

Newfoundland Labrador Liquor Corporation

2008-2011 Business Plan



PASSIONATE ABOUT SERVICE IN EVERYTHING WE DO.

NLC Mission - To be recognized as an exceptional organization, known for its passion in customer service, strong business performance, and progressive corporate culture.



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Message from the Chairperson

On behalf of Newfoundland Labrador Liquor Corporation's (NLC) Board of Directors, I am pleased to present NLC's Business Plan for 2008-11. This plan outlines NLC's direction and strategic priorities for the coming three years as well as the criteria by which the organization's results will be measured. As is evident from this document, NLC is looking to continue its recent success and to become a leading retailer - one that delivers strong financial performance, advocates and supports socially responsible consumption, and offers a workplace that engages employees and enables them to contribute to the best of their abilities.

NLC is a Category II entity as defined by the Transparency and Accountability Act. NLC's 2008-11 Business Plan was developed with careful consideration to the strategic directions of government as communicated by the responsible Minister. While NLC's current mandate is not directly linked to any of the stated strategic components of the Department of Finance, NLC continues to contribute to the financial health of the province and to support public health and social policy through initiatives connected to the responsible consumption of beverage alcohol.

As Chair of the Board, my signature below indicates the Board's accountability for the preparation of NLC's 2008-11 Business Plan and the achievement of the goals and objectives outlined within it.

NLC is a unique entity within government - a crown corporation operating in the private sector retail world competing for the discretionary income of consumers while also promoting a message of responsible consumption. It is a delicate balancing act, but we are confident that our three year plan provides the direction we need to meet the ever increasing expectations of our stakeholders.

Glenn Tobin



Chairperson, Board of Directors
Newfoundland Labrador Liquor Corporation

Purpose

This document is meant to outline Newfoundland Labrador Liquor Corporation's (NLC) approach, over the next three fiscal years, to enable it to progress towards the achievement of its mission and vision. It is meant to promote understanding among all of NLC's stakeholders as to NLC's strategic priorities, performance criteria, and the environment within which NLC operates. It provides guidance for all staff in their day-to-day decisions and actions that, ultimately, determine how well the organization executes its strategy. Finally, and perhaps most importantly, by clearly outlining NLC's commitments to key stakeholders, this document drives accountability.

Scope

This submission provides a three year outlook on NLC's overall strategic direction but, because of the difficulty predicting future events, only identifies specific initiatives and measures for the 2008-09 fiscal year as well as NLC's expected state at the end of the planning period. Further, it focuses on high-level issues of concern at the Board level - it is not meant to cover operational or business unit level issues.

While there are several measures and indicators identified in this plan that NLC will use to evaluate its performance, these are expected to be further refined over the course of this planning period. Hence, it is expected that new measures will be introduced and old ones dropped over the next three years as NLC gains insight as to the most valid measures for monitoring and evaluating performance.



Description of the Business Planning Process

The Business Planning process approved by the Board of Directors (Board) was an inclusive, participatory process that accepted input from a wide array of stakeholders from within the organization. The process included the Board, the Executive Management Team (Executive), and the Business Planning Working Group (BPWG) - a group comprised of representatives from across the organization. In addition, contributions were made by various departmental representatives in the course of developing their respective departmental three year business plan as part of NLC's planning and budget process. The Business Planning Process for NLC's current direction actually started in September 2005, continues to today, and will continue on a regular basis into the future to ensure sound execution of the Plan. A description of the roles played by the various groups is outlined below.

- ❖ The Board approved the business planning process as well as the content of the Business Plan. Input was provided regularly throughout the planning process.
- ❖ The Executive held in-depth, professionally facilitated discussions that identified the Corporation's Lines of Business, Vision, Mission, Values, Strategy Map and measurement criteria, and worked with the Board to finalize this and all other contents of the Business Plan. Further, members of NLC's Executive team met with staff to explain NLC's Business Plan, strategic priorities, performance criteria, specific initiatives, and their role in ensuring the plan is executed.
- ❖ The BPWG consisted of 21 individuals representing all departments of NLC. This group met on several occasions and developed working notes on Vision, Values, Mission, SWOT Analyses, Stakeholder Analyses, and Lines of Business. This group has undergone training in Balanced Scorecard which will be used to help drive future performance and execution of the Business Plan.
- ❖ In conjunction with the Corporation's Budgeting process for fiscal 2008-09, individual members of the Executive worked with their department directors and representatives on the BPWG to develop three year departmental business plans that were reviewed by the Executive and incorporated into this Corporate Business Plan. These departmental plans included the following items, specific to the respective department: progress on previous year's initiatives, department strategy map, desired state, future state, key performance criteria and measures, key assumptions, SWOT Analysis, and key initiatives for 2008-09.

Having numerous individuals from across the organization involved with the business planning process was deemed critical because it spread responsibility

Description of the Business Planning Process

and influence for the Plan throughout the organization, it further developed a critical planning competency across the various NLC departments, provided the members of the Board and Executive with fresh perspectives to consider, and helped to build buy-in and understanding of the process and its result throughout the organization. It is expected that this will lead to better execution of the Business Plan thereby increasing NLC's probability of success.

A listing of the members of the Board, the Executive Management Team, and the BPWG is provided in Appendix I.

Mandate

The mandate of NLC is to manage and oversee the manufacture, sale, and distribution of beverage alcohol within the province of Newfoundland Labrador. This also includes enforcement of all relevant legislation. This mandate is established in legislation, namely the Liquor Corporation Act, the Liquor Control Act, and the Liquor Licensing Regulations.

While not specifically mandated in legislation, there is a legitimate expectation from the government and the public that NLC take a leading role in promoting socially responsible consumption of beverage alcohol. This is a role NLC recognizes, accepts, and takes very seriously.



Overview

Background

NLC was established under the Liquor Corporation Act of 1973. It is a provincial crown corporation responsible for managing the importation, sale, and distribution of beverage alcohol within the province. NLC is a major retailer (through corporately controlled **Liquor Stores**), wholesaler (to **Liquor Express** locations, licensees, and other liquor outlets throughout Canada), and manufacturer (corporate brands such as Screech and Old Sam rums and other contract brands such as Iceberg - rums, vodka, and gin). Over the past three years, there has been a concentrated effort to evolve the Corporation into a modern organization in an effort to generate greater value by creating operational efficiencies, enhancing the shopping experience, demonstrating a clear commitment to customer service (both internal and external customers), and creating a progressive workplace. The focus on improving operations has been balanced by a strong commitment to social responsibility, and improved operations in the regulatory and enforcement areas of the business.

