



Potsdam Food Cooperative Annual Report 2016

**Prepared by
Laura Cordts, Board President
For Annual Meeting on Feb. 16, 2017**

Introduction

Board President: Laura Cordts

On behalf of the Board of Directors of the Potsdam Co-op, I am pleased to provide the following report to our Member-Owners. This report consists of the General Manager's Report, the Treasurer's Report, and a summary of each Committee's achievements in 2016.

At our retreat last March, we identified 5 areas of focus for the year: our physical space, membership engagement, our role in the larger community, financial stability, and refining what we sell. Specific measurable objectives and responsibilities were identified, and our committees re-aligned to better address each priority. Progress was monitored and reported at every Board meeting. In short, your Board and GM took these responsibilities very seriously.

Our current standing Board committees are: Executive, Finance, Governance, IT, Marketing and Outreach, and Membership and Events. A Newsletter Committee and a Buildings and Grounds Committee both report directly to our GM. A temporary "Co-op Forward" Committee was established last spring and dissolved when its work was completed last month.

As you will read, the state of our Co-op is strong. Our sales are up, and we ended the year in our best financial position in memory. At the same time, our membership numbers have remained stable, and our outreach, marketing, and community-building activities continue.

None of this would be possible without our unique "Co-op Combo" of dedicated member-owners, engaged staff, and tireless General Manager.



General Manager's Report

General Manger: Eric Jesner

Sales

Sales were up 3.57%, to \$1,799,659, before discounts of \$86,642 were given. This is a very large increase over last year that is the result of much hard work from all of our staff. The deli continues to be the growth leader with a 18.49% increase of \$26,524. The other big producing department was General Merchandise with 53.75% increase of \$5,900. While the dollar increase is significantly smaller, the margins are very strong. Other departments that performed well are Bakery, Produce, and Health and Beauty Aids.

Purchases

While sales were up \$62,000, purchases were up only \$6,700 to \$1,008,085 from 2015. Of our total purchases 53.3%, or \$536,880, were made from UNFI/Albert's Organics, our largest distributor. Local sales, as we define as our surrounding counties, accounted for 17.5% of purchases, or \$176,195. This is up 2.5% for an additional \$25,750 for our local vendors. Regional sales, which we define as New York State, Vermont, and Western MA, accounted for 21% of purchases, or \$211,287.

Cash Flow & Profit

The increase in sales combined with a small increase in purchases has put us in the best cash position in my four years here. Not only are we staying ahead of our bills, we are continually adding to our savings accounts. This has given us the ability to replace aging equipment without the need to borrow money. One example is the \$8,000 it cost to purchase new register panels, as well as the \$2,000 we are about to spend on new credit card machines. While it is important that we use member loans to fund major projects, we must be able to sustain our Co-op through daily operations.

Our financial statements for 2016 are not yet finalized, but I want to share some of the preliminary data with you. Over the past few years, the finance committee has been determined to get the Co-op to positive operating profit. Each year we have gotten closer and closer, but we have finally done it this year. As of now, it looks like we will have over \$15,000 in operating profit. To some of you this may sound like a lot; I can assure you it is not. This is the beginning of the Co-op being sustainable into the future as it will give us the ability to do more for all of you, our member-owners.

Member-ownership

Member-ownership is down 18 to bring us to an average of 968 member-owners for 2016. This number has bounced around this range for the last few years. I believe we need to offer more to the community to be able to grow this number and therefore am happy with where we are for now.

The percent of sales to member-owners is up 2.3% to reflect 64.1% of total. The sales per member-owner household is up \$102 to \$1,190 per year. I am excited about that because it shows that we are successful at understanding your needs and offering more to you. You have shown us that our product mix is constantly changing for the better.

Buildings & Grounds

We made two major changes to our home this year. The first was long overdue - our bathroom. A new dual flush toilet, sink and vanity, mirror, and grab bar were installed, and the walls were painted. It is a more pleasant place to visit now and is much appreciated by customers as well as staff. Thank you Stefan Grimberg and Bob Josephson for the installation work. Abby Lee deserves a special thank you for not only painting, but being the driving force to make the project happen.

