



French Broad Food Co-op

Annual Meeting 2014 - GM Report **Cooperating Into the Future** by Bobby Sullivan

2013 should be recognized as the last full year of operations before what was dubbed “Asheville’s Grocery Invasion.” Trader Joe’s, Harris Teeter and Greenlife’s former owner all opened stores close by, near the end of that year. Although the impact on our sales was slight, early 2014 saw the opening of a new Fresh Market store in South Asheville and later this year a big-box Whole Foods will open across from the Asheville Mall. In addition, Publix will open a new store in South Asheville in 2015 and all these stores offer similar products as the FBFC, while Ingles continues to carrying more and more local and organic products.

Although this trend is good for the proliferation of Natural Foods, one our main goals, the fact that Asheville is likely the most saturated Natural Foods market in the nation (per capita), is daunting for our growth plans. In fact, when presented with our plans, the consultants with our Mother Co-op - the National Cooperative Grocers Association recommended that we hold tight and wait until Whole Foods opens and our sales per square foot reach \$1000 or even \$1200 for 3 years in a row.

Here’s where we stand - in 2012 we achieved \$853 and in 2013 we broke the \$1k barrier (\$1,009), but with the competition we may not grow as fast this year. Our market study argues that by offering a greater scope of services, like a meat counter and a full service deli, we can compete on a more even playing field, but growing before we are ready could create an operationally stressful scenario. So our M.O. is to continue our expansion plans, because we will likely be ready to break ground at the end of 2016.

That said, the Co-op broke 2 sales records during the week ending 04-06-14! We had the highest day’s sales ever - \$22,662, the previous record being \$18,740 and we also had the highest week’s sales ever - \$86,697! The previous record was \$80,236, which we did the week before Christmas last year. This is a very good sign and it appears the Co-op is positioned well to thrive here, although as stated, our growth plans may need to be slightly postponed.

Internally we see our success as largely due to improving our services and our continued focus on education, outreach and community building. We are keenly aware that in the past the Co-op has lacked diversity in its clientele and staff, so we’ve focused on broadening our horizons. If we can successfully serve a wider swath of people, we could reach those our competitors are not able to. And lack of food access for them is a key issue here in Asheville.

The big question is – what do you, our owners want to see us accomplish in the next 5 – 10 years? We’ve got some ideas, but this is a dynamic democratic organization that is structured to remain a community asset. So we want to hear from you. We’ve got a strong national organization, with great buying power. We’re basically debt-free, we own the land we stand on and with the introduction of our own beehive on the roof of the Co-op, among other things, we are already generating quite a buzz around town! Do you want to see us build a bigger store, tackle food access issues in Asheville, open up other stores? Start a farm? All is possible as we cooperate into the future.

FBFC Accomplishments

FINANCES

- At the end of 2013 the FBFC had its first ever finance audit by Wegner CPA's, a firm familiar with co-ops and highly recommended by other stores in our national organization. They analyzed our 2012 financials and made recommendations for accounting practices for the future. The results were vindicating, especially regarding our future plans - they confirmed that our finances and accounting practices are solid.
- Total assets for the FBFC passed the \$1 million mark in 2013 and we are well on our way to being debt free.

| Year | Total Asset Growth |
|------|--------------------|
| 2013 | 13.7% |
| 2012 | 23.5% |
| 2011 | 12.2% |
| 2010 | -2.8% |
| 2009 | 6.6% |
| 2008 | -11% |

- Sales growth has been exceptional. A 3% increase is what our national organization deems necessary to keep the company viable, which we've maintained for 4 solid years in a row.
- Net Income should be at least 0.5% of sales, according to the benchmark for financial viability and we have greatly exceeded it for 3 full years in a row.

| Year | Sales | Sales Growth | Net Income |
|------|-------------|--------------|------------|
| 2013 | \$3,732,823 | 18.5% | 3.8% |
| 2012 | \$3,155,435 | 17.8% | 4.8% |
| 2011 | \$2,678,902 | 7.7% | 2.3% |
| 2010 | \$2,487,636 | 3.2% | -0.25% |
| 2009 | \$2,410,952 | -2.8% | .35% |
| 2008 | \$2,480,268 | -2.3% | -3% |
| 2007 | \$2,539,436 | -5.3% | .6% |
| 2006 | \$2,681,661 | -14.12% | -2.8% |
| 2005 | \$3,122,517 | -14.76% | -.73% |
| 2004 | \$3,663,191 | 5.99% | -2.2% |
| 2003 | \$3,456,031 | 6.69% | 1.5% |
| 2002 | \$3,239,302 | 2.81% | .26% |
| 2001 | \$3,150,803 | 1.42% | 1.6% |
| 2000 | \$3,106,707 | -7.97% | .07% |
| 1999 | \$3,375,666 | | .54% |