Organization

NLC directly employs approximately 490 employees (full time equivalents) and operates 24 corporate Liquor Stores, located in most major centers throughout the province. In addition, the Corporation supplies 116 **Liquor Express** locations, located primarily in more rural areas of the province, and over 1600 licensees. The Corporation operates three distribution centers - one in each of St. John's, Clarenville, and Deer Lake. As well, NLC operates a bottling/blending plant in St. John's which last year produced 214,000 cases of spirits and is now expanding capacity to handle up to one million cases per year.

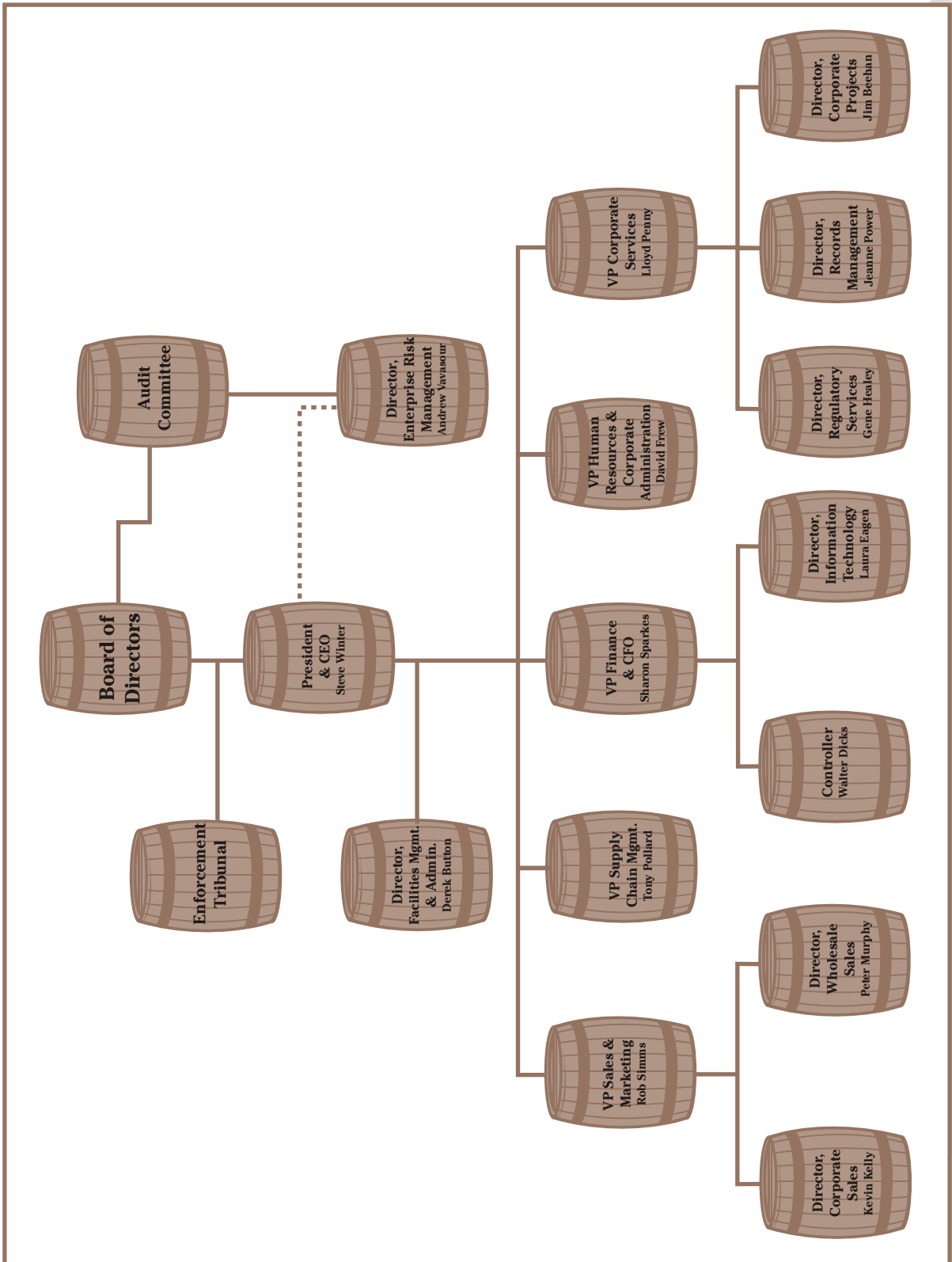
Management Structure

NLC is overseen by a Board of Directors consisting of a Chair, who reports to government, and not more than six other Board members, one of whom is the President. Board members are appointed by the Minister of Finance - normally for a term of three years.

Reporting to the Board, and also appointed by the Minister of Finance, is the President & CEO of the Corporation. This individual is responsible for the day-to-day management of NLC and other duties as assigned by the Board.

NLC's Executive Management team consists of the following: President & CEO, Vice President (VP) Supply Chain, VP Finance and CFO, VP Sales & Marketing, VP Corporate Services, and VP Human Resources & Corporate Administration. See Figure 1 to the left for NLC's Organization Chart.

Figure 1 - NLC's Organization Chart



Overview

Market/Customers

The primary customers of NLC can be broken down into four groups, three of which are external. These are:

- ❖ **End consumers** who purchases beverage alcohol for the purpose of consuming it personally. This would include individuals that visit **Liquor Stores** or **agency** operated **Liquor Express** locations.
- ❖ **Agencies and licensees** that purchase beverage alcohol for the purpose of re-selling it to the end consumer. These entities permit distribution of NLC product throughout the province. These operations must also comply with regulations associated with NLC's licensing and enforcement responsibilities.
- ❖ **Government** who looks to NLC to optimize financial performance while also protecting the public - that is, to find a sound balance between delivering solid financial performance and a demonstrable focus on a socially responsible approach to the manner in which this financial performance is achieved.
- ❖ **Internal customers** those individuals within NLC with whom NLC staff work and interact on a daily basis to ensure internal operations are as smooth and efficient as possible. Internal customers warrant the same kind of customer attention as our external customers.

Of the four groups above, NLC's revenue is almost exclusively driven by the end consumer, either through direct purchase or purchase through the agencies and licensees.

One of the key challenges to NLC, like any retailer, is the ability to adjust its product offerings and services to meet ever increasing and changing customer demands and expectations.

Suppliers

Suppliers are critical to NLC as they provide the products NLC sells or the raw material used in NLC's manufacturing operation. Current relationships with suppliers are positive. Challenges include delayed delivery of product to NLC and variable product quality of some products received.

Employees

NLC employs approximately 490 full time equivalent employees throughout the province, of which approximately 55% are female and 45% male. Approximately 65% of these employees are unionized and represented by the Newfoundland and Labrador Association of Public and Private Employees (NAPE). The past 27

Overview

months has seen a renewed focus on developing a collaborative labour-management relationship. Overall, employees feel NLC is a good employer. Many employees are long term with approximately 22% of NLC's full-time permanent staff eligible for retirement within the next three years.

