

Oneota Community Co-op
Minutes for Regular Board Meeting
December 27, 2016 5:30 PM
Kitchen Classroom, 308 W. Water St.

Board Members Present: Brita Nelson, Scott Hawthorn, Bryan Stuart, Carl Peterson, Flannery Cerbin-Bohach, Maren Beard
Board Members Absent: Alicia Trout
GM Present: David Lester
Co-op Staff : Nate Furler
Member/Owners Present: Jeanine Scheffert (Bd Admin Asst)

1. Call to Order

Nelson called the meeting to order at 5:32 p.m.

2. Board Learning - Bulk Tour

There has been a discussion over the last few months addressing the past year's loss of sales in the bulk department. The discussion has involved member surveys and conversations with long-time bulk shoppers. The Co-op is working on a "bulk reset" and trying to craft it in a way that works for the entire membership. Bulk is an important part of the Co-op's mission, but the department has had negative sales growth for the past six quarters. In fact, we lost \$33,000 in bulk compared to last year and \$47,500 compared to what we budgeted this year. This is a nationwide trend and bulk departments in Co-ops, HyVees, Whole Foods, etc. across the country have seen a similar loss.

Until now, we've never had negative sales growth in any department. It's hard to make up this loss in other areas of the store. Compared to +2.7% sales growth and \$3,185 in sales per linear foot in the top 25% of Co-ops, our bulk department is seeing -3.2 sales growth and \$1,596 in sales per linear foot. Our numbers in margin and margin minus labor are similar to the top 25% of Co-ops. This tells us that we aren't performing where we need to be with sales growth or sales per linear foot.

Board asked Lester if lowering bulk margins would have increased bulk sales without needing to do a reset. Since we've been in this store, bulk margin has never been below 40%. However, Lester says, prices don't seem to drive sales in bulk. We played with margin quite a bit in the past year and even when things were sold on sale at cost, the products weren't moving. This led us to deduce that these were not products people want.

Board also asked what kind of goal we have for margin minus labor. Lester said that each department is different for margin minus labor. Although we have margin goals, we do not have margin minus labor goals. Some departments help supplement other departments. In the past, other departments supplemented the bulk department, but bulk was profitable.

We've been using a lot of linear feet for bulk. Part of the reset is reducing bulk's linear feet. We're also trying to increase local sales by giving what was bulk linear feet to bakery, which is

local. We're also bringing in things that are selling well nationally.

Besides reducing bulk linear feet, we are increasing shelf height, so each linear foot is worth more. We also look at sales per shelf inch so we know how much shelf space is worth and how much items need to make in order to pay for their shelf space.

With the bulk reset, we've decreased bulk product by 30%. Since starting this reset, although choices have gone down, bulk sales have gone up. It comes down to putting products out that people want to buy. Having something we sell five ounces of a month isn't good management. Prior to the beginning of the reset, bulk fell nearly to the #5 department, but since the reset, it has gone up to #2. Some of these sales have come from the discontinued shelf and it is too early to know if the reset will actually increase bulk sales, but we are hopeful that it will. A reset is designed to "reset" customer habits and encourage them to shop differently. Within the first few months after the Wellness reset, we saw a 15% increase in Wellness sales. We're hoping the bulk reset will have similar results.

There have been mixed reviews about the change and it is still a work in progress that is changing daily. Just today, we brought back the bulk table and two nut grinders. (We had the opportunity to buy \$5000 of nut grinders for \$1000). People are very passionate about bulk and the Board, Lester, and Furler (who has lead the reset) encourage members to share their thoughts on the subject.

Lester and Furler gave Board tour of bulk. Lighting will be added to dark shelves. Spices went down by 30-40. Things will continue to change. We are putting "repack" next to bulk items to help people see the two ways they can purchase the same item. Repack packaging will be reusable, so shoppers can also bring their repack packaging back and fill with bulk. Repack packaging will not be recyclable.

Some items, such as candy and dried fruit, will now only appear in repack. However, if a customer wants a smaller amount than packed, they can request it and bulk staff can repack in smaller quantities. If something is increasingly difficult to keep in repack, such as dried mango, we may end up keeping a scoop next to it as well.

Bulk and repack will have separate PLU numbers, so we will be able to track which sells better. Repack will be more costly because it will take Carl's time, and will therefore be more expensive than bulk. Coop can put signage up to this effect, promoting bulk as a more viable option. In the future, Spectrum may have a processing facility that we can utilize for repack, keeping costs down and supporting a local organization.

3. Member Comments - none

4. Disposition of Member Comments - no member comments

5. Agenda Review

Motion: Hawthorn moved and Peterson seconded to Approve Agenda. Approval of Agenda passed by a vote of 6 aye, 0 nay.