The other change is still somewhat controversial, the reorientation of our parking lot. I have gotten some negative feedback and acknowledge all of you who do not like the additional walk across the parking lot or the added concern of crossing the traffic in the lot. What we have gained is more than doubling our parking spaces while opening up the back of the lot for deliveries. We have gotten much busier during lunch hours over the past year and it is hard to tell sometimes because the lot does not get clogged up like it used to.



Lastly, I'd like to thank all of the Co-op staff. We continue to refine our operations and staff continues to adapt to the many changes. More is being asked of each staff member as sales continue to grow and I'm grateful for the responsibilities that each person takes to make sure the Co-op meets all of your needs.

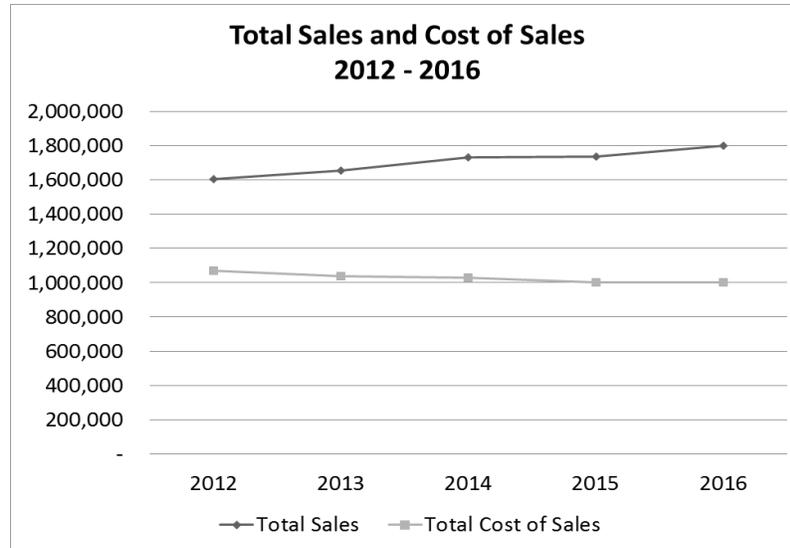
Treasurer's Report (Finance Committee Report)

Chair: Robin McClellan

A Very Good Year

As a bean counter, I am not prone to exuberance, irrational or otherwise, but 2016 has been an exuberantly very good year. 2016 had record sales (excruciatingly close to \$1.8M) but more importantly an operating profit of nearly \$20,000 and a net income of over \$39,000. (Net Income includes other income such as dues.) To put this in historical perspective, this is the first time in the last 5 years that we've had positive operating profit.

Sales, however, grew fairly steadily over the period, going from about \$1.6M in 2012 to the \$1.8M



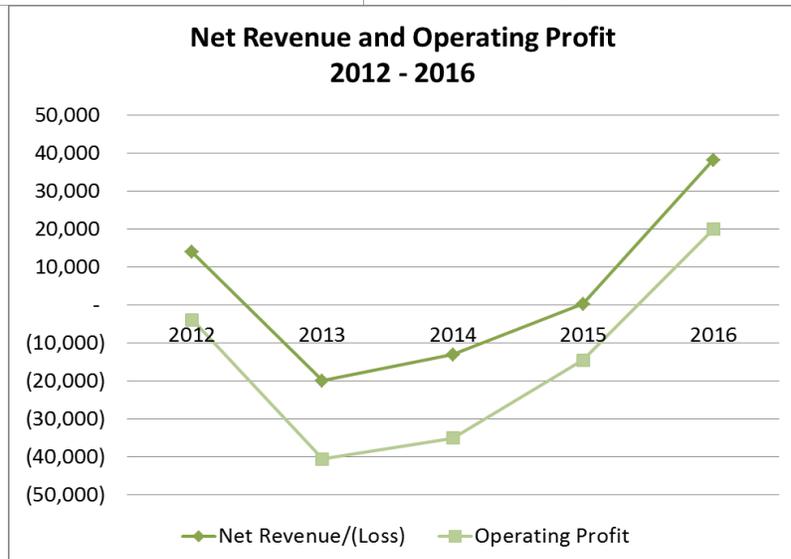
in 2016. The biggest increase in sales was in 2014, but there was a net loss of \$13K. This indicates some underlying issues. This year was dedicated to discovering them.