Difficulty retaining temporary staff (to cover peaks in demand) and attracting new staff now and into the future is troubling, especially given the, relatively high number of NLC staff eligible for retirement, the shrinking labour pool and aggressive competition among employers for staff. NLC also has an aging workforce which presents challenges given the physical nature of the work. The elimination of mandatory retirement will likely result in increased costs associated with sick leave, injury, physical disability and associated accommodation. Employees are well versed in operational procedures however there are job-specific competencies that require development for a large number of staff. A knowledgeable, customer-service oriented workforce is critical for NLC given its focus on customer service as a cornerstone for success.

Finance and Economics

Since its inception, NLC sales have consistently grown annually as has the dividend paid to government. NLC is a significant revenue generator for government, and, in fiscal 2007-08 provided a \$110 million dividend to provincial coffers. Due to budget surpluses over the past four years, an additional \$15 million was submitted in fiscal 2007-08. For fiscal 2008-09, NLC has committed to deliver to government a dividend of \$118 million. Currently, NLC sets the pricing formula for the products that it sells to its various customers and, consequently, has the ability to directly influence revenue generation.

The financial results of NLC are directly related to the economic well-being of the population. Factors such as population fluctuations, movement of the population from rural parts to urban centers, unemployment rates, the reliance of many towns on one primary employer, and the age of the population, all have influence on the type and amount of discretionary purchases. There are economic uncertainties associated with Newfoundland Labrador that at any point could fundamentally alter the financial position of NLC. Finally, as with all beverage alcohol retailers, weather has the potential to significantly impact sales and, consequently, financial performance.

Current economic indicators for the province are quite positive which leads NLC to be optimistic about future growth.

Overview

Technology Infrastructure

The operational improvements generated by new technology initiatives have been significant at NLC - this trend is expected to continue over the course of this plan. NLC will focus on leveraging technology to better deliver key performance data, automate key processes, enable greater communication with staff, and generally improve efficiencies throughout the organization.

Corporate Culture

The culture changes at NLC have been generally accepted and understood by employees and other stakeholders although the pace of change has been a challenge for some. There have been efforts to help staff understand and cope with the changes - this will continue through to 2011 as NLC continues to implement initiatives designed to make it a leading retailer. There is an increased effort to align policies and procedures with the strategic direction and priorities of the organization. Much of the focus going forward is to create a culture that is based on customer service, employee engagement, and performance.

A Unique Entity Within Government

NLC is unique relative to other government entities. It is a monopoly retailer and wholesaler, operating in the private sector, competing for the public's discretionary income. The product offered by NLC is beverage alcohol - seen by many as a "vice" and a potentially harmful product. Hence, the NLC must balance seemingly conflicting goals of revenue generation with social responsibility (i.e.: promoting intelligent consumption and enjoyment of beverage alcohol). Moving forward, NLC will continue efforts to ensure legislation governing it is appropriate for its unique role and business model as a government entity.

A Bright Future

The last few years have seen many changes at NLC - changes that have positioned it to become a world class retailer. Indeed, the response of NLC customers seems to have justified the recent focus on capital, technology, employee education, and social responsibility initiatives. Building on this, the next three years are critical to clearly establishing NLC as a truly exceptional organization - one that is recognized for its customer focus, excellent business performance, and progressive business environment. There are challenges to be sure, however, as this plan illustrates, NLC is taking a proactive approach to achieving its goals, and is confident that it has the plan and resources to do so successfully.

SWOT Analysis

In establishing the key issues before NLC, it is necessary to have a clear understanding of the strengths, weaknesses, opportunities, and threats as well as the key risks applicable to the organization. This helps keep the organization's goals and initiatives “real” given the resources, abilities, and constraints that apply to it.

Strengths

- ❖ Exclusive control of the distribution of beverage alcohol in the province
- ❖ Positive relationships with stakeholders
- ❖ Good relationship with staff and union representatives
- ❖ Strong customer satisfaction
- ❖ Solid financial position
- ❖ Clarity of strategic direction and focus across the organization
- ❖ Improved employee capabilities
- ❖ Increasing staff engagement and communication
- ❖ Organizational structure aligned with business

Weaknesses

- ❖ Current legislation interferes with NLC's ability to operate as effectively as other retailers in the private sector retail world
- ❖ Still significant operational changes ahead - resistance may slow progress
- ❖ Performance management, measurement tools and processes are not fully implemented
- ❖ Not all stores (Liquor Store and Liquor Express locations) have been brought up to new NLC standards
- ❖ Key skill gaps in job-specific core competencies
- ❖ High cost of labour, in some areas, relative to competitors
- ❖ Warehouse - layout is disjointed and capacity is limited



SWOT Analysis

Opportunities

- ❖ Focus on progressive management, retail and manufacturing practices offer potential for improvement in all areas of the business
- ❖ Willingness of government to review and revise legislation governing the NLC
- ❖ Increased manufacturing capacity
- ❖ Increasingly sophisticated technology
- ❖ Consumers focus on convenience, value, and shopping experience
- ❖ New collective agreement
- ❖ Increasing urban population increasing potential **Liquor Store** locations
- ❖ Customer desire for marketing and promotional initiatives on product
- ❖ New partnering possibilities with other agencies on social responsibility

Threats

- ❖ Shifting demographics (e.g.: aging population; declining population; etc.) and economic disruptions (e.g.: major employer shutting down operations; unemployment rate; etc.) could have negative impact on the NLC's ability to generate expected revenue
- ❖ Increasing costs arising from servicing an increasingly demanding and complex group of customers (e.g.: developing and implementing new marketing and merchandising initiatives; increased staff training; store remodeling and renovations; etc.)
- ❖ Increasing competition for discretionary income of consumers
- ❖ Poor weather can lead to reduced sales
- ❖ Poor economic conditions can limit the amount of discretionary income available to be spent on beverage alcohol thereby negatively impacting overall sales and profitability.
- ❖ Strength of Canadian dollar hurts US sales of locally produced product
- ❖ Increasing competition for talented staff
- ❖ Challenges associated with an aging workforce (e.g.: increased risk of injury, sickness, and disability)



Lines of Business

The lines of business (LOB) for NLC are:

- ❖ Retail Sales
- ❖ Wholesale Sales
- ❖ Manufacturing
- ❖ Regulatory Services

Retail Sales

The most visible component of NLC's operations to many is the retail sales of beverage alcohol through its 24 **Liquor Store** locations throughout the province. Population dictates the location of corporate stores. The following is a listing of Liquor Store locations within the Province.

