

**Oneota Community Co-op
2015 Annual Business Meeting
April 19, 2016**

Board Members Present

Brita Nelson, Alicia Trout, Maren Beard, Steve McCargar (outgoing), Carl Peterson

Staff Present

Deb Reiling, Nate Furler, Larry Neuzil, Andrea Springmeier

GM Present: David Lester

Coop Members/Owners Present: 30 member/owners

1. Call to Order

President Brita Nelson called the meeting to order at 7:07 PM. Brita welcomed everyone and thanked them for coming

2. Approval of Minutes

Cathy Baldner moved and Steve McCargar seconded to approve the minutes of the 2015 Annual Meeting. Discussion: More copies were distributed. No discussion. Motion carries unanimously.

3. Board of Director's Report

President Brita Nelson introduced herself briefly and shared that she has been a member of the Co-op since her time as a student at Luther and is proud of the many great initiatives the coop has undertaken and excited about the momentum being built moving into the future. Exciting things to note:

- Co-op gained 262 new members in 2015. This is a strong number and we are excited that people continue to see the value in a Coop membership.
- The Co-op has increased sales of local products. For an organization with such spending power and such a belief in community and local, this is really important.
- Co-op has been reducing overall energy consumption and carbon footprint through solar arrays. Staff has also been looking at efficiencies within the store and this is something that will continue to be a focus in the year ahead.
- In 2015 the Board went through another round of strategic planning. Met with a consultant from the University of Iowa and Bill Pardee helped to hone the strategic priorities in a final session. It was a good process that lays some groundwork and sets a direction for the next 3-5 years. Retail space and employee relations are key focus areas coming out of that process. Human capital that we have at the co-op is one of our most valuable resources and the board is supportive of ideas that management has to improve and maintain overall employee relationships.

- On a national scale there is a lot of competition and it is coming fast. Stores like Fareway, Hyvee, Walmart and others are starting to sell similar products to what the Co-op sells, which poses a challenge. David and the management team did a great job of watching the money coming in and managing expenses and labor costs to the extent that the co-op was able to offer a patronage dividend this year.
- Patronage dividends were issued in 2015. Last year was a tough year but a good year. The co-op ended up being more profitable last year than was expected.
- For the first time this year we are offering an opportunity for members to donate their patronage dividend. It is better for the Coop for members to cash their dividend check than not to. All members receiving a dividend have the opportunity to donate to the program within First Lutheran Church Food Pantry that gives vouchers for the Farmer's Market. David made a note to make sure that all members sign their dividend checks before donating them.
- Thank you to board members who are going off the board – Deneb Woods, Mike Bollinger and Steve McCarger. A special thanks to Steve McCargar for serving two terms and for having been serving the Coop for 27 years.

4. GM Report

Last year was a successful financial year last year but was by far the most difficult year the Co-op has ever had to operate in. Increased competition has been difficult and posed challenges. The Co-op is no longer the only store in town selling natural and organic foods. David shared an article that he read in the latest Cooperative Grocer to sum up the lives of Coop staff over the last year. Essentially, it outlined the numerous responsibilities that General Managers of cooperative grocery stores take on. General Managers are responsible for the many demands of the business, reporting to a board, and keeping an eye on shifting markets, among other things.

The bad news:

- Whole Foods has started launching smaller, new stores
- Kroger purchased a majority of Lucky's Market, which are going mostly into college towns (Madison, Boulder, Ann Arbor). Known for great delis, fresh produce.
- Better than expected sales for Kroger's "Simple Truth" line of organic products.
- Everyone is our competitor now
- 45% of all NCG Co-ops (155 member Co-ops) have negative sales growth in produce (we are one of those)
- 55% of Co-ops have negative sales growth in bulk (we are one of those)
- Most Co-ops have been afraid to publicly say that they are the source for local, organic and fair trade items. Now bigger competitors are taking that over.
- Co-op EDITDAP ratio (basically this is the money left over to do cool stuff) is steadily shrinking

- Our talent is being stolen. GM turnover. 2012 (7), 2013 (22), 2014 (25), 2015 (37). Double turnover in some cases. David Lester and Betsy Pierce have both been head hunted for other jobs.