Department Sales Growth in 2013

| | | | <u>Last Year</u> |
|-----------------------------|----------------|--------------|------------------|
| 1st Place | PRODUCE | 34.1% | #1 |
| 2nd Place | GROCERY | 18.4% | #3 |
| 3rd Place | HBC | 13.7% | #4 |
| 4th Place | DELI | 11.7% | #2 |

Sub-Department Sales Growth in 2013

| | | | | | |
|---------------------------|-------|-----|-----------------------------|-------|-----|
| 1. Produce | 34.1% | #2 | 9. Grocery Dry Goods | 16.1% | #3 |
| 2. Cooler | 30.1% | #13 | 10. Deli | 11.7% | #9 |
| 3. Gen. Merch. | 20.6% | #14 | 11. Meat | 10.9% | #1 |
| 4. Freezer | 18.8% | #11 | 12. Supplements | 13.4% | #8 |
| 5. Bulk | 18% | #10 | 13. Cheese | 10.3% | #5 |
| 6. Special Orders | 17.4% | n/a | 14. Bulk Herbs | 7.7% | #6 |
| 7. Beer & Wine | 17.2% | #4 | 15. Bread | 0% | #12 |
| 8. Body Care | 16.2% | #7 | | | |

- PRODUCE lead the pack in 2013 for the 2nd year in a row. Achieving over 25% growth for 2 years in a row is exceptional! It would be hard to make happen again, but we have some plans that may help us do so.
- GROCERY is by far the largest department representing over 50% of the store's overall sales, so growth in this department is certainly welcome, especially considering the competition. And they moved a step up from 3rd last year into the #2 spot. It's possible that inserting our sales flyer in the Mountain Xpress on a regular basis has paid off. Again, our buying power is strong because of our national organization. We are basically a 160 store chain of co-ops, so we are able to offer exceptional deals, rivalling much bigger stores, like the ones we have in town.
- HBC being 3rd is also welcome because of all the mail order competition in vitamins and supplements. And they also moved a step up from last year! Their general merchandise category led the department in growth, as they have added a lot of new items there, but it represents the least amount of \$ in that department. That's how hard-fought their growth is, because their top grossing categories have so much competition. They've upped the quality of the selection significantly and we expect to see more innovation into this year. Keep your eye on this department!
- DELI as 4th is OK. In 2013 they lacked the space to grow and add new items, but as most of you are probably aware, we remedied that situation. The new hot bar/salad bar is giving the deli the edge to lead the pack in growth for 2014. In fact in the 1st quarter, their growth jumped to over 18% and that was with the new fixture for only half the time. Meanwhile in April their growth jumped to over 20%, so they are poised to lead the store's growth in 2014. And there is a ton of potential in growing cheese and meat sales, but that may require a bigger store. Cheese has a greater possibility in our current space.

OPERATIONS

- Kudos needs to go out to our very hard working staff and especially our department managers: Sage Turner in Finance, Clare Schwartz in the Front End, Darren Stroupe in Produce, Melissa Fryar in HBC, Greg Mosser in the Deli and Ryan Prenger in Grocery. The whole team has done an amazing job working together to make the impossible seem attainable and morale seems to be at an all-time high.
- The biggest physical changes we made to the store last year were at the front end and in the Deli. Once we condensed our 3 check-out lanes into 2, it made space for four 4-foot single drink coolers. This greatly increased the sales of the drinks and by default it opened up multiple spaces for other products, where the drinks had been. This meant we were able to expand the produce department and expand the items available in the Deli cooler.

- 2013 saw the introduction of the GO! Kitchen Ready Program in our sandwich section. This was something planned by GO! for a while, but we were the ones to help them kick start it. We were able to get the program started through the Asheville Sandwich Shop while they continue to wait for the Reed Center to be ready to house GO!'s actual kitchen.
- While our competitors have gotten rid of their in-house production of food service, we moved the coffee and tea station to the front end, so we could unveil the new hot bar/salad bar in February of this year. It features local food from Luella's, Mr. Suave, the GO! Kitchen Ready Program and Wadadli Dessert Oasis. Sales are exceeding expectations and are more than 4 times the sales generated by the salad bar alone in 2013.
- Our grocery team worked hard to better organize the special order program and more local businesses are utilizing it. We started breaking out special orders as a separate category in our POS system at the end of 2011, so we can measure this progress. 2013 confirmed that growth in this area is exceptional and this significantly helps us get further discounts from our main distributor, lowering costs where we need it the most, without adding much labor to make it happen.
- Local product sales increased 18% in 2013 after 2 years of solid growth and our total local offerings amount to almost at 1,000 products.

| | # of items | growth | # of items sold | growth | sales | growth |
|-------------|------------|------------|-----------------|------------|------------------|------------|
| 2013 | 938 | 55% | 60,636 | 15% | \$286,398 | 18% |
| 2012 | 607 | 41% | 52,696 | 20% | \$242,448 | 24% |
| 2011 | 432 | 35% | 43,790 | 23% | \$195,066 | 35% |
| 2010 | 319 | | 35,519 | | \$144,580 | |

- We have been doing so well, we were able to give patronage rebates in 2012 and 2013 and we plan to do so in 2014 and in the foreseeable future.
- We negotiated a year-long contract with Mountain Xpress for consistent ad placement, which means that along with our sales fliers as inserts, we are in the publication every week.