- | | |
|--------------------------|---------------------------|
| ❖ St. John's (9 stores) | ❖ Corner Brook (2 stores) |
| ❖ Mount Pearl (2 stores) | ❖ Port aux Basques |
| ❖ Clarenville | ❖ Goose Bay |
| ❖ Placentia | ❖ Labrador City |
| ❖ Marystown | ❖ Bay Roberts |
| ❖ Gander | ❖ Stephenville |
| ❖ Grand Falls - Windsor | ❖ Carbonear |

Liquor Stores carry an extensive selection of spirits, beers, refreshment beverages, wine, etc. imported from around the world, as well as some locally produced spirits, wine, and beer. The staff of corporate liquor stores are all direct employees of NLC. All aspects of store design, sale, marketing, merchandising, human resources, and business operations fall under NLC jurisdiction.

Wholesale Sales

NLC's Wholesale operations supply 116 **Liquor Express** agency operated locations and over 1600 licensees. This group accounts for over 40% of the NLC's annual provincial sales revenues. **Liquor Express** locations are normally established in areas of the province that do not have the population to support a corporate liquor store and involve an arrangement whereby an individual or corporation bids for the right to sell beverage alcohol in a retail environment. **Liquor Express** locations have limited selection and service relative to a **Liquor Store** and, in return, receive a commission from NLC on the product they sell. Licensees include bars, lounges, and restaurants that are licensed by NLC Corporate Services to receive product that is marked-up and resold to customers for profit.

Lines of Business

Manufacturing

NLC's manufacturing operation consists of a blending and bottling plant. NLC has developed recipes for various spirits, own the rights to certain brands, and blends and bottles product on site. These products sold locally and are marketed to other liquor jurisdictions in Canada. NLC also blends, bottles, and distributes spirits on behalf of other suppliers (e.g.: Iceberg - rums, vodka, and gin). In fiscal 2005/06, the NLC produced 214,000 cases of spirits. A new production line, installed in 2007, provides NLC with the potential to grow production capacity to one million cases annually. Manufacturing represents a revenue growth opportunity for NLC.

NLC owns, produces, and markets the following products:

Old Sam Rum	Cabot Tower Rum
Screech Rum	Ragged Rock Rum
Charenac Brandy	Shiver Vodka/Gin
Amherst Gate Whiskey	Big Land Whiskey

and contract bottles the following:

Iceberg Vodka	Iceberg Gin
Iceberg Gold Rum	Iceberg Amber Rum
Iceberg Silver Rum	Smuggler's Cove Dark Rum
London Dock Rum	

Regulatory Services

Developing and recommending appropriate legislation governing the sale and distribution of beverage alcohol has always been a primary responsibility of NLC. The functions associated with this line of business include: recommending legislation and the audit, investigation, and enforcement of relevant legislation this would include laying charges and imposing penalties against those in violation of this legislation. This arm of the business also includes an education component whereby licensees, agencies, and the general public are informed of the legislation and how it impacts them. In addition, there is a very conscious effort to raise public awareness of socially responsible consumption.

Additional Information

For more information on NLC and its operations, see NLC's website at

www.nliquor.com

Our Key Customers

There are several customers critical to NLC's success all with differing needs and continually rising expectations. NLC is committed to customer service and is looking to delivering products and services that meet and exceed customer expectations.

Primary Customers

Retail customers - the end consumer that drives our business. As in any retail environment, individual consumer tastes vary with regard to specific products, however, attributes important to all customers include easy access to product, product selection, value, quality, and a retail staff that offer excellent service and demonstrated product knowledge. NLC customers are becoming increasingly sophisticated in their knowledge and tastes in beverage alcohol. They also expect an engaging, pleasant shopping experience. NLC's recent focus in this area appears to have been successful as NLC consistently scores very highly in retail customer satisfaction surveys.

The general public (both consumers and non-consumers of beverage alcohol) who want assurance that sale, manufacture, and distribution of beverage alcohol is controlled to promote safe, intelligent consumption. NLC recognizes a responsibility to all people to reinforce the message, in word and act, that beverage alcohol should be enjoyed intelligently and in moderation. Further, people who are vulnerable to the negative effects of beverage alcohol must be protected. The public also has a growing expectation of good corporate governance by those entrusted to oversee the organization.

Wholesale customers within the province such as agency stores and licensees play a crucial role in distribution and access to product within the province. These customers provide NLC with a sales and distribution network which enables ease of access to product virtually anywhere in the province. These customers are selected by NLC through formal application and licensing processes. These customers want a simple and straight-forward application process, fairness in the issuing of licenses and enforcement, clear information and guidance with regard to the legislation governing them, a reasonable selection of product, access to marketing and merchandising expertise and advice, and timely distribution and delivery.

Our Key Customers

Brewers and brewer's agents, the latter being primarily convenience stores that are licensed by NLC to resell product sold to them by the brewers, represent a significant source of revenue to NLC. Brewers, licensed by NLC to produce local product, must pay a commission to NLC on all locally produced product. This product is distributed to various brewer's agents throughout the province for resale. Brewers and brewer's agents expect NLC to establish fair pricing policies, to ensure a wide network for distribution and sale of product, and to ensure the relevant legislation and regulations are enforced appropriately.

NLC's internal customers - those individuals within NLC who count on other NLC employees to deliver inputs that enable them to do their jobs competently thereby delivering value to our external customers. A focus on internal customer service is essential to ensure we meet the customer service promise made to our external customers.

Secondary Customers

Wholesale customers outside the province that provide sales opportunities beyond the province's borders. These include the various liquor jurisdictions throughout Canada that purchase NLC and other local product for resale. These customers represent revenue growth potential if NLC can successfully market local brands to other liquor jurisdictions. These customers judge NLC on product availability, quality of product, and timely distribution.

Suppliers of raw material used by NLC in the manufacture of spirits. The supply of raw material is critical for NLC to produce local product and, given the increased focus on expanding output of local product to the rest of Canada, these suppliers will likely grow in importance.

Suppliers of the various beverage alcohol products sold and distributed by NLC and its agencies and licensees. These are the organizations that provide NLC with the vast majority of the products it sells. NLC currently carries over 3000 products - this range of selection is demanded by our customers. These relationships are necessary to ensure we maintain access to the product mix needed to be successful. These organizations want fair pricing and payment terms, access to shelf space and marketing opportunities, and wide distribution.

Government A Key Stakeholder

Our Key Customers

Government - A Key Stakeholder

Government holds multiple roles within NLC's world. It is the shareholder to whom NLC dividends flow for reinvestment to the benefit of the general population. It is also a customer that expects NLC to ensure the sale, distribution, and manufacture of beverage alcohol is conducted in a socially responsible manner - governed by appropriate legislation and enforcement practices for the good of all.

NLC Vision

To be passionate about service in everything we do.