Underlying Issues

The first issue we knew: an increase in minimum wage. The Co-op starts employees at above the minimum but when minimum wage first rose, management, with the support of the Board, also raised the wages of other workers. Minimum wage will continue to

rise and the Co-op remains committed to paying a fair and living wage.

The second issue is health insurance, another known. Health insurance is a benefit open to all full time employees (35 hours a week or greater) and rates have gone up about 10% a year over the last 5 years. The Co-op doesn't pay all the cost of health care for employees, in fact it hasn't increased its contribution as the rates have gone up, but it offers a range of plans that give employees choice.



At the beginning of 2016, the Treasurer and the general manager worked up some new reports that looked at the profitability of each department. This tool was instrumental in identifying inefficiencies at a more detailed level. This led to some changes in pricing, particularly in the Bakery where prices had stayed the same for at least the last 8 years. It also led to other changes that increased efficiency.

Another key change was increasing the inventory turnover. This is a measure of how long things stay on the shelves. Increased turnover is not only good for the freshness of the product and the health of the business, but it's an indicator that the Co-op is carrying things people want. The average turnover was 9.6 in 2012 and has risen steadily to over 12 in 2016. Particular mention goes to the Co-op's buyer, Andy Peet, for his work on improving the quality and desirability of what's in the store.



I want to acknowledge the staff, and particularly the management team: Eric, Alyssa, Andy, Chris, Jayne, Lynn, and Meagan, who are the people who not only make the Co-op the pleasant place it is, but have worked together to put us where we are right now.

Greasing the Machine

The manner in which quarterly inventory is taken in the store has changed over the last few years. Several years ago there was a switch to the use of scanners to take inventory. At first the main benefit was the ability to use actual costs (rather than estimating it from price and markup) and having the inventory numbers in weeks rather than months. Now inventory takes significantly less time as well as being more accurate and less tedious. Kudos to Jayne, Eric, and the dedicated volunteers to show up quarterly to count.

In 2015, the Finance Committee worked with Eric to come up with measures to automate much of the bookkeeping that was done by hand. The motivation for this is twofold: efficiency and accuracy. Like all major changes, this one has taken a long time. The major change is converting from Accounting Edge (also known as Mind Your Own Business or MYOB) to QuickBooks.

Finance Committee member Jay Vega oversaw some Clarkson students who first tried to make the conversion. Next Jay and I worked on it over the summer of 2015. Neither of these efforts was successful. At the beginning of this year, QuickBooks was finally implemented and the two systems are running side by side. This concurrent entry will continue until the General Manger is comfortable that QuickBooks is setup and the processes for using it are documented.

Why the switch? The main reason is to integrate the numbers from Catapult, our aptly named point-of-sale (POS) system, with our general bookkeeping system. Catapult manages the details of our inventory and sales and the numbers it generates have to be manually entered into MYOB. This takes time and there is the possibility of human error. Catapult has a module available that allows it to exchange numbers with QuickBooks and eliminate that manual entry.

QuickBooks also has more capacity to generate custom reports so the General Manager will be able to glean more financial information in ways that are meaningful. Cash flow can be managed better and most bills will be paid electronically.

Some of the other projects the Finance Committee worked on with management were:

- Continued documentation of the bookkeeping process,
- The implementation of a more rigorous budgeting process, and
- The basic research necessary to set up capital reserves.

What to do with the Profit

One question that comes up with our new found profit is what is going to happen to it? The Co-op has been fortunate that unexpected expenses such as a new furnace arose when there was money to pay for them. To prepare for future expenses, the Finance Committee is working with management to set up Capital Reserve and Repair Reserve funds for the repair and replacement of key pieces of equipment. These reserves will be funded from the increased profit. It will also be possible to increase the budget for maintenance and replace things before they break.

Because profit isn't something that most of us on the Board and in management have seen, dutiful caution is being exercised. There are strong indicators that the change in our finances is due to fundamental changes that have been made in management and if the Co-op is still solidly in the black by the end of the third quarter of 2017, then new options may be considered.

An option that the Board has considered but not implemented is patronage dividends. This would allow the Co-op to distribute excess profits back to the Member/Owners. There are still some unanswered questions about how this could best be implemented, but there will be some bylaw changes necessary.

Forward, Into the Future

This year leaves us bean counters, and the Board and management, more optimistic than we've been in years. In addition to positive net profit, increased sales, and improved inventory turnover, other metrics of financial health are better:

- Gross margin is 0.44, up from 0.42 last year and 0.33 in 2012,
- Personnel cost as portion of Sales is 0.308, down from 0.309 last year, despite increases in Personnel cost,
- The \$39K Profit is still only still a modest 2.2% of Sales, and
- Current Ratio, a measure of general financial health, is 1.47, the highest it's been since 2012.

Whenever I've worried about the Co-op folding, I have only to look at what we have and don't have. With no long term debt, the amazing good will of the membership and community, and a great staff led by a wonderful General Manager, the institution was safe, despite losing significant amounts of money in 2013 and 2014. At the same time it lived close enough to the edge that it was hard to think in terms of the growth and evolution that the Co-op will inevitably need.

This year, all that changed. The Co-op is now in position to critically consider what growth and evolution can look like. The first investment the Co-op will make in that regard is the Market and Marketing studies that will happen this year. With that information in hand and a continued growth in profits, the Board and management will have the tools to write the prologue to the next chapter in the saga that is our Co-op.

Executive Committee Report

Chair: Laura Cordts

The committee met monthly with the General Manager to review issues related to personnel, store operations and the General Manager's performance and yearly review. The committee consisted of Co-op President Laura Cordts, Vice President Joe Andriano, Treasurer Robin McClellan, and Secretary Erica LaFountain.



Governance Committee Report

Chair: Joe Andriano

The Governance Committee primarily focused on modernizing our bylaws this year. We contracted with an attorney to review our bylaws, which resulted in the changes which are being voted on at the Annual Meeting. Additionally, we worked on the tasks which we are responsible for each year; recruiting new Board members and reviewing/updating our Board Policy Manual and Calendar.

Marketing Committee Report

Chair: Samantha DaGrossa

Highlights from 2016:

- The Marketing Committee (MC) separated from Membership/Events in July 2016 to focus solely on “out-reach” to gain new shoppers and encourage current member-owners to shop more
- Co-op Speaker's Group – current focus “Ambassadors Program” -
 - o What is it?
 - For those member-owners interested in being a Co-op “Ambassador” at community events and to speak at local organizations, public forums, etc.
 - o What for?
 - Those who are interested will be trained to present an informed, unified message about the Co-op's Mission & Values and the benefits of becoming a Member-Owner

- To increase the Co-op's community presence and gain new membership/increase sales
 - To have a reliable list of Ambassadors to draw from for events
- Created materials to rollout the rising bread prices in August 2016
- Welcome coupons for local universities/hospital – 10% discount “Welcome” certificates for CPH, SLU and Clarkson – initiated around the end of Summer 2016, tracking at registers has seen a response
- Membership expiration email – created in Fall 2016 to alert member-owners of upcoming expiration

Plans for 2017:

- Grow Ambassadors Program –plan more invitations to join, improve training sessions as-needed and find ways to increase the Ambassadors' presence in the community
- Plan Membership Drive – to increase Co-op's membership by setting specific goals and planning initiatives to meet those goals during a set time period; also to set a guide for future years' drives
- Increase social media presence and shareable content – some discussion and efforts made in 2016 to increase the Co-op's presence on Facebook & Instagram, but the MC will discuss ways to do more
 - o As the Ambassadors will be a physical presence in the local community, the Co-op needs to expand its online presence in the social media community
- Update “Local Producer Posters” to emphasize the Co-op's support of local farmers and its offerings of local products – find ways to emphasize this online too
- Once the CDS market research study is complete, the MC will help to action plan
- Much discussion was raised in 2016 to attract low-income shoppers to the Co-op, and the MC will continue to discuss and decide on what the Co-op can offer while retaining its Mission & Values.