STAFF

- At the end of union negotiations in 2013 staff became Living Wage with entry-level workers receiving over a \$3 raise. This has been a goal for the Co-op since our inception, as is stated in our overall mission.
- In an effort to bring management and bargaining unit staff closer together in a more meaningful way, we have adopted some ideas from Zingerman's Delicatessen. The idea is to get everyone involved in strategizing for the success of the business and to empower everyone to take actions that will support the co-op's success, especially in regards to customer service.
- Every month, staff members get one of Zingerman's 12 Natural Laws of Business with their paycheck. We then spend the month talking as much as possible with each staff member about their thoughts on the subject and how it relates to the co-op. We are trying to encourage staff to have more conversations like this among themselves and to feel like they have input, when it comes to management's overall business strategy.
- We had an all-staff training where we watched a 20 minute video about Zingerman's customer service method and then engaged in 40 minutes of discussion. It was

apparent at both sessions that staff felt engaged and that it was a very positive exercise. I did as little talking as possible and made sure that their input was noted.

- The increase in staff morale has been identified over and over again by owners and customers, as one of the main reasons they have starting shopping at the Co-op again.
- In 2013, the FBFC had a Human Resources audit by the Cooperative Development Services (CDS), the same body that consults the board. Their staff has decades of experience in co-op management and were able provide an extensive evaluation and subsequent recommendations. This audit provided a wealth of resources for moving the FBFC in a positive direction in many areas and numerous tools have already been put into place.

OWNERSHIP

- New Worker Owner Program
- The rate of ownership growth fell off in October of 2013, so we have committed to 2 owner drives in 2014, as opposed to 1. It follows that dramatic growth cannot continue year after year, but we take this new trend as a challenge and are committed to find a way to increase the growth rate. Unfortunately, we are finding that the increased foot traffic downtown, which is continuing to increase sales, is mostly from tourists and those shopping here out of convenience, rather than loyalty. For this reason they are less likely to purchase ownerships.

| Month | 2010 | 2011 | Increase | 2012 | Increase | 2013 | Increase |
|-----------|------|------|--------------|------|--------------|------|--------------|
| January | 952 | 1042 | 9.5% | 1207 | 15.8% | 1456 | 20.6% |
| February | 951 | 1067 | 12.2% | 1248 | 17% | 1454 | 16.5% |
| March | 988 | 1028 | 4% | 1271 | 23.6% | 1483 | 16.7% |
| April | 979 | 1041 | 6.3% | 1284 | 23.3% | 1490 | 16% |
| May | 984 | 1060 | 7.7% | 1255 | 18.4% | 1502 | 19.7% |
| June | 1010 | 1071 | 6% | 1296 | 21% | 1502 | 15.9% |
| July | 1030 | 1071 | 4% | 1280 | 19.5% | 1576 | 23.1% |
| August | 1034 | 1088 | 5.2% | 1263 | 16% | 1629 | 29% |
| September | 1033 | 1097 | 6.2% | 1261 | 14.9% | 1632 | 29.4% |
| October | 1012 | 1187 | 17.3% | 1376 | 15.9% | 1514 | 10.1% |
| November | 1004 | 1196 | 19.1% | 1412 | 18% | 1541 | 9.1% |
| December | 1041 | 1199 | 15.2% | 1473 | 22.9% | 1555 | 5.6% |

| Year | Sales to Owners | % Increase | % of Sales | % Increase |
|------|-----------------|------------|------------|------------|
| 2013 | \$1,558,275 | 13% | 41.75% | -4% |
| 2012 | \$1,381,257 | 25% | 43.48% | 5% |
| 2011 | \$1,109,168 | 11% | 41.39% | 2% |
| 2010 | \$996,289 | 17% | 40.48% | 15% |
| 2009 | \$851,454 | | 35.32% | % |

OUTREACH

- We actively enhancing our community partnerships. Green Opportunities has been one of our strongest ongoing relationships and we are currently working on a plan with them

to open a store with the purpose of addressing issues facing residents in Asheville food deserts.

- We are now the main sponsor for the LEAF Festival, with most of our money going to their non-profit LEAF in Schools & Streets. This has given us greater visibility at the festival with logo presence on the main stage and the wrist bands, banners throughout the event and better placement within their advertising. This is in addition to our very successful camp store at the event, where we are able to recoup thousands of dollars through sales and demonstrate the type of products the store has to offer.
- 2013 saw the introduction of a new annual educational event for the Co-op, called the Urban Homesteading Fair. There have been 2 events so far, each featuring over 30 vendors and educators presenting ideas and products, including: bee keeping, mushroom growing, poultry raising, mead making, permaculture, alternative energy sources, bