## ONEOTA COOPERATIVE BOARD MEETING SPECTRUM NETWORK March 24, 2009

Board members present: Steve P., Toni S., Onita M., Lyle L., Keith L.

Absent: Joan L., Georgie K.

GM: Troy Bond

Six co-op members present.

President Steve P. called the meeting to order at 5:09

<u>Agenda Review</u>: No changes. Lyle moved to approve the agenda. Keith seconded. Approved unanimously.

Member Comments: Tom Hanson commented about why he and Jeanette Hanson decided to discontinue selling Rock Cedar Ranch beef through Oneota Coop. They felt that their efforts to provide product and services to the Co-op were not being respected. They were told to leave shelves empty because the Co-op wanted to promote another producer. They thought this was a poor business decision. They hold the Co-op management responsible. They ran the advertisement in the Decorah Newspapers because they wanted to explain the situation to their customers.

Birgitta Mead asked that the board minutes note the time the board enters and leaves executive session. The board will do so.

Kristin Alberson asked about plans for further discussions on the ends/goals policies for the Co-op. The board plans to have discussion at the annual meeting and possibly additional sessions after that. There appears to be considerable interest from members.

<u>Approval of Minutes</u>: Minutes to be approved included the February 7, 2009 Special Meeting and executive session, February 19, 2009 Special Meeting and executive session, February 26, 2009 Regular meeting, and March 18, 2009 Extra Meeting. Lyle moved approval of all minutes. Keith seconded. Approved unanimously.

<u>GM Policy Monitoring – L5, Financial Condition</u>: Troy B. reported on the 2008 year-end financial information and 2009 financial indicators for the past eight weeks. His written report provided interpretations of Policy L5, data, reports concerning compliance and noncompliance, and remediation plans.

The 2008 budgeted sales figure was \$3.5 million. Actual sales were \$3, 041,994. Labor was projected to be 28% of sales (\$851,758). It was actually 30% (\$913,770), or \$62,012 over the budgeted expense. The Co-op experienced a double hit on sales and labor for the year, with lower than expected sales and higher than expected labor costs. These both had an impact on the cash situation. Cash was budgeted to be \$180,036 at the end of fiscal year 2008. It was actually \$49,564, short by \$130,472. Cash at the beginning of 2008 was also below budget.

Troy noted that the 2008 sales figures have been revised upwards by about \$3000 from the report that Michelle Schry gave in January. The impact on bottom line and ratios was negligible. The discrepancy

was a result of POS data not being reconciled to other reporting data. The board asked about the status of POS upgrades that were to be done last year. Troy said some were done but more are needed. Reporting takes a long time. Training new cashiers on the POS is time consuming. It is difficult to cross-train other staff to take over at the cash register, because much memorization is required.

Troy reported that the current ratio (current assets compared to current liabilities) was .99 for 2008. Grocery store industry average is 1.95. At the end of week 11 of 2009, it had risen to 1.19. The quick ratio (cash compared to current liabilities) was .21 at the end of 2008 and .36 at week 11 of 2009.

Troy had a supplemental inventory done on March 1. There was an 11% reduction in inventory in the fourth quarter 2008. There has been a further reduction in inventory of \$3575. Troy thought all store categories had a pretty good contribution to margin. The gross margin budgeted for 2008 was 37.25%. The actual gross margin was 36.86%, which was pretty good. The loss from not meeting the gross margin target was only \$1627. A miss of less than 1% is good.

Troy took over supervision of wine, beer, bakery and cheese. He plans to get some new products in, and he thought it would be easier to manage these areas directly.

Weekly sales for the past eight weeks averaged \$57,346, a reduction of \$1010 over the same period in 2008. The week-to-week sales for this year follow the same trends as last year. Sales for February 2009 were .8% above 2008. The macroeconomic environment is challenging. Consumer spending is expected to continued its downward momentum and shifting shopping habits (trading down). Retailers will need to adapt quickly. Sales are predicted to end the year flat. Michelle Schry had a draft budget that predicted 6% sales growth for 2009. That may be optimistic, even though it is less than the 8% targeted in the pro forma. Troy would like to aim for a sales increase of 1-2%, something better than flat sales.

Troy outlined a Marketing Plan. The budget will be 1.5-2% of sales, or around \$60,000. Marketing efforts must meet certain criteria to generate a positive response, draw people into the store, educate about food and co-op principles and reinforce the OCC brand (mission statement). Lyle noted that natural foods stores used to be the only place to find the foods the Co-op offers. How does the Co-op maintain its leadership in that position when these foods are becoming mainstream? Troy thought the co-op should focus on sourcing products that are exclusive to OCC, items from local vendors, plus handmade and artisan products. He plans to have staff maintain confidentiality as to the co-op's sources for these products, so that competitors will not get them.

The marketing plan has a number of components that will aim to increase the visibility of the Co-op, reach a wider audience, draw people into the store, ensure positive store experiences, reinforce the OCC brand and promote the Co-op as a part of the community. Troy will use a chart of accounts for accurate tracking of how the marketing dollars were spent so that he can better evaluate the effectiveness of the various efforts.

Other sales remediation efforts include everyday low prices on certain core items, including bananas, bread and dairy. Every department will have sale and value items. Merchandising efforts will put sale items out front on display. There will be more items for shoppers on a budget.

Other financial indicators, such as net income, liquidity, solvency and timeliness of payments, are all

improving. The Co-op has not been late on any payments, but it has not been paying as far ahead of the due date as it previously did. The cash bleed has stopped due to labor controls and steady margin. Department managers are doing labor budgets that have to be approved by Troy. The Co-op is experiencing slow but steady recovery from the dual effects of lower than expected sales and higher than expected labor expense last year. Troy will continue efforts to keep operational expenses under control, increase sales and maintain a steady margin. He recommended seeking an additional \$30,000 in member loans as a cushion for unexpected expenses. Decorah Bank and Trust has advised that the Co-op is at its loan limit at this time.

Troy has taken a number of steps to safeguard the Co-op's assets. The doors were re-keyed in February. A key pad lock will be installed, and each employee will be given a separate code. There will be no one in the store after 9:30 p.m., and the manager on duty will be the last person to leave. Individual cash drawers will be assigned to cashiers. The cash count will be done in a locked room under supervision. The number of persons authorized to sign checks was reduced from six to three.

Troy is waiting on estimates for three possible fixes to the HVAC system. The cost could be around \$20-25,000. This is another reason why the Co-op needs additional working capital. The system should be fixed before warm weather begins. Troy will be getting a maintenance contract for the refrigeration and HVAC systems. Any breakdown could cause expensive losses.

Troy noted that the special events on Saturdays have been popular, with big sale days and new customers. The special events are advertised in the local newspapers. In weeks when there are no special events, Troy is running ads with recipes. The April/May Scoop will be an insert in the Decorah newspaper and area shopper. This will greatly increase its circulation and will hopefully do a lot to bring people in. Troy plans to focus on the food, how good it is. Once people are in the store, we can share with them the cooperative ideas and principles. To attract new shoppers and new members, the Co-op needs to overcome barriers that people see to shopping at OCC.

Troy will provide the quarterly financial report next month. The board has been monitoring Policy L5, Financial Condition, on a monthly basis since last fall. It will review all of the financial indicators in April with the quarterly report. Troy has been providing liquidity and sales figures on a weekly and monthly basis, and the board would like him to continue that. Some other aspects of the financial monitoring, such as the debt to equity ratio, could possibly go back to quarterly monitoring if the first quarter figures are satisfactory. Cash still needs to be monitored closely.

Toni moved to accept the financial monitoring report. Lyle seconded. Discussion. The board thanked Troy for the details and explanations in his report. Steve P. was excited about the marketing plan. Troy said the store has great products and knowledgeable people. Motion approved unanimously.

<u>Board Policy Monitoring – G5, Board Committee Principles</u>: All board members received the report in sufficient time to review it. The board agreed that the interpretations were reasonable, the data sufficient and supported the report of compliance. There was a correction under G5.4. The "Nominations Committee" is called the "Board Development Committee." There was a question about whether the Board Development Committee charter had been approved. The board minutes reflect approval on August 26, 2008. There was also a correction under G5.8 (non-board members serving on board committees). There was a staff member on the GM search committee. That person adhered to the Board Member Code of Conduct as required by Policy G5.8. The corrections will be noted in the

minutes, not in the report. Onita moved to accept the monitoring report, with the noted corrections. Keith seconded. Approved unanimously.

Annual Meeting Discussion: The board discussed logistics for the Annual Meeting, which will be Thursday, April 2. The fellowship room is reserved at Good Shepherd Church. Board members will start setting up at 6:00. The potluck starts at 6:30, and the meeting starts at 7:30. A projector and screen will be needed. The meeting agenda is provided in the bylaws. The board wanted to have an additional discussion on the Ends Policies. This could go in the segment for unfinished business or new business within the meeting. The board agreed to have the Ends Policy discussion after the annual meeting adjourned. The order of business will be the approval of minutes from last year, the GM's report, which can include an update and a look forward on 2009, the board report, election results, old business and new business. Troy will be reporting on the financial condition, so Joan will not need to do a separate treasurer's report. Steve P. plans to report on the planned and unplanned activities of the board over the past year.

Transparency has been an issue this year. There should be plenty of paper copies of the financial statements and minutes. These documents can be sent to members, upon request, as long as they are in a PDF or other locked format. There may be member questions and comments during the reports or during the old and new businesses segments of the meeting. Troy noted that he was not GM during 2008, so he may not have immediate answers to all of the questions. The questions should be relevant to the report being presented. Other general member comments and questions can come at the old and new business segments. Steve P. said he would be prepared to speak to member concerns that are expressed.

