



Potsdam Food Cooperative Annual Report 2018

**Prepared by
Laura Cordts, Board President
For Annual Meeting on Feb. 7, 2019**

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 2018.

Our current standing Board committees are: Executive, Finance, Governance, IT, and Outreach, which includes events, marketing and our newsletter. In addition, a Buildings and Grounds Committee meets at the discretion of our GM. A temporary GM Search Committee was established late in 2017 and dissolved in 2018 when we filled the GM position.

Our two biggest accomplishments in 2018 include one very obvious one – hiring and onboarding a new GM; and one much less obvious but equally important one – adopting a set of ends policies to guide our actions going forward. You'll hear more about both later in this report.

This has not been the easiest year for our Co-op, but it has certainly been an instructive one. Throughout, my appreciation and respect for our staff, our GM, our Board and Committee members, and our member-owners, has never wavered.

In short, although we have experienced significant challenges and changes, our Coop remains fundamentally healthy.

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. The committee consisted of Co-op President Laura Cordts, Vice President Erica LaFountain, Treasurer Marshall Issen, and Secretary Kayla French.

Governance Committee Report

Chair: Erica LaFountain

The accomplishments of the Governance Committee for the 2/18 to 2/19 year include the following:

- Changes to Board Policy Manual:
 - Developed and approved guidelines for community donations
 - Created basic rules for who can and cannot serve on board
- Nominated strong candidates to fill board vacancies
- Organized election
- Evaluated of the functionality of the board itself and developed recommendations
- Passed Ends Policy: surveyed member-owners, drafted Ends Policy, and recommended to full board where it was approved unanimously:

The Potsdam Food Co-op exists so that:

- Everyone in our community has reliable access to local, organic, and healthy food.
- North Country farmers and producers have a stable, honest, and robust marketplace.
- Customers have a welcoming place to shop, interact, and participate at many levels.
- Community members have a model of environmentally respectful practices and cooperative ownership.

In case you missed the newsletter article I wrote announcing and explaining our Ends Policy, here is a recap: First off, I want to clarify that approving Ends Policies does not mean the Co-op is ending! Ends Policies are statements of the results for which an organization exists, and the recipients of these results. A primary responsibility of a board is to define the reason for the organization's existence. The process of developing Ends requires asking "What are we here for? What should be different because we exist? And for whom?" Honing these outcomes clarifies the organization's purpose and makes it easier to convey. Success for the organization means achieving these outcomes.

About a year ago, Co-op member-owner Aviva Gold convinced the board about the importance of having Ends Policies. At our board retreat in March, we explored and considered the ways the Co-op will impact the lives of its member-owners, and the larger community.

Tim Messner and I felt it was important to involve the membership in determining these priorities, so along with Aviva we formed an ad hoc Ends Policy committee, created a survey that allowed members to choose their top priorities for the Co-op (beyond the bottom line), and administered the survey on the porch of the Co-op. We polled 100 member-owners during the summer, and the results became the basis for an Ends Policy draft. We made revisions based on feedback from the Governance Committee, then brought the draft to the full board of directors, who approved it in November.

Our Ends policies will communicate organizational expectations from the board to management. They will not only describe the results that must be accomplished, but also serve to monitor management's accomplishment of those results on a regular basis, so that the board can remain accountable to member-owners. All co-ops are guided by the 7 Cooperative Principles. Our Ends Policies will serve to focus those principles for our specific co-op. Also, while Ends Policies are generally thought of as inward-focused, I like that the Ends can be used to identify commonsense partnerships with other community organizations that share one or more Ends. Member-owners may also find the ends policy helpful when they think about the Co-op and what it means to shop there or why they might want to become more involved either as a volunteer in the store, on a committee, or even serve on the board.

