stabilizing operating costs for data storage requirements. Also, to reduce operation risk in the event of a systems failure, the NSLC will develop in this fiscal year a production-ready disaster recovery location that duplicates its existing data centre service. The NSLC will also develop a long range planning document for its information technology needs designed to improve the efficiency of its spending on IT operations and capital and to provide more robust solutions to the future business needs of the organization.

## **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 improving 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 is reviewed annually and is incorporated into the annual business planning process.

## **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. 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 2013 - 2014 can impact 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 since beer (which is 78.5 per cent of the volume of product sold) can be disproportionately affected.

The products the NSLC sells represent discretionary purchases by its customers. A deterioration of economic conditions in the province reduces sales at the NSLC and other retailers. Profitability can also be affected as 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 impacts from weather and economic factors.

The NSLC is an 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 dependant 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 as outlined in the business plans.

### **Key Performance Measures**

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

<b>Actual 2008-09</b>	<b>Actual 2009-10</b>	<b>Actual 2010-11</b>	<b>Actual 2011-12</b>	<b>Forecast 2012-13</b>	<b>Budget 2013-14</b>	<b>5-Year CAGR</b>
<b>Income from Operations (millions)</b>						
\$212.6	\$219.4	\$223.2	\$221.6	\$226.4	\$230.9	1.67%
<b>Net Sales (millions)</b>						
\$556.3	\$573.1	\$572.8	\$579.4	\$593.9	\$608.1	1.80%
<b>Operating Expense Ratio (including depreciation)</b>						
15.4%	15.5%	15.7%	16.5%	16.6%	16.8%	3.61%
<b>Operating Expense Ratio (excluding depreciation)</b>						
13.8%	13.9%	14.2%	14.5%	15.0%	15.2%	3.71%

\*Historic sales numbers have been adjusted to reflect a reallocation of certain vendor revenues from sales to an adjustment to cost of sales. The adjustment has no impact on reported income from operations.

### **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 that 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 distils 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 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 NSLC compare to other NS retailers on the same criteria?
- Peer comparison: How does it 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*

Measures the accuracy of store order fulfillment, as it relates to our ability to meet customer demand.

#### *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 customer's expectations.

## Budget Context

### Financial Plan

	Actual 2008-09 (\$)	Actual 2009-10 (\$)	Actual 2010-11 (\$)	Actual 2011-12 (\$)	Forecast 2012-13 \$	Sales (%)	Budget 2013-14 \$	Change (%)
Spirits	159,957,965	161,135,820	160,096,711	164,161,504	167,477,966		170,846,448	
Wine	103,841,333	107,749,873	113,475,419	120,243,611	127,286,742		133,720,928	
Beer	274,658,656	286,040,354	281,763,594	279,761,810	284,655,869		289,548,106	
Ready-to-drink	23,796,031	24,766,469	24,456,808	23,294,204	23,081,236		22,894,852	
Non-liquor	183,477	161,100	124,028	116,094	124,903		110,000	
<b>Total Gross Sales</b>	562,437,462	579,853,617	579,916,559	587,577,223	602,626,717	101.5%	617,120,333	2.4%
Less: Discounts	6,111,955	6,724,575	7,119,868	8,206,575	8,693,488	1.5%	9,006,150	
<b>Net Sales</b>	556,325,507	573,129,042	572,796,691	579,370,648	593,933,229	100.0%	608,114,184	
Cost of Sales	258,175,860	264,862,784	259,579,125	262,416,729	268,698,004	45.2%	275,118,569	
<b>Gross Profit</b>	298,149,647	308,266,258	313,217,566	316,953,919	325,235,226	54.8%	332,995,614	
Less: Store Operating Expenses	49,085,992	51,397,404	51,588,831	53,429,822	55,796,964	9.4%	57,866,999	
<b>Gross Operating Profit</b>	249,063,655	256,868,854	261,628,735	263,524,097	269,438,262	45.4%	275,128,615	
Less: Supply Chain	4,760,762	5,144,354	6,075,110	6,426,853	6,575,232	1.1%	6,884,955	
Corporate Services	21,479,351	20,912,977	21,395,146	21,937,215	24,113,384	4.1%	25,931,883	
Other Expenses	6,000,520	6,289,763	6,721,387	6,933,108	7,255,797	1.2%	6,886,292	
Add: Other Revenue	4,521,749	4,321,872	4,325,078	4,862,119	4,861,982	0.8%	5,425,870	
<b>Total Expenses (excl. stores)</b>	27,718,884	28,025,222	29,866,566	30,435,057	33,082,431	5.6%	34,277,260	
<b>Operating Income before Depreciation</b>	221,344,771	228,843,632	231,762,169	233,089,040	236,355,831	39.8%	240,851,356	
Less: Depreciation	8,731,567	9,481,453	8,603,359	11,473,996	9,962,101	1.7%	9,966,339	
<b>Income from Operations</b>	212,613,204	219,362,179	223,158,811	221,615,043	226,393,730	38.1%	230,885,016	2.0%
Actuarial Loss	0	0	-1,072,000	1,603,000	1,574,600		1,500,000	
<b>Comprehensive Income</b>	212,613,204	219,362,179	224,230,811	220,012,043	224,819,130	37.9%	229,385,016	2.0%
Total Expenses (not depreciation)	76,804,876	79,422,626	81,455,397	83,864,880	88,879,395	15.0%	92,144,259	
Total Expenses	85,536,443	88,904,079	90,058,756	95,338,876	98,841,495	16.6%	102,110,598	