NLC Mission

NLC is mandated to oversee the manufacture, sale, and distribution of beverage alcohol within the province - with the expectation that it will generate revenue for the government which will be reinvested for the benefit of the population. In addition, NLC has accepted responsibility to ensure its mandate is conducted in a socially responsible manner. In NLC's view, these are the outputs expected of it - and they are not expected to change. To achieve these outputs, NLC has taken on the following mission:

To be recognized as an exceptional organization, known for its passion in customer service, strong business performance, and progressive corporate culture.

The recent initiatives undertaken by NLC speak to its commitment to this mission and the success to date leaves NLC confident that this approach is the right one going forward. This mission provides NLC with a constant sense of urgency to find better ways to deliver on the expectations of key stakeholders. It also reminds us of the various key drivers of our success - customer focus and our work environment. This, coupled with the attention to financial performance, keeps NLC focused on the key measures of success.

NLC will continue to implement new initiatives aimed at achieving this mission - our focus on performance measurement and management, improved operational efficiencies, customer service, promotional and marketing programs, staff education and engagement, social responsibility advocacy and partnerships, increased enforcement and improved governance will enable NLC to meet and exceed expectations.

NLC Mission

It is not expected that NLC will ever “complete” this mission - no customer focused organization will ever reach the point that it feels it has done all that it can to ensure it fulfills its mandate or achieves its vision. Instead, NLC will constantly strive to achieve this mission in the expectation that, in so doing, it will undertake initiatives and make decisions that optimize its value to the government and the people of Newfoundland Labrador. The specific measures and indicators of NLC's success are further defined in upcoming sections.

NLC Values

Socially Responsible

Each NLC employee and Board member will advocate intelligent consumption by seeking to inform and educate customers and clients in the responsible and safe use of our products and by practicing intelligent consumption.

Professional

Each NLC employee and Board member will develop trusting relationships with our clients by demonstrating our values, being honest and forthright, honouring our commitments, and treating people with respect and dignity. NLC stores will be clean, attractive, well designed and functional. NLC staff will be knowledgeable, friendly, and will engage customers thoughtfully and courteously to ensure their needs are clearly understood and serviced.

Teamwork

Each NLC employee and Board member recognizes the importance of diversity and teamwork and will seek input from all of our key stakeholders, internally and externally, to optimize returns from our operations. We will recognize outstanding contributions and will look for opportunities to celebrate and develop strong relationships among our staff. We will ensure expectations are defined and communication clear.

Initiative

Each NLC employee and Board member realizes and accepts that leadership is not position specific. Initiative will be encouraged, recognized and rewarded throughout the organization. Staff will be expected to use good judgment and will be empowered to make decisions. NLC employees and Board members believe initiative leads to greater success individually and organizationally.

NLC Values

Accountability

NLC employees and Board members recognize that each individual is personally responsible for ensuring that expectations are understood and will take the appropriate actions to ensure that these expectations are met. These individuals will seek feedback to ensure that expectations are met, and where they are not, will take action to remedy the situation and prevent it from happening in the future.

Business Issues, Goals, Objectives, Measures, and Indicators

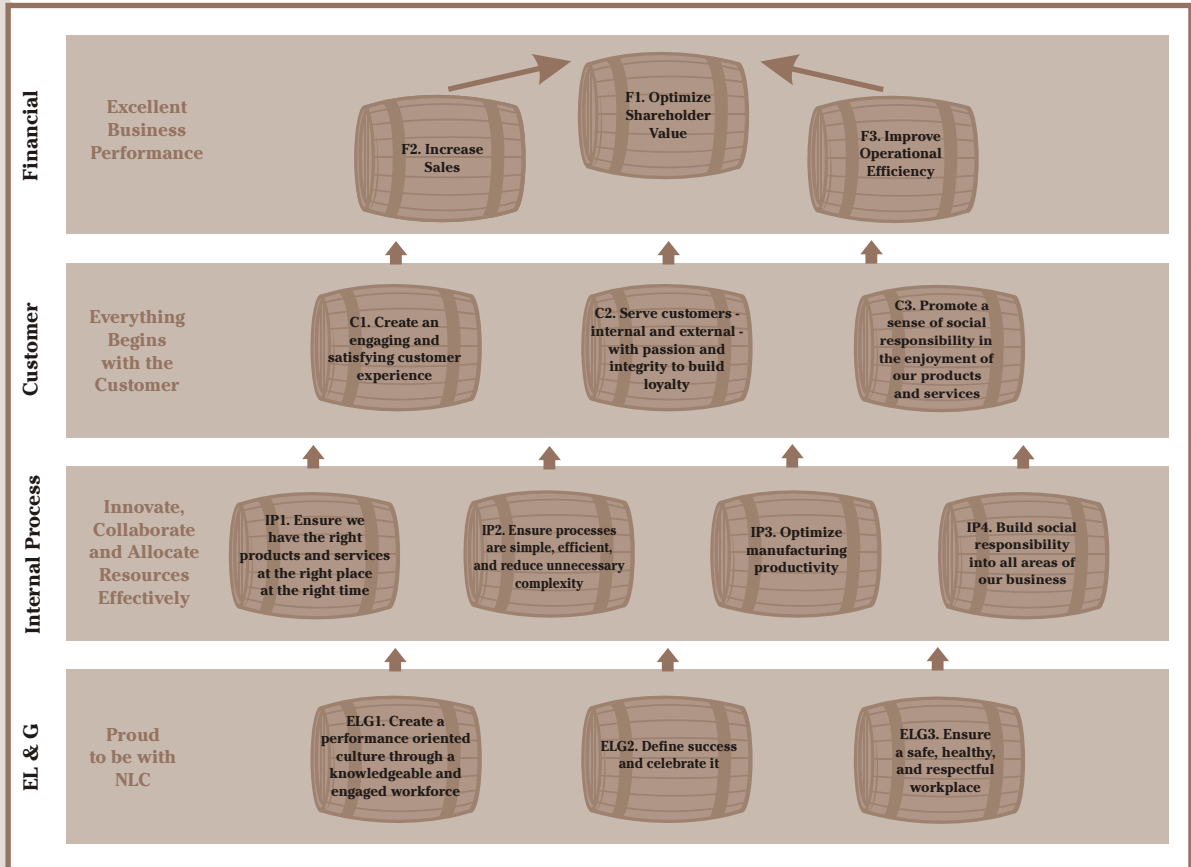
In addition to the planning process adopted by NLC as required under the Transparency and Accountability Act, the Corporation has integrated a Balanced Scorecard approach to promote successful execution of its strategy (an explanation of Balanced Scorecard is found in Appendix II). The Balanced Scorecard identifies four perspectives which provide broad guidance to the planning process. These perspectives are described below:

- ❖ **Financial** - if NLC is successful, what does this look like, financially, to our shareholders (ie: government)?
- ❖ **Customer** - to achieve our vision, how should we appear to our customers internal and external?
- ❖ **Internal Processes** - to meet the expectations of our shareholders and customers, at what business processes must we excel?
- ❖ **Employee Learning and Growth** - to achieve our vision, how do we sustain our ability to change and improve, and enable employees to be successful in their roles?