The Good News

- Our managers and buyers have been consistent, high-quality operators and courageous leaders
- We've proved that we can be profitable, even in difficult years of sales growth.
- We are bringing in more customers than we did last year and sales are at least flat, not negative. Co-op Basics is potentially helping with this (Natural Value, Field Day). People are buying more, but products are at a lower price point than they were last year. (Question: How do these products compare quality-wise?) David responded that he feels the quality is there. Natural Value has been around for years. Up to the customers/membership to provide feedback.
- NCG is getting closer to announcing even more manufacturers and brands that will be going into the Co-op Basics Program.
- We have a good track record of facing our fears, entering those scary spaces and coming up with a plan/solution. Co-op is giving some really good deals that we can't find elsewhere. We want people to come in because of those deals but find other things while they are there.

Questions:

- Steve McCargar giving recognition to David for his leadership. Can't have growth forever and can't measure the success of your organization by sales growth. We have benefited from sales growth but have in the back of our minds wondered what would happen if sales growth became negative. Rather than reacting to this in a panicked way after the fact, David and workforce have anticipated the operation and created the policies that we need to create a good financial outcome with less sales growth than we anticipated over the last year. David has done a great job.
 - David responded to say that he feels like from top to bottom the board has been good and active in the strategic planning process. Staff works off of the strategic plan and goes from there. Staff decides how to make those things happen. Not the board's job to say exactly what to do. That is the staff's job, but the board has set some good parameters through strategic planning.
- Comment from Teresa: Indianapolis has had phenomenal growth in an era when building was at a standstill. One thing she has noticed in the last few months is a lot more natural foods stores coming in. One of the co-ops has closed down and it is in a wealthier part of Indianapolis. If you want to keep good employees, one thing to do is to offer really good employee pay and benefits. May want to look into benefits as a way to keep good quality employees. If you build it, they will come. Discount it and you will have increased member sales. Give it a try. Why

not do across the board 5% off on everything rather than having sales on certain items. Member finds the sales confusing.

- Comment from Sue Otte – We should take pride in the fact that this is a locally owned business. There is a pride in that and we need to keep it out there that this is your store.
 - (David) We are being bolder with our message. We feel we have the best business model in the world. Our store benefits the whole community. When we had good sales growth we didn't have to focus as much on pricing and now we do.

4. Financial Report

- Sales - \$5,068,813
 - We expected sales to be higher. Budgeted for 5.88% growth. Came in at 2.7%
- Cost of Goods Sold - \$3,069,248 (60.6%)
 - Balance of 1,999,565 (39.4%) to pay for everything else
 - Board looks for a 1% net income at the end of each year.
- Operating expenses
 - Personnel - \$1,354,249 (26.7%)
 - Depreciation and Amortization - \$111,059 (2.2%)
 - Facilities - \$150,684 (3.0%)
 - Marketing - \$67,464 (1.3%)
 - Supplies - \$49,716
- Earnings after income tax - \$23,570 (0.5%) – this is post patronage dividend

Balance Sheet

- Increased cash by \$19,000 in 2015
- Total member equity increased by \$86,000
- Commercial loans being paid for Cutting Building

Strategic Priorities

- Five big categories that board identified (ranked in order of importance). These have mostly all been here in the past but the order sometimes changes based on priorities at any given time. This is our current order by priority.
 1. Retail and Marketing
 - Develop a pricing strategy that improves competitiveness and supports local vendors
 - We track sales week before the sale, during the sale and after the sale. In some cases there is a 3000% increase on some

items. Next week, sales are still higher than the week before it went on sale.

- Develop a marketing strategy that emphasizes our competitive pricing, local vendors, OCC organizational ends, and cooperative principles
 - Expand into the new building
 - Analyze and improve low performing departments
2. Employee Relations
- Reduce staff turnover
 - Create an employee wellness program
 - People are looking for ways they can be healthy in the places they work
 - Consider alternative employment models to build employee loyalty and reduce turnover
 - Promote employee connectedness to the community
3. Outreach, Membership, Community Relations, Education
- Expand education to targeted groups
 - Expand membership and marketing with large local employers
 - Increase kitchen classroom participation and revenue
 - Attract membership from small surrounding communities
4. Supply Chain and Local Vendors
- Hosted a meeting a few months ago and had 30 new suppliers there! Standing room only.
5. Sustainability
- Starting to look at a canopy that could go onto the back of the Coop for the Farmer's Market and be covered with solar panels
 - Replacing old equipment with more efficient equipment
 - Incorporate a toxic trespass filter policy on purchasing decisions

Question from Tom Franzen: Why are bulk sales going down?