Volume (hectolitres)						Change (%)		Change (%)
Spirits	52,650	52,079	51,676	51,566	50,626	-1.8%	50,019	-1.2%
Wine	81,150	83,576	85,568	88,328	90,650	2.6%	93,370	3.0%
Beer	657,120	667,581	656,440	637,924	634,368	-0.6%	631,196	-0.5%
Ready-to-drink	33,430	35,352	34,739	32,911	32,248	-2.0%	31,926	-1.0%
Total	824,370	838,587	828,423	810,728	807,892	-0.3%	806,510	-0.2%

\*Historic sales numbers have been adjusted to reflect a reallocation of certain vendor revenues from sales to an adjustment to cost of sales. The adjustment has no impact on reported income from operations.

## **Appendix A**

### ***Objectives for 2013-2014***

The NSLC strategic plan is designed around five pillars of the business (see page 5 of this document). 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 2013-2014**

#### ***Stewardship***

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

##### *2013-2014 Priorities*

- Continued focus on Board learning and education to enhance governance
- Establish a Business Development Committee
- Zero Waste in all HRM retail stores
- Energy conservation programs to save 2 million kilowatt hours of energy
- Expand work with post-secondary institutions to educate on the harmful effects of binge drinking
- Assist the wine and craft brewery association's with funding and work more directly with their respective Boards to help industry development

#### ***Customer***

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

##### *2013-2014 Priorities*

- Expand the retail product specialist (RPS) program by increasing the number of retail product specialists in-store
- Continue the rollout of the new Coolzone brand experience
- Implement the NSLC online retail and digital marketing strategy.
- Facilitate wine discovery and education by rolling-out an easy-to-use customer signage program and guide.

#### ***Reputation***

To be a leading corporate citizen building strategic community engagements.

##### *2013-2014 Priorities*

- Continue to increase awareness of social objectives regarding beverage alcohol usage with NS university students

- Continue to examine new technology options at the point-of-sale to provide its employees with better means to verify the legitimacy of ID.
- Continue to use the We ID program to evaluate adherence to and advance social responsibility policy mandates
- Continue programs to reduce energy consumption across the retail network and facilities through lighting and system modifications.

### **People**

To have an enthusiastic and engaged team recognized for excellence.

#### *2013–2014 Priorities*

- Continue to improve two-way communications between all employees, using the collaborative capabilities of the intranet.
- Review, evaluate and communicate the results of the Employee Opinion Survey.
- Conclude and approve three new collective agreements.
- Enhance management skills across the organization.

### **Financial**

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

#### *2013–2014 Priorities*

- Upgrade the warehouse management system to align with business needs and reduce risk.
- Complete year four of the retail network plan: improving customer experience and reducing business risk.
- Review and evaluate and replace the point of sale software for the NSLC
- Design an archiving architecture and retention plan for NSLC SAP data
- Provide a production-ready disaster recovery location duplicating existing data centre services
- Create an IT roadmap for the NSLC based on the business need and strategic direction over the next three years