For purposes of this business plan, these perspectives represent the key business issues on which the NLC is focused. The goals and objectives contained under these perspectives illustrate the strategic priorities for NLC over the next three years. NLC's objectives are shown in Figure 2 - NLC's Strategy Map. Each NLC objective also has an associated measure and measure indicator(s) - including targets for each indicator. To provide even more insight, the specific initiatives and activities expected to drive the achievement of stated targets for each measure indicator are also provided. A detailed breakdown of the goals, objectives, measures, measure indicators, targets, and critical initiatives is provided in the next section of this document.

Business Issues, Goals, Objectives, Measures, and Indicators

Figure 2 - NLC's Strategy Map



NLC has established one goal for each of the four business issues it considers significant. NLC's success over the next three years will largely be defined by the achievement of the stated 2011 targets for each of the measure indicators associated with these goals.

It is not expected that the objectives for each key issue will change over the course of this planning cycle. However, as NLC evolves and learns, the measure indicators may change to better reflect our environment and the true drivers of NLC's success in achieving the stated objectives.

Finally, to enhance understanding, this section of NLC's Three Year Business Plan has been organized by key issue (i.e.: each of the four Balanced Scorecard perspectives), namely, financial, customer, internal processes, and employee learning and growth. Within each of these four sub-sections is the relevant three year goal, its measure, and associated objectives. The objectives are given an

Business Issues, Goals, Objectives, Measures, and Indicators

alpha-numeric identifier (e.g.: F1, ELG2) and are defined. Each objective has a measure and one or more measure indicators that essentially define our success in reaching the stated objective. For each objective, a table is provided that outlines the measure indicator, its 2008-09 target, the initiatives expected to drive achievement of the 2008-09 measure indicator target, and the expected target to be reached by the end of this planning cycle for each measure indicator.

Issue 1 Financial Perspective: Excellent Business Performance

Perhaps NLC's most notable contribution is the revenue it generates for reinvestment by government to the overall benefit of the public. NLC's financial performance revolves not around profit maximization, but rather, in finding the right balance between revenue generation and social responsibility. Also, as with any business entity, NLC focuses on improving operational efficiency. Consequently, the objectives NLC has focused on to promote strong financial performance are: optimize shareholder value; increase sales; and improve operational efficiencies.

Goal

By 2011, NLC will have improved its financial performance

Measure

Improved financial performance as demonstrated by achievement of 2011 targets for measure indicators associated with Objectives F1, F2, and F3.

Objective F1 - Optimize shareholder value

For NLC, shareholder value is defined as the balance between social responsibility and financial return. By optimizing this balance, NLC largely satisfies the needs of its key stakeholders the government, the general public, and the end consumer of beverage alcohol. These groups expect beverage alcohol to be available in a safe, controlled environment that protects the public but also that NLC generate a reasonable financial return. NLC will achieve this objective by focusing on consumer service, increased efficiency, and a focus on social responsibility.

F1 Measure

NLC will implement initiatives to optimize shareholder value by striking a balance between revenue generation while promoting socially responsible consumption.

Business Issues, Goals, Objectives, Measures, and Indicators

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
F 1.1 Dividend	\$118,000,000	Regularly review financial expectations and performance with government and Board Pursue revised legislation governing NLC operations	\$126,000,000
F 1.2 Net Earnings	\$117,974,000	Implement new budgeting solution and further automate financial reporting Track financial performance and take appropriate action to address issues Conduct ROI analysis on all investments	\$126,693,000
F 1.3 Earnings from Operations as a % of sales	34.6%	Regularly review of financial performance with key management staff Track key financial indicators regularly and take action as appropriate Develop and implement an Audit Scorecard for stores	34.9%

Objective F2 - Increase sales

Sales largely determine the financial contribution NLC can make to government and is a measure of our ability to satisfy customer demands. NLC will strive to increase sales and profitability by delivering exceptional customer service that provides inviting shopping facilities; wide product selection and availability; and engaging, knowledgeable staff all within the principles of social responsibility.

F2 Measure

NLC will implement initiatives that will generate information to improve financial decision making and behaviours that drive improved financial performance.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
F 2.1 Sales	\$175,465,000	Review financial performance weekly with store managers Store managers to communicate financial performance and goals with store staff	\$191,530,000
F 2.2 Gross Profit	\$102,618,000	Develop a pricing strategy that optimizes balance between revenue generation and social responsibility	\$112,042,000
F 2.3 Revenue Per Litre	\$15.45	Implement customer education that promotes appreciation for quality products	\$16.87

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Objective F3 - Improve operational efficiency

NLC will continuously look to improve the performance and productivity of our staff and other resources. This not only reduces our costs but also ensures people see real value in their work. This objective will be achieved through continuous skill development, intelligent resource allocation, and efficient processes.

F3 Measure

NLC will implement initiatives and new processes to promote efficient utilization of its assets.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
F 3.1 Operating Expenses as a % of Sales	24.2%	Regularly track expenses and take appropriate action to address issues Implement new tools, equipment, and technology that increase efficiency Conduct an operational/energy efficiency review of NLC facilities Implement the Record Management strategy	23.6%
F 3.2 Inventory Turns Annually	3.1	Review ordering and shipping cycles to establish optimal cycle times Investigate inventory controls and automatic replenishment to stores Develop revised inventory report Review warehouse layout and operations, and implement initiatives to improve operations	3.5

Issue 2 Customer Perspective: Everything Begins with the Customer

As a retail operation, NLC's success rests on its ability to service its customers. This drives NLC's passion toward customer service. Customers dictate NLC's priorities this is particularly challenging as customer needs and expectations change quickly and without notice. NLC also caters to a variety of customers each with different needs and expectations, at times in direct conflict to one another. Hence, NLC is constantly monitoring customer needs, trends, and satisfaction to ensure it has appropriately integrated varying customer expectations into its mix of products and services in the most beneficial manner. Despite this complexity, NLC has narrowed its focus to the following three objectives with regard to customer service: create an engaging and satisfying

Business Issues, Goals, Objectives, Measures, and Indicators

customer experience; serve customers - internal and external - with passion and integrity to build loyalty; and promote a sense of social responsibility in the enjoyment of our products and services.

Goal

By 2011, NLC will have improved customer service across all key customer segments.

Measure

Improved customer service across all key customer segments as indicated by achievement of 2011 measure indicator targets associated with Objectives C1, C2, and C3.

Objective C1 - Create an engaging and satisfying customer experience

NLC wants customers to truly enjoy their shopping experience as this largely determines our financial success. Hence, NLC will provide inviting, appealing stores with a broad product selection reflecting customer demand and current industry trends. Knowledgeable staff will engage the customer to help them make an informed purchase decision.