6. Approve Minutes

6.1 November Main Meeting Minutes

Motion: Hawthorn moved and Stuart seconded to Approve November 2016 Main Meeting Minutes. Motion passed with a vote of 6 aye, 0 nay.

7. Consent Agenda –

Motion: Beard moved and Peterson seconded to Approve Consent Agenda. Motion passed with a vote of 6 aye, 0 nay.

7.1 G3: Agenda Planning

8.1 GM Report

Financial Snapshot: November was not a great sales month and the member sale did not go well. However, we have built cash up compared to last year, so that is a highlight. Local sales growth has been 5-6% higher than total store sales growth and has been the best for two months in a row, up 26%, which is the biggest ever. Frozen foods, wine, and beer are our top sellers.

Because the 3rd quarter has had a poor net income, the 4th quarter will be better than the 3rd, but we'll probably have a couple months of slightly negative sales growth first, so we'll end up with only slightly positive numbers for 4th quarter. We will be above the NCG goal, slowly moving up to the 60% line. In the 3rd quarter we paid off member loans, so a lot of money went out the door, but we had been planning on that.

Community/Outreach/Other Store Happenings:

Membership numbers are following the trend of sales numbers. Last year we had 253 new members, this year we had 173. We wonder if we've saturated the Decorah market. With 8000 residents in Decorah, have we hit a maximum number of members at 4800, or will it bottom out and come back up again?

We're still happy with customer transactions. Customer transactions are growing at a faster rate than sales growth, up 5%, which means we're bringing in more people than last year. The sales we run seem to be bringing in more customers, but not creating more members, and not making more in sales. Average transaction is \$21, which is really low. Most co-ops are in the \$30-40 average range, but a lot of café transactions are \$5-6, so this also indicates the strength of our deli. The store averages \$98000/week in sales. We're looking at the sales we're running - we have people come in and only buy the sale items. How do we encourage people to buy other things while they are here? We have had people try grass fed beef for the first time and then keep coming back for it because it is hard to go back to feed lot beef once you've tried grass fed.

Within the Central Corridor, Iowa City Co-op is getting hit with a wave of competition. They

saw it with first with Maquoketa Fareway adding a deli with a produce section called "Farmers Market" with "Farmers Market" looking bins. Lester's biggest worry is Decorah Fareway doing something similar - it is on their radar screen now. It is good timing that we're getting our feasibility study done now. We've signed a contract with NCG to get that going and in early March, after Lester gets back from sabbatical, we'll get it going. We have no idea what they'll say - and our budget now reflects nothing of a big reset, but it could happen.

Physical Store Update:

Our forklift batteries went out and we had to pay \$5000 to get new ones. They are big lithium ion ones and we needed another fork lift to get them into the fork lift.

Marketing/Special Projects:

We've been highlighting local products by putting them on sale and promoting them in weekly sales fliers. For example, we set a nearly zero margin on SnoPac vegetables, had deals on 4 packs, and regular pricing on Toppling Goliath beer, all of which means we're moving more local product. The best local sales have included Thousand Hills beef, SnoPac vegetables, Toppling Goliath, and Country View yogurts.

We're losing our front end manager. We'll be hiring someone new and looking to restructure the position so the new hire will manage 2-4 lead positions. It will take someone with managerial experience who enjoys standing at a register and counting money. It is a lot of responsibility leading a department of eleven.

We tried a week long member appreciation sale, but it was unsuccessful. We need to create the buildup of having just one day, and it can't be on Election Day.

Investors in the city of Decorah are looking for businesses to provide electricity for a level two electric car charging system. Co-op is looking into the possibility. All infrastructure and construction costs would be split between the city and the investors. Co-op could not charge for electricity because we are not a utility, but we could charge (via the city) to park in that spot. At Luther, this is done with an annual fee and a chargepoint card, charged per hookup, no matter how long the hookup lasts. We would be able to see how many kwh are used over the course of a month and year.

8.2 L6: Budgeting/Financial Planning

Motion: Peterson moved and Hawthorn seconded to L6: Budgeting/Financial Planning. Motion passed by a vote of 6 aye, 0 nay.

L6 mandates that we have a business plan, a multi-year business plan, and a cash flow statement. The Executive Summary of the Annual Business Plan includes the state of our business. The biggest unknown is what will happen with the feasibility study. Will we expand into the new space?

A snapshot of where we think sales will be next year says our margin will not go higher. We have the smallest amount of budget for sales growth next year. NCG likes to see co-ops with 3%

In 2010, Board set a standard goal for net income at 1% of total sales. ½% is an NCG benchmark. Another goal Board set for GM is no negative sales numbers. Board will need to decide if GM is noncompliant. Does this need to be revisited in hard times? The next L5 comes out in February. At that point, Board can revisit this issue. Lester says he likes to try to hit it and appreciates that it is a goal. The question is, how do we reach it?