Outreach Committee Report

Chair: Sarah Harris

Highlights from 2018

- The Outreach committee was formed in 2018, bringing the formerly disparate marketing, events, and membership committees into one body in order to ensure a coherent strategy across all Co-op engagement with existing and potential member-owners
- Lee now sends a weekly email to all member-owner households in an effort to keep them up-to-date on the latest co-op news and increase the co-op's digital engagement among members
- Ryan is now the staff lead for marketing endeavors, with Lynn managing events and press releases
- Notable co-op events include the Local Food Fest (formerly Open House) in September and the Bake Fest in December.
 - Local Food Fest was widely attended, net profit was approximately 10k (2 days of sales in one)
 - Bake Fest required us to clarify regulations regarding serving home-cooked baked goods, raised over \$700 for the Neighborhood Center

Plans for 2019:

- Deploy effective marketing tactics to increase co-op sales, including:
 - Complete re-brand of co-op logo, signage, and website
 - Make website more user-friendly, update content
 - Create online signup capacity for new members
 - Continue regular social media engagement
 - Increase social media following among St. Lawrence county-area audience
 - Clean up co-op email lists to ensure they reach the widest audience possible
 - Determine best practices for the newsletter

IT & Web Committee Report

Chair: Eric Ochranek

The IT Committee meets in person or virtually as needed. In 2018, the Committee worked on the following:

- PCI (Payment Card Information) Compliance
- Website functionality and ease of use
- Blog capability and options
- Software, network, and hardware inventories
- Data backups for software migrations
- Improving WiFi in the store and Carriage House

Treasurer's Report (Finance Committee Report)

Chair: Marshall Issen

The Numbers

2018 was a year of challenges. Sales for the whole year did not keep pace with 2017. We had \$1.65 million in net sales in 2018 versus \$1.72 million in 2017, a drop of a little over 4%. There were two main components to this drop; we experienced a significant drop in sales from the Carriage House Bakery & Deli. Total sales in the bakery were \$176.3K, down \$27.3 K from 2017 (13.7% drop) and Deli sales were \$152.3K, down \$38.0K from 2017 (20.0% drop). These sales represent most of our drop in sales from 2017.

It should be noted that we averaged fewer customers per day. In 2017, we averaged 271 customers per day and in 2018 that dropped to 242, about a 10% drop in customers. This trend was even greater in the first half of the year, when the drop was well above 30 per day. Recent months have shown some improvement, but if an average customer spends about \$22 per visit, it is easy to see that our drop in sales is directly related to this number.

There is some good news. Our cash savings has increased \$13.0K. Also, the money we owe, Accounts Payable, is down \$4.0K from 2017. Member shares are up \$2.5K as well. Membership dues play a significant role in our bottom line.

We continue to watch Total Sales, Cost of Sales and Personnel Cost, the major expenses, and Net Profit and Operating Profit. Personnel cost are down mainly from significant staffing changes that occurred in 2018. This trend is not expected to continue once the Bakery & Deli Manager position is filled and the skills and responsibilities of current staff are increased. Cost of Sales, on the other hand, has dropped, which tracks with the drop in sales. Gross Margin Ratio (Total Sales Revenue minus Costs of Sales divided by Total Sales) has remained nearly constant.

	2016	2017	2018
Total Sales	\$1,799,149.57	\$1,806,344.25	\$1,729,654.64
Cost of Sales	\$1,003,658.04	\$1,003,012.99	\$ 954,651.40
Gross Margin	\$ 795,491.53	\$ 803,331.26	\$ 775,003.24
Gross Margin Ratio	44.8%	44.4%	44.2%
Personnel Cost	\$ 553,568.58	\$ 608,215.32	\$ 579,962.77
Operating Profit	\$ 19,975.25	\$ (9,972.95)	\$ (12,442.28)
Net Profit	\$ 39,163.96	\$ 3,206.60	\$ 11,935.06

Here is some comparison of the important information from this year's Balance Sheet (year ending):

	2016	2017	2018
Total Cash on Hand	\$ 35,545.41	\$ 50,769.32	\$ 64,044.69
Inventory	\$ 82,765.60	\$ 88,161.34	\$ 98,488.84
Accounts Payable	\$ 48,376.77	\$ 53,659.29	\$ 49,540.94

The Co-Op Inventory is up about 12% from last year at the same time. Inventory comparison is always challenging as there may have been buying opportunities that made sense based on sales and/or anticipated price increases. The Finance Committee suggests that the buyers and the GM look into this and make sure we are optimizing our purchases.