David: People who buy in bulk are moving to the nursing home or dying. One way we have been trying to address it is to repack the more popular items and put them next to the bins. Many stores are taking away space from the bulk section but we haven't done that yet.

Steve McCargar: This is happening all across the country. Bulk sales used to be 16%. Now it is 10%

Question about toxic trespass policy under sustainability section and what that

means.

Steve: It means making sure buyers are aware of this and looking at coating on a panini grill, pvc in plastic wrap, etc.

Question about employee turnover and where it's at right now

Deb: We are in a transition period. There are two full pages of ads for help right now and this is a relatively small area. Everyone is struggling to try and find help. In the last few years we have been in the 35-40% turnover rate. Whole Foods has a 20% turnover rate. Wegman's has a 15% turnover rate. That is changing for them too as people compete for employees that have natural, organic food knowledge. Younger people aren't staying at jobs the same way people used to and older generations do. Keeping people and keeping them productive is a goal and a challenge.

Steve: Good news is that we keep buyers and managers with significant longevity. If we lost management and buyers the Coop would suffer dramatically and that is what we are trying to avoid.

Question: How do personnel costs compare to our cohort?

David: Our numbers include employee discounts. Actual personal is actually closer to 25.7% instead of the 26.7%. David's goal is 24%.

Steve: We used to have high labor costs and low margin. Now we have better managed net margins and there is less stress on the systems.

Question: What does promoting employee wellness mean?

David: This could mean reimbursement for health clubs or yoga. Not sure which direction we will go to increase benefits or wages but we probably need to do a better job of having health practitioners come into the store to train cashiers on how to move right so they don't end up with carpal tunnel. Pretty "well" group. Most employees come in and are pretty well, are active, but it is becoming a more stressful environment and if we don't pay attention to that we could see turnover get even worse.

5.Election Results

Vice President Alicia Trout thanked Nate Furler for all the assistance he provides to the board election. Thanks also to all the volunteers in the Coop who served on the Board Nominated Committee (Luther Snow, Rachel Sandhorst) and all those who helped assemble ballots. Thanks also to everyone who voted.

Three 3-year terms are up for Mike Bollinger, Brita Nelson and Steve McCargar. There were three candidates for those positions. There is also one one-year term to replace Deneb Woods, making a total of four candidates on the ballot.

- Scott Hawthorne – 235 votes (present at meeting) – elected to one-year position.
- Brita Nelson - 243 votes (present at meeting) – elected to a three-year

position

- Brian Stewart – 230 votes (present at meeting) – elected to a three-year position
- Flannery Cerbin-Bohach – 236 (absent from meeting) – elected to a three-year position

All four were voted to the board.

OLD BUSINESS: none

NEW BUSINESS:

Question about deli / new space and when changes will happen

David: Sometime this fall we will get a consultant to help us put together a plan, proforma (expected expenses and how store will operate the first year expansion happens and a few years after that), architectural drawing, set up a budget, etc. Should see some movement later this year on that. There will be a pretty large expense to get through the wall. Would love to expand the deli and have a fresh, local, organic meats, more deli seating.

Question from Lyle Luzum – With paying off member loans last year and year before and the purchase of the new building, what happens to the ratios and how does that put us in standings with the banks and other coops?

Debt to equity ratio is now below 1:1 ratio. Currently at 0.9:1. This is a good situation to be in. Benchmark is 3:1 so we are below in that ratio. Current and Quick ratios – what does that mean. Current ratios is related to cash, receivables and inventory – anything that is owed within a year. The ratio is supposed to be around 1.25. We are close to that again. Quick ratio is the same ratio, except we take our inventory and it is supposed to be a .7 and we are only at a .5 but we are moving up and should be back to .7 by end of the year.

6.Adjourn

Steve McCargar moved, Carl Peterson seconded to adjourn the meeting. Motion passed unanimously. Meeting was adjourned at 8:09 PM

Respectfully submitted,

Maren Beard, Oneota Coop board Member