To scale it down, if sales were \$1, the cost of goods 61 cents, that makes the margin 39 cents. With fully loaded labor of 26 cents, that leaves us with 13 cents to pay for utilities, marketing, supplies like toilet paper, and everything to run the business. We hope to end the year with a penny. In general, things have been getting more expensive to run, but food has stayed steady. We'll be close to meeting budget, but we can't count on more sales growth.

In years we decide to give out patronage dividends, it comes from that one percent net income.

Sales growth just compares sales from last year to this year.

The current market feasibility will update our 2005 market study. This shows us what is happening with competitor stores in this state and part of the state. One competitor we are friendly with is the Farmer's Market. The Farmer's Market is growing faster than the Co-op. We want to collaborate with them as much as possible and capitalize on their growth and keep them in our parking lot. We can have an educational presence at the Farmer's Market, or sampling, but they don't want us to sell anything.

We are affected by online sales. Our IT person and a great group of co-op IT people share info regarding web presence and co-op shopping apps we might take advantage of.

Climate change can affect our business by affecting who supplies our produce and how people grow produce. We don't know what the status of organics will be with the new political administration.

Our ability to keep up with technology affects us: chain stores can do this more quickly than us.

End 1 is about being an accessible retail source for food, including locally grown and organic. We are marketing local suppliers, setting reasonable goals in local sales, and working with the marketing team to tell a better story: What is local? Show the faces of local producers, not just their products. We are upping our game on weekly sales to involve more of our ends and focus on what is truly local.

Marketing department is focusing on three tactics to create more sales and three things to get better at. Example: resume and enhance demo and sampling, have more strategic social media ads, assist with signage to increase cross marketing. Better at communication of values with products, especially those promoted through sales initiative, telling story of store with value of member and ownership and community.

2011 was a tough year with negative net income. At that time, Pardee encouraged creation of a

plan in case sales aren't what we thought they would be. How much savings would we need in labor and other expense lines to meet 1% net income goal? We did a good job of saving the exact amount in fully loaded labor, but not enough in additional savings, which is why we won't get the 1% net income we wanted.

It is important to look at a worst-case scenario. For example, if Fareway puts in a deli, we may see negative 10% in sales. Would we need to put in additional measures? Every year this plan must be revised, especially the extra measures past labor.

Personnel is barely increasing. Our capital budget could be very different from this, but we'll have to at least purchase this. We want to see what NCG says before deciding whether to allocate money to a new POS system, or to a reset.

Our POS company has become more responsive now that our IT person is researching our problems and showing them possible solutions, making it really easy for them. We've also figured out workarounds for issues. Viroqua just moved from our POS system to the new system we would have gone to. They haven't been able to run reports for 6 months. If we upgraded, we wouldn't have as many POS spots to use. There are things that a new system would definitely make better, but it may not be the best place to put money.

The Multi-year Business Plan is harder to do, but the goal is to keep expanding on this. Board will need to make a decision on how to deal with volunteers. Some co-ops are shifting to having volunteer work done elsewhere with local nonprofits, while still offering a co-op volunteer discount. Nelson advocates for this, stating that our current program exposes the co-op to big potential risk with labor laws. Co-op was founded on volunteer labor, but the legal risk is large. We would need to bring someone in from other coops that have had to make this change so we can see how they implemented the change. It could be an interesting marketing piece, even garnering new customers by cross marketing. This conversation will be added to an upcoming board meeting.

We will continue to focus on retail, marketing, and employer relations. We have made great headway. We are not going to spend a lot of time on outreach, membership, community relations, and sustainability. Sustainability is something we're doing on a daily basis – we want to focus on #1 and #2 and move towards a 2018 health care plan.

Board discussed turnover versus retention. We're at 38% turnover, which is high. A co-op standard is 35%. Front end and café have the most turnover and there are people who just want jobs like this for a little while. In the café, there is also opportunity for a career. Employees can get paid time off, bonuses, health insurance, etc.

The overtime rule may not hold up. It was good for managers to go through the process of tracking their own hours. We saw value in refining departments and delegating more.

In Lester's absence, Andrea is picking up more hours on the store side of things. Betsy will lead some of Nate's sales and merchandising projects. Nate will delegate many of his responsibilities

and hopefully that will stick when Lester comes back too.

9. Action Items

10. New Business

10.1 Board Nominations Update

We may have five board candidates for the upcoming election. Applications are due early January.

10.2 Electronic Balloting - Ad Hoc Committee Update

The Electronic Balloting Ad Hoc Committee ran another mock election through "Simply Voting" and were impressed. They tried to vote twice and couldn't, tried to vote after election closed and couldn't. Committee felt Simply Voting seems to have a handle on the election process. The process for paper ballot voting would be similar to what we have in place now: One administrator verifies that the name on the outside of the envelope represents a member in good standing who has not voted electronically. We can see who voted by name, but not who they voted for. Once verified, member is marked as having voted offline, generating a vote credit in the system and blocking them from voting again. Administrator then removes ballot from envelope, separating identifying info from ballot. In step two, a second administrator enters each paper vote anonymously.