A trend that continues to look good is the rise in the current assets while current liabilities rose only slightly. This provides a general cushion against unexpected expenses. The ratio of current assets to current liabilities, called the current ratio, is a measure of liquidity or the ability to pay short term debt. The Co-op has no long-term debt. See table below for comparisons.

	2016	2017	2018
Current Assets	\$ 130,850.80	\$ 152,371.68	\$ 179,268.00
Current Liabilities	\$ 89,519.38	\$ 91,115.05	\$ 95,830.72
Current Ratio	1.46	1.67	1.87

Changes in accounting software continue to present challenges and there is plan to develop better procedures and integration with our POS system to provide more timely reports and reduce the time needed for effective bookkeeping. As noted last year, our Net and Operating Profit are so thin, small changes may impact it significantly, but we are gaining confidence in the accuracy of the reports generated.

Attached are the draft financial statements (Balance Sheet and Profit/Loss Statements). After our accountants complete the review and finalize our statements for tax purposes, final statements will be made available. At this point, Operating Profit is negative but Net Profit is positive for 2018 as it was in 2017.

Issues

The finance committee, along with the board, recognizes the need for more customers on an average daily basis and an overall increase in sales that will result. It is clear that Co-Op needs to offer variety and quality throughout the store to increase sales. Things we see that will help in increasing sales and customer volume are the new and improving relationships we have

established with suppliers, the hiring of a new Bakery/Deli Manager to improve operations and offerings from the Carriage House Bakery and Deli, and the new initiatives in marketing and outreach.

A financial concern that we continue to face at the Co-op is the rising cost of personnel. The response to this concern has been to look for efficiencies where possible and cross-training of personnel. The loss of some key personnel has required others to step into new roles with a bit of a learning curve causing some inefficiencies for now. This will improve as staff get better in their new roles.

Another concern continues to be weak sales. The consensus of the Finance Committee continues to be that the long-term financial viability of the Co-op requires ever increasing sales volume. This does have the effect of leveraging fixed costs and should have a direct positive effect on the Operating Profit. Historically, there has not been a strong correlation between Sales and Operating Profit however there is a reasonable expectation that this will be the case in the future.

With the Quick Books (QB) system up and running for nearly 1-1/2 years, most of the issues that we have encountered in transitioning between our old system and QB have been resolved. We need to go through some process analysis and then identify a person or organization that will help us to integrate the numbers from the point of sale system (Catapult) with the main accounting system. This will reduce the amount of hand entry and thus time and the possibility of error and allow for more timely reports. Although planned for last year, this will hopefully take place this year.

From a financial perspective, the Co-op has a strong balance sheet—no long-term debt, a good cash buffer, and a good current ratio of assets to liabilities. The challenges we face moving forward are to manage our costs and to grow sales.

Balance Sheet and Profit/Loss Statements attached.

General Manager's Report

Lee Kepes VandeWater

It's a bit awkward presenting an annual report having been part of the food co-op for only half of the year in question! Luckily Andy Peet, the interim general manager, remains in a leadership role as our operations manager and helped out with this report. Despite a challenging year with multiple personnel changes, Andy maintained consistency and managed the continuity of our operations. I am constantly grateful for his insight and the perspective he brings from his 10 years of serving the co-op. Thank you Andy!

Another person I can't thank enough is our new Treasurer, Marshall Issen. Marshall provided crucial support with the 2019 budget and I'm grateful he's willing to continue as our treasurer. I look forward to working with him in the year ahead to take charge of co-op financials and stabilize our business. 2018 was a transitional year and sales were down significantly, the lowest in recent years. Sales recovered toward the end of the year and we now have a positive trend, showing increased sales and increasing numbers of customers.