<u>Special Meeting Discussion on Ends Policies</u>: Steve P. made some revisions in the draft Ends Policies based on the comments and suggestions from the March 18, 2009 meeting. He would like to have a draft to present for discussion at the annual meeting.

There were a number of issues raised at the March 18 meeting. Where do the cooperative principles fit into the Ends Policies? Steve P. added a preamble that talked about the cooperative principles. He changed policy number 3 to expand the outlook. "Because Oneota Community Co-op exists as an institution grounded in the cooperative principles, there will be the following: ... 3. a business that encourages the development of sustainable economic activities and cooperative enterprise on the local, regional and national level." (Italicized represents new language.) It would be good to extend the vision of cooperation to other people beyond OCC.

Lyle noted that five of the six policy statements contain the word "sustainable." Is that too many? Can it be removed from some policies, such as number 2? Can policies 3 and 5 be combined? One suggestion for a combined version of 3 and 5 was, "A business that encourages environmentally and economically sustainable activities and cooperative enterprises on the local, regional, and national level."

Questions were raised at the March 18 meeting about the Co-op's merchandising policy. The merchandising policy is meant to be a living, changing document. If it is written into the ends policies, it might be less flexible. The merchandising policy is a way achieve a goal, not a goal in itself.

The Vision and Values statement had a reference to creating a social fabric. Is creating a community a

goal of the Co-op or a by-product? Steve P. feels that an organization should not have the goal of creating friendship. The organization can create the space that allows people to interact. Friendship may result if people so choose. Some people may not want that. Others members have expressed a wish to have the "Community" part of the Co-op's name given effect. Putting the word "food" into the store's logo scares some people, because they worry that it will diminish the "community." How is "community" defined? Does it require looking inward or outward, or both? These will be questions for further board discussion and member input.

Steve P. showed ends policies from other co-ops. One co-op's policies did not mention "organic" at all. Another had a policy about creating a "foodshed," or multiple intersecting networks of food systems, so that food did not need a single outlet. The Food and Fitness Initiative is working on creating a food system in Northeast Iowa. Steve P. thought it would be a good idea to broaden the Ends discussion. The board would like to take plenty of time over the Ends Policies and allow multiple opportunities for member input. The Ends Policies represent the core principles of the Co-op. In a time of crisis, it is important to examine these fundamental principles.

<u>Member-Board connection – ad hoc committee – discussion</u>: Steve P. would like the board to move forward with an ad hoc committee on examining the member-board connection. The connection involves more than just communicating. The board needs to find methods for understanding member needs. The committee will need instructions. Steve P. suggested that the committee 1) research how other co-ops communicate with members, 2) read Cooperative Grocer articles on understanding member needs, and 3) review the CBLD webinar on member needs.

The committee will gather ideas, bring them back to the board, and work from there. The board would like to move toward doing short web-based surveys and becoming more sophisticated about surveying membership. There are many members the board and the Co-op do not hear from. Other forms of communication may be needed.

Steve P. noted that the membership is asking much of board right now. He is concerned that people may not want to serve on board in future. The demands of the position may be unsustainable over the long term.

Volunteers for committee: Toni, Onita and Steve P.

Working Capital: Troy asked the board to allow him to seek \$30,000 in additional member loans. The Debt to Equity ratio would not be seriously impaired and the consequences of not having more working capital could be disastrous. The board did not set the loan terms or interest rates for the last capital campaign. That was a management decision. Troy and the board agreed that preferred shares, while better for the balance sheet, were not easy to sell. Loans would be a better option to raise this modest amount of capital quickly. The members who previously loaned money would be the obvious place to start looking for additional loans. The Co-op is now on a sounder financial footing, with expenses not exceeding income. Members could commit to lending money as needed, rather than all up front.

Onita move to authorize Troy to present a plan for \$30,000 in member loans. Toni seconded. No discussion. Approved unanimously.

Next Meeting, monitoring assignments: The next meeting will be April 28, 2009 at 5:00 p.m., at the

Spectrum Network. Troy will do the monitoring report on Policy L5 Financial Condition (quarterly reports). Steve P. will do G5, Global Governance.

Lyle moved to adjourn. Toni seconded. Meeting adjourned 8:18 p.m.

Onita Mohr, board secretary

Rachel Breitenbach-Dirks, scribe

## Documents reviewed:

Agenda

Minutes, February 4, 2009, special meeting and executive session Minutes, February 19, 2009, special meeting and executive session Minutes, February 26, 2009, regular meeting Minutes, March 18, 2009, extra meeting Policy G5 Monitoring Report, Board Committee Principles GM Report and Policy L5 monitoring updates Revised Draft Ends Policies