

The Salvation Army
National Recycling Operations
National Advisory Board
Pre-reading Material
September 26, 2014

State of the New Union - It has been 18 months since NRO became a national entity with one person responsible for the continuity of the operations. The evolution from several operating regions to one national operation has been a long methodical process. The unification into one operation is arguably the single most important event in the history of NRO.

The health of the unified operation is good, but it is not without its challenges which will be discussed during the “in person” part of the presentation on September 26th. Also, at the meeting we will look at how NRO is making a difference in the communities in which we serve.

To get started, it is important to bring the Salvation Army National Advisory Board, including the new members, up to date concerning the activities of NRO.

Our Business

NRO is the leading operator of charitable thrift stores in Canada, with 106 NRO thrift stores in operation as at August 31, 2014. We are the only charitable thrift store operator with a significant national presence and we continue to expand at a measured pace. Our stores range in size from 2,000 to 25,000 square feet with the average being 8,000 square feet. The stores offer a targeted mix of donated new and used merchandise at compelling values. Our products include: clothing; linens; furniture; toys; household goods; sports equipment and electronics. Our clothing prices range from \$0.49 to \$19.99 with the average selling price of \$4.50 per unit. All of our stores are corporate-owned and operated, providing a consistent shopping experience. Most of our stores are located in high-traffic areas such as strip malls and small shopping centers in various locations, including large metropolitan areas, mid-sized cities and small towns.

It is our intention to grow sales and operating income by building upon our position as a leading Canadian operator of thrift stores, and to offer a compelling value proposition on a wide variety of merchandise to a broad base of customers. We continually strive to maintain and improve

the efficiency of our operations while meeting our objective to serve, through community involvement, retail and recycling.

Our Results year to date for Fiscal 2015 as at August 31, 2014 – Key Items

Compared to 5 months of Fiscal 2014

- Sales were \$39.4 million compared to \$37.5 million or 5% increase
- Same store sales grew 5% compared to 8%
- Gross margin was 82.8% compared to 82.6%
- Operating Income (EBITDA) was \$4.2 million or 11% of sales compared to \$4.3 million or 12% of sales
- 106 stores were in operation compared to 105 the prior year
- At the most recent fiscal year end March 31, 2014, NRO generated a Return on Equity of 35% compared to 37% in the previous year.

Factors Affecting Our Results of Operations

- Quality of operations – NRO strives for excellence. Recent actions include:
 1. Development of a national operations reporting structure under the leadership of National Director of Operations, David Court.
 2. Development of national operating policies and procedures to ensure consistent practices and discipline.
 3. Development of national human resources policies and procedures in an effort to ensure the best management team possible in all parts of the organization.
 4. Development of a national “Goodworks@work” community based culture amongst all team members.
- Leadership – The leadership team is small, aggressive and forward thinking.
- Commitment to sustainability – NRO is part of the community infrastructure to promote re-use and recycling.

Integration of the NAB Task Team Recommendations into NRO Planning and Operations

The National Advisory Board will be aware that the Board's NRO Task Team made several recommendations to NRO. A further update is provided herein.

Recommendation #1 – Manage with more discipline and measure performance

Clarify, document and communicate governance structures, decision-making processes and accountabilities. Define success and metrics to monitor; regularly track performance; consider systems investment.

In the course of continuous improvement, the NRO National Director of Operations has implemented several events and reports to highlight and improve the effectiveness of the national retail operations in line with the recommendation above:

- Semi-annual National District Leaders Summit with the National Director of Operations. All of the retail district managers (15 persons) meet for one week to: review the results of operations; tour local thrift stores; discuss future plans including branding, pricing, store operational changes; share best practices; and other current matters;
- Monthly national management conference call for all management team members chaired by the National Director of Operations. This involves in excess of 120 people listening to a review of the prior month's results including the requisite praises, challenges and opportunities;
- Monthly national conference calls for the retail district managers;
- Monthly national conference calls for the distribution and warehouse managers;
- Weekly regional conference calls for each retail district manager and their respective store managers;
- Daily Review of all retail stores sales and production data;
- Bi-weekly meeting of the National Leadership Team located in the Oakville Home Office attended by all major functional areas – retail, distribution, human resources, branding, business administration, property, and logistics;
- Creation of the 7 Daily "Road Markers" for the retail operations
 1. Target 10% sales increase over the prior year
 2. Target 5% increase in sales per transaction
 3. Target \$13 average sale per transaction
 4. Target greater than 1:1 increase in % sales increase vs. % transaction count
 5. Target greater than 3.5 items purchased per transaction
 6. Target \$4 of sales for \$1 of wages

7. Target \$3.80 for the average price per item sold.
- Creation for 2014 – “The Year We Make Every Donor Count”
 1. Recognizing donors as our special guests
 2. Warmly welcoming every donor within 10 seconds of visiting our store
 3. Providing physical assistance to help every donor with their donation
 4. Acknowledging and handling donations as precious cargo deserving great care and sensitivity
 5. Enthusiastically thanking all guests for their donation and providing them with a Donor Thank You coupon
 6. Extending an invitation to every donor to visit and shop in our stores
 7. Ensuring all store donation attendants and truck drivers present themselves in full uniform when serving donors
 8. Creating easily accessible and well labelled donor drop off sites in stores
 - Creation of a “Store of the Year” reward program based on store performance
 - Monthly “mystery shopper” reports for all stores with a minimum acceptable score of 80%
 - Daily “store walk” reports by store managers
 - Monthly “store walk” reports by district managers
 - Extensive regional and store visitation by the National Director of Operations and the other national functional leaders.

NRO has created a series of detailed organizational charts based on each of the major areas of functional responsibility. This has defined the governance structure, decision making and requisite responsibilities of the national leadership team within NRO. Ultimately, NRO is responsible to the Territorial Management Board of The Salvation Army through the office of the Secretary for Business Administration.

With the help of an outside IT specialist, NRO has recently completed an extensive IT Strategic Plan to align NRO’s future IT capability with its long term sales and profit goals. The report will be implemented over the next 2 years to provide NRO with a good IT governance structure to ensure the requisite technology is in place to increase efficiency and effectiveness of operations.

Recommendation #2 – Prioritize initiatives to actionable items

Establish process and team to identify and agree on initiatives to focus on. Establish clear goals, objectives and plans with timelines/milestones for those initiatives

NRO has an established planning process for the senior national executive leadership team consisting of 4 persons. The team meets quarterly to review goals, objectives, plans and accomplishments as delineated on the NRO Strategic Framework Dashboard. Currently, NRO focuses on specific priorities and plans for the next 12 month period on a rolling forward basis. Each of these initiatives within each of the major functional areas have timelines and expectations.

However, it is recognized that planning is an evolutionary process and needs to take into account longer time frames than 12 months. Therefore, the NRO executive team will review opportunities to enhance the Strategic Framework Dashboard in the days ahead.

The NRO executive team looks forward to interaction with the re-constituted NRO Advisory Board.

Recommendation #3 – Add resources and invest in current resources

Develop great managers; data-driven, project management experience, leaders and coaches.

NRO has undertaken a new process for hiring new management team members at all levels. The Human Resources team is successfully working with a single recruiting agency on a national basis. The results are positive. NRO is attracting management team members with strong core competencies and management credentials. The overall competence level of the management team is improving.

NRO has a strong “on boarding” program for all new managers. This includes 2 to 4 weeks of practical training in designated training stores before the new manager is installed in their new position. After a satisfactory probation period, the new manager is enrolled in the next NRO Leadership Development Institute course. These courses have proven very beneficial to the NRO management team members as they become stronger leader/coaches.

In further support of the efforts mentioned above, NRO is piloting the Performance Excellence and Coaching (“PEAC”) concepts and principals to engrain a positive performance and coaching based environment.

NRO has an electronic national point of sale system. The system is fully supported by an internal point of sale team. The system is used to provide current sales and production data for local, regional and national leadership. Every store has daily targets and the leadership team members are held accountable to the targets. As a result, NRO has moved into a data driven environment and continues to evolve its capacity and expertise to further benefit from the data currently available.

Conclusion

NRO is a sales, donation and multi-faceted contribution driven organization. Everything that NRO undertakes can be related back to the goals of: increasing sales; increasing donations; and increasing its contribution to the Salvation Army and the community. NRO is very aware that sales and donations are the primary factors of the thrift store business. Success in these two areas of the operations are paramount for NRO to achieve its many contributions to The Salvation Army, the community and the environment.