C1 Measure

NLC will implement initiatives to enhance the whole shopping experience at Liquor Stores and Liquor Express locations.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
C 1.1 Customer Survey Scores (Retail)	88%	Implement improvements in shopping facilities and infrastructure to create an engaging shopping experience Increase staff training in product knowledge and customer engagement Develop and implement operational support and education initiatives for Liquor Express store operators Conduct annual customer survey Increase number of promotional, marketing, and merchandising initiatives Establish Brand recognition for Liquor Store and Liquor Express locations Establish consistent standards for store product listings by store	90%

Business Issues, Goals, Objectives, Measures, and Indicators

Objective C2 - Serve customers - internal and external - with passion and integrity to build loyalty

We want our customers to trust NLC and to welcome us as valuable partners in helping them achieve their objectives. Our focus on customers helps align NLC to those areas that drive our success. NLC staff will deliver on this commitment by actively engaging our customers, both internal and external, through effective listening, inquiry, and the provision of sound advice and exemplary service.

C2 Measure

NLC will identify and implement initiatives to better understand and engage the customer.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
C 2.1 Sales per Over the Counter Customer Transaction	\$30.50	Introduce new events into NLC's Special Events portfolio Grow e-mail distribution list to further develop customer relationships Develop initiatives to gather feedback from customers	\$32.00

Objective C3 - Promote a sense of social responsibility in the enjoyment of our products and services

NLC's products are best enjoyed when done so responsibly. NLC is committed to visibly support this view. Social responsibility is a fundamental expectation of our stakeholders. We will pursue this objective through strict enforcement of the Liquor Control Act and other associated legislation; public awareness initiatives; partnerships with like minded groups; and initiatives that help strengthen our communities.

C3 Measure

NLC will implement initiatives and leverage partnerships to promote socially responsible consumption of beverage alcohol.

Business Issues, Goals, Objectives, Measures, and Indicators

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
C 3.1 Customer Survey Scores (Social Responsibility)	75%	<p>Marketing department to oversee marketing efforts of NLC's Social Responsibility initiatives</p> <p>Develop partnerships to leverage resources with other groups to maximize penetration of the social responsibility message</p> <p>Implement new initiatives to promote socially responsible consumption</p> <p>Review and recommend revisions to current legislation</p> <p>Enhance community visibility as a good corporate citizen</p>	80%

The objectives and associated measures are not expected to change during the three years of this plan although the indicators and initiatives implemented may change to better reflect NLC's operating environment and to meet the changing needs of key customers.

Issue 3 Internal Processes: Innovate, Collaborate, and Allocate Resources Effectively

If NLC is to deliver on its Mission, it must continuously evolve and improve. The goals of constantly improving operational efficiency, simplifying processes, and integrating technology into our business will be built into our culture. NLC will identify those internal processes that drive its success and will strive to excel in them. Ultimately, internal processes are an aspect of our operation over which we exert the most control. To this end, the following four objectives have been established to drive excellence in internal operations: ensure we have the right products and services at the right place at the right time; ensure processes are simple, efficient, and reduce unnecessary complexity; optimize manufacturing productivity; and build social responsibility into all areas of our business.

Goal

By 2011, NLC will improve internal processes to deliver enhanced operational efficiency in meeting customer expectations.

Measure

Improved internal processes that deliver enhanced operational efficiency in meeting customer expectations as defined by the achievement of 2011 measure indicator targets associated with Objectives IP1, IP2, IP3, and IP4.

Business Issues, Goals, Objectives, Measures, and Indicators

Objective IP1 - Ensure we have the right products and services at the right place at the right time

Convenient and timely access to the products they want drives customer satisfaction and largely dictates NLC success. NLC operations, from the point of identifying customer demands on through to service/product delivery, will be co-ordinated and regularly reviewed to ensure we deliver on this objective.

IP1 Measure

NLC will implement initiatives to streamline product delivery and reduce stock-outs of core products.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
IP 1.1 In-stock Service Level (Core Products)	92%	Establish core products listing and establish optimal order and shipping cycles for each category Establish new processes to make it easier to order product Review inventory management practices and warehouse layout	95%

Objective IP2- Ensure processes are simple, efficient, and reduce unnecessary complexity

Bureaucracy and red tape interfere with efficient operations and employees' ability to do their jobs. This creates waste and frustration that reduces our effectiveness in fulfilling our mission. NLC will continually review processes, procedures, standards, and results to ensure unnecessary complexity is eliminated.

IP2 Measure

NLC will implement improved processes and technology throughout the organization to improve efficiency and reduce errors.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
IP 2.1 Process Improvement Compliance	*85%	Departments to identify key process and technology improvement initiatives annually and report on success of implementation	90%

*Refers to the percentage of planned process improvements that are implemented.

Business Issues, Goals, Objectives, Measures, and Indicators

Objective IP 3 - Optimize manufacturing productivity

NLC's manufacturing operation represents another potential source of revenue. NLC is committed to realizing the full potential of the manufacturing/bottling operation and will do this by seeking opportunities to grow volume and revenue, lower costs per case, improve quality, and increase gross margins.

IP3 Measure

NLC will improve utilization of plant assets to improve financial return on these assets.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
IP 3.1 Net Earnings (Plant)	\$875,000	Streamline and improve quality of bottling plant reporting Increase production through new contract bottling opportunities and the introduction of three new NLC products Reduce bottling line downtime Implement initiatives to improve inventory control, forecasting, and production scheduling	\$1,200,000

Objective IP 4 - Build social responsibility into all areas of our business

Social responsibility is an over-riding consideration in all that we do. It helps to protect the public and to enhance the communities in which we operate. We will achieve this by ensuring our practices meet social responsibility expectation, partnering with other community organizations, government agencies, and private entities to promote social responsibility, and also committing corporate resources to this objective.

IP4 Measure

NLC will develop and implement standard operating procedures that reduces the risk that beverage alcohol is sold to inappropriate individuals.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
IP 4.1 Number of Challenges as a % of Transactions	2.5%	Develop clear guidelines for challenges and refusals in Liquor Stores and Liquor Express Track challenges and refusals monthly Implement Mystery Shopper approach to ensure compliance with procedures	3.0%

Issue 4 Employee Learning and Growth: Proud to be with NLC

The key determinant of NLC performance ultimately rests with its employees and their ability to competently perform their jobs. NLC is committed to providing employees with the tools, technology, training, information, and management to do their jobs well. NLC believes that an engaged workforce simply performs better. Given the high level of personal contact with our customer, motivated and knowledgeable employees are essential to executing our internal process effectively and delivering on our customer promise.