IT & Web Committee Report

Chair: Eric Ochraneck

In 2016 the IT & Web committee worked hard to improve aspects of the Co-op's data security and to manage data flow. With new tools for storing and securing information, the Co-op can rest a little bit easier.

We've also taken steps to measure the traffic of our website. This will let us know what visitors are most interested in and from there we can make decisions on how to display that information more conveniently. When we begin updating our blog, this will play an even more crucial role.

Lastly, in 2016 this committee initiated the task of tracking software and hardware used throughout. The goal here is to make sure the Co-op never falls too far behind the times in terms in these important areas. Outdated hardware is slow, and unsupported software can cause data reliability issues, so tracking both will remain an important task of this committee.

Membership Committee Report

Chair: Maggie McKenna



The ultimate goal of the membership committee is to provide excellent benefits to member-owners in an effort to encourage more people in our area to join the Co-op. We work in tandem with the marketing committee to get the word out about how great the Co-op is for shopping, of course, but also for networking and entertainment.

This year, the membership and marketing committees reworked their individual duties to utilize the talent spread across the committees in the most efficient way. The membership committee, sometimes known as the events committee, took on the task of organizing all of the events for Co-op members including the Fall Open House, the Baking Fest and this Annual Meeting with the help of the Board.

In addition to the regular events this membership committee worked on, we also started the Co-op Community Cooks monthly potluck with no agenda. The potlucks have been a great success, allowing Co-op member-owners to mingle and get to know one another; it is already beginning to assemble a regular crowd! These events are held on the 4th Thursday of every month except November starting at 6pm in the Potsdam Town Hall Community Room.

This coming year, the committee has also decided to organize regular farm visits and trips around the area including to a maple sugar shack, a number of our local vegetable vendors and possibly even a wine tour.

We are also hoping more people will spread their joy of community networking and event planning by joining our committee! We meet on the first Tuesday of the month at 6pm above the Carriage House. If you have any ideas of things you'd like to see us working, please feel free to reach out to Maggie at mmckenna.violin@gmail.com.

Co-op Forward Committee Report

Chair: Marie Richards

At our spring retreat, the Board created this temporary Committee to strategize new ideas to sustain our Co-op's relevance and resilience into the future. We identified three long-term objectives. First, Co-op needs data to better understand our current situation and assets, the market in which we operate, and our potential for growth. We also need a marketing plan to help us maximize that potential. Second, we need to use the results of that market analysis to inform a facilities plan, so we can determine if our current facilities are adequate and, if not, to consider options for expansion, renovation, or relocation. Third, we want to begin examining opportunities and ramifications of possibly affiliating or merging with other Co-ops in our region.

The Committee solicited proposals from several local, regional, and national firms, and the Board has budgeted to contract for a two-phase market analysis with CDS Consulting Co-op, a national firm that provides services exclusively to Co-ops. This will take place in the first and second quarters of 2017.

Conclusion

Board President: Laura Cordts

It has been my pleasure and honor to serve as Board President this past year. Our Board is diverse and dedicated. Our Committees, all of which include both Board and non-Board members, bring real expertise to their respective responsibilities. Our GM is passionate and talented. Our staff – the true "face" of our Co-op - is engaged and motivated to keep Co-op running smoothly. And of course, you, our member-owners, continue to define what sets Co-op apart from being "just another small business."



I had the opportunity recently to speak with Fred Hanss, Potsdam's Director of Planning and Development. He said that Co-op has grown and evolved to become an "anchor business" for Potsdam, and that Co-op plays a huge role in defining and differentiating Potsdam from other local communities. As we begin our 44th year, let's remember our humble beginnings, celebrate our current successes, and continue doing all we can to keep Co-op going strong.