Considerations still include: Are we saving any money? How long before we would save any money? Is there a way to track voter turnout compared to previous years? Would electronic voting successfully increase voter turnout? Should we have people opt-in or opt-out? How do we keep email database current? Would we ever actually do away with paper ballots completely?

Board discussed whether membership could handle a large change in voting procedure simultaneous to a large change in bulk. However, there has not been much discussion heard regarding electronic voting.

Coop would not provide a computer kiosk, but would provide paper ballots to anyone who requests one at the register. There will be no savings the first year, but board believes there would be in future years. This seems a good year to do it because we are in a comfortable enough financial position to afford it. Paying Simply Voting to do a fully managed election will be similar in cost to us doing any part of it, and will reduce our time spent on the election.

Board discussed whether members need to opt-in or opt-out, and issues with keeping the email database current. Furler suggesting sending out an announcement email asking people to opt-in. The email would generate hard and soft bounces, giving us an estimate of how many invalid email addresses we are working with.

Board predicts electronic voting would increase voter turnout, although last election was

uncontested, so we would have to look back further to make a comparison. Some co-ops have seen up to a 75% increase in voter turnout with electronic voting.

Board discussed bylaws stating that important information needs to go out in writing. Email can be considered "in writing" but there is some concern about changing designated avenues of official communication. Will people see it? What about people who don't check their email, or have an invalid email address listed? Conversely, people may lose a piece of paper and not be able to retrieve it.

Board agreed there are pros and cons to deciding for or against electronic voting. Either way, Board feels it is important to provide paper ballots for anyone who wants or needs one, and predicts that anyone who really wants to vote will be able to find a way to vote.

10.3 Electronic Balloting - Vote

Motion: Peterson moved and Beard seconded to Utilize electronic balloting for the 2017 board election, using a fully managed election by "Simply Voting," and providing a paper ballot to any member choosing not to vote electronically. In instances where a member voted both electronically and by paper, the electronic vote prevails. Motion passed by a vote of 6 aye, 0 nay.

10.4 2017 OCC Board Calendar Draft

Nelson created Board Calendar for 2017 and shared with Board. Board Learning will include lessons from past expansion, training in policy governance, training in reading financials. These trainings will begin in June, when new board members are seated.

Nelson invited board to email any revisions or additional ideas for Board Learning. We have money to bring people in to give trainings.

Other ideas board suggested include:

- Have Co-op managers talk to Board about their departments in order to learn more about co-op trends, etc.
- Bring in someone from another co-op that provides WIC eligible foods to learn about their strategies. This could be a Skype call. NCG has a list of co-ops that provide WIC
- Talk to co-ops that have non-profit educational arms. Bring in idea of moving volunteer force to nonprofit foundation, under an education outreach coordinator. There would be funding opportunities for a nonprofit arm as well.

10.5 Sabbatical Updated

Several years of supportive Boards and talented, supportive staff have allowed Lester to go on sabbatical. Originally, Lester was hoping to take his sabbatical in Cuba. Cuba uses a cooperative business model in much of their society. Lester wanted to learn about cooperative possibilities by traveling with a group of people from St. Mary's University in Nova Scotia, the only university

with a Cooperative MBA program. The university has done this program before and it would have included educators, professors, and people running coops and credit unions, but the Canadian economy hasn't been doing well and there weren't enough people signed up for the trip to make it happen.

Instead of Cuba, Lester will be leaving January 7, visiting Tucson's Food Conspiracy Co-op. He'll also be visiting Phoenix, which is loaded with natural food grocery store chains. Phoenix is where a lot of private investor firms go to test their market, see what competitors are doing. After Phoenix, he'll be in Decorah for two weeks and is planning to tour nearby co-ops he hasn't already seen, plus work on some personal projects. Then he'll take off for Yucatan, Mexico for two weeks where he'll take Mayan cooking classes, visit *cooperativas*, spend a week on coast, then head back to Decorah.

11. Next Monitoring & Other

11.1 [G2 Board Job Description - Cerbin-Bohach]

11.2 [L8:Communication and Counsel to the Board - Moved to March.]

Furler will only do regular GM Report during Lester's sabbatical.

12. Next Meeting - Tuesday, January 24, 2016 @ 5:30PM

13. Executive Session: None

14. Self-Evaluations - done via internet

15. Adjourn

Motion: Peterson moved and Hawthorn seconded to Adjourn Meeting. Motion passed with a vote of 6 aye, 0 nay. Meeting adjourned at 8:08 p.m.