NLC wants to create a work environment that promotes employee success and professional growth, where their contribution is recognized and rewarded, and where they can feel safe. NLC's objectives that guide the realization of such a work environment are: create a performance oriented culture through a knowledgeable and engaged workforce; define success and celebrate it; and ensure a safe, healthy, and respectful workplace.

Goal

By 2011, NLC will have shifted its corporate culture to one that more visibly engages staff and recognizes excellent performance.

Measure

Establishment of a corporate culture that more visibly engages staff and recognizes excellent performance as measured by achievement of 2011 measure indicator targets for Objectives ELG1, ELG2, and ELG3.

Objective ELG1 - Create a performance oriented culture through a knowledgeable and engaged workforce

A performance oriented culture in which employees take personal responsibility and hold each other accountable for results can only be accomplished with a knowledgeable and engaged workforce. At NLC, we believe corporate success is built on the individual contribution and success of its employees. We will endeavour to ensure staff receive the tools, training, and information necessary to be successful. Staff will have the opportunity for input, engagement, and to demonstrate initiative. Individual and corporate performance will be reviewed regularly, recognized, and excellence will be rewarded.

Business Issues, Goals, Objectives, Measures, and Indicators

ELG1 Measure

Implement initiatives that engage staff and increase their competence and professional potential.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
ELG 1.1 Employee Survey Scores	65%	Develop and conduct employee survey Collaborate and consult regularly with union officials Implement initiatives to promote 2-way communication between management and staff	70%
ELG 1.2 Training Spend per Employee	\$1,000	Allocate budget for staff education Establish career goals for employees and provide educational support to promote their potential Establish minimum performance standards and provide training to ensure staff have appropriate training to be successful	\$1,060

Objective ELG 2 - Define success and celebrate it

People perform best when they know the expectations placed on them and their success in reaching these expectations is recognized and rewarded. Therefore, NLC will clearly define what success looks like describing expected behaviours identifying and measuring key performance indicators, and communicating our performance. NLC staff will be actively engaged to ensure expectations are clearly understood and subsequent success is celebrated.

ELG2 Measure

NLC will implement performance management processes and tools.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
ELG 2.1 Employees with a Completed Performance Plan	90%	Implement Performance Management process Report regularly on corporate and employee performance Train staff and managers in the performance management process	95%

Business Issues, Goals, Objectives, Measures, and Indicators

Objective ELG 3 - Ensure a safe, healthy, and respectful workplace

NLC and its staff share responsibility for creating a safe, healthy, and respectful work environment. This provides employees with confidence and peace of mind, while providing a far more productive workplace. NLC will minimize the risk of injuries to people and property in all NLC facilities by adopting progressive OH & S management practices that limit risk, and when necessary, support employees through a comprehensive program to facilitate safe and healthy return to work.

ELG3 Measure

NLC will implement initiatives that protect employees and provide them the opportunity to attend work and to contribute to the best of their ability.

Measure Indicator	Target 2008-09	Initiatives 2008-09	Target 2011
ELG 3.1 Sick Leave Usage (days per year)	12.5	Implement a Disability/Attendance Management policy Report sick leave usage regularly Implement a comprehensive OH&S program	11.5

Appendix I

Appendix I Business Planning Participants

Board of Directors

Glenn Tobin (Chair)
Agnes Richard (Vice Chair)
Cheryl Stagg
Jim Oxford
Terry Paddon
Steve Winter
Darren Colbourne

Executive Management Team

Steve Winter (President & CEO)
David Frew (VP Human Resources & Corporate Administration)
Lloyd Penny (VP Corporate Services)
Sharon Sparkes (VP Finance & CFO)
Tony Pollard (VP Supply Chain Management)
Rob Simms (VP Sales & Marketing)

Business Planning Working Group Members

Jeanne Power, Director of Records Management
Gene Healey, Director of Regulatory Services
Gary Critch, Manager - Application Development and Support
Bill Neville, Manager - Technical Services/PMO
Will Parmiter, Manager - Warehouse
Dana Harrell, Manager - Bottling Plant
Christine Phillips, Human Resources Officer
Tracy Lewis, Manager - Occupational, Health and Safety
Wally Dicks, Controller
Terry Webster, Regional Sales Manager - Wholesale West
Scott Pelley, Regional Sales Manager - Wholesale East
Warrick Humphries, Regional Sales Manager - Corporate East
Derek Button, Director of Facilities Management & Administration
Greg Kerr, Manager - Local Products
Abe Pike, Manager - Product Supply North America
Rob Kieley, Manager - Product Supply Overseas & International
Peter Murphy, Director of Wholesale Sales
Andrew Vavasour, Director of Enterprise Risk Management
Laura Eagen, Director of Information Technology
Greg Eddy, Manager - Human Resources
Kevin Kelly, Director of Corporate Sales

Appendix II

Appendix II - NLC's Balanced Scorecard Explained

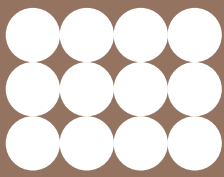
The Balanced Scorecard is a proven performance management system being adopted by NLC. It is particularly effective because it leads an organization to identify those areas that it feels will drive the success of the organization going forward and is an excellent tool to communicate corporate, departmental, and individual initiatives and performance measures.

One of the tools used in the Balanced Scorecard is a Strategy Map - this “map” is an illustration of the key objectives (or “focus areas”) that are thought to be critical to the Corporation's success. Anyone viewing an organization's Strategy Map would see exactly how the organization intends to achieve success - for employees, this should make it easier to understand why various initiatives are being implemented and how they build on one another to drive corporate success. In fact, all employees should be able to see how their individual job responsibilities add value to their department's objectives, and how their department's objectives contribute to NLC's overall success. When employees understand the expectations placed on them and their department, then there is a much greater likelihood of the Corporation's strategy actually being executed and its objectives being achieved.

The Balanced Scorecard is considered “balanced” because it encourages the organization to look at key success drivers from four perspectives, not just a single perspective. With the Balanced Scorecard, organizations look to identify key performance drivers in finance, customer service, internal business processes and employee learning and growth.

- ❖ **Financial** - if NLC is successful, what does this look like, financially, to our shareholders (ie: government)?
- ❖ **Customer** - to achieve our Vision, what must we provide to our customers - internal and external?
- ❖ **Internal Processes** - to meet the expectations of our shareholder and customers, at what business processes must we excel?
- ❖ **Employee Learning and Growth** - to achieve our Vision, how do we sustain our ability to change and improve; to enable employees to be successful in their roles?

NLC's Strategy Map contains 13 objectives which are all defined. Each of these objectives also has key performance measures attached to it - these measures help us to gauge our success in achieving the objective. These objectives outline the key drivers of NLC's future success. Going forward, corporate and departmental initiatives will be designed to support the achievement of these objectives as will individual job responsibilities and expectations.



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