We will continue to pursue this growth, aiming for the highest established levels while exploring innovations and ways to expand the co-op's market. Our primary growth will come from store sales and a renewed bakery/deli operation but we will also explore increased wholesale, local business partnerships, and even online functionalities. Discussion has already started about the

future of food in the North Country and the co-op is determined to lead, emphasizing agility over sheer buying-power, and quality over quantity.

While pursuing sustained growth we will maximize efficiency, reducing expenses and increasing productivity. Key investments in new and improved infrastructure and equipment will speed up routine functions. Working owners will continue to serve an important role, supporting paid staff while strengthening the co-op community. Staff will perfect their roles through ongoing training and continuing education, like Laurie Greenleaf (another person to whom I owe many thanks), who is currently learning the ins and outs of our point of sale system following the departure of Jayne Ryan. Work is underway on new job descriptions and an updated diagram of our management structure. The employee policy manual is out of date and hard to navigate so I'll be working with staff to rewrite and reorganize it this spring.

The membership of our co-op is as strong as it's ever been with over 1070 member households located throughout the North Country. This is exciting news! There is real enthusiasm for cooperation and good food here. Membership numbers don't necessarily translate into sales but our selection of quality local products should encourage members to be regular shoppers whenever possible. We're increasing outreach efforts in a variety of media, aiming to bring in regular shoppers and new members alike. An ad hoc committee this spring will study the current membership structure, providing recommendations for updating annual dues and discounts. We will use our newly adopted Ends Policy to guide decision making here and in all other areas.

Our head baker of almost twenty years, Chris Affre, resigned from the co-op at the end of 2018. Chris built our bakery, quite literally, and his contribution to the success of the co-op is impossible to measure. Chris is irreplaceable: nevertheless a regional search for an expert wood fire bakery manager is ongoing. During the interim period our lead baker Jessica Peters has stepped up majorly, managing the Carriage House and keeping the bread coming. Until management decisions are made, deli production is reduced and staff are focused on maintaining the oven and keeping up with existing wholesale accounts. A partnership with Big Spoon Kitchen keeps our deli shelves filled with sandwiches, wraps, hummus, cold salads, and more. 3 Bears Gluten Free Bakery provides a selection of treats for gluten intolerant customers.

It's been an intense first six months for me and I can't say enough thanks. There are a few key people to highlight but I also want to thank every single staff member and every single co-op member. Your collective willingness to welcome me into the rich tradition of the Potsdam Food Co-op inspires and motivates me daily.

Special Thanks (in no particular order):

Andy Peet
Laurie Greenleaf
Jessica Peters

Laura Cordts, our fearless Board President, who has advised and counseled me every step of the way.

Erica LaFountain, our Board VP; and a tremendously supportive, generous board member and human being. I look forward to working with her in the year ahead.

Marshall Issen, a key ally in my efforts to assess and understand the co-op's finances this year. Reliable, level-headed, and positive, he's a great guy to have at a meeting. And we go to a lot of meetings together.

Aviva Gold, whom I met while she was shepherding the creation of a co-op Ends Policy. She has continued to provide a guiding light on unfamiliar issues and serve as a strong moral compass for the way forward

Susan Goodreau, who sacrifices Saturday mornings to help with our accounting, providing key administrative motivation. Susan graces the office with a patina of professionalism that lingers long after she's left.

Bob Josephson, whose relaxed smile, calm demeanor, and supreme confidence with all things repairable make him one of my favorite people to see around the store. And he can cashier!

Conclusion

Board President: Laura Cordts

I definitely had *not* planned to serve as Coop President for a second time, but when we conducted Eric Jesner's exit interview, he suggested that having an experienced Board President could be helpful during a time of transition; and the Board agreed. We had no idea how challenging this year would be, but together, in classic Co-op fashion, we made it through.

Our Co-op is now 46 years old. That's older than most of our employees, older than our GM, and older than most of the Board members (present company excepted.) And you know what? That's a pretty great thing. It means our Co-op is not aging out, or fading away. It means we are changing, but still going strong.

Thanks to each and all of you for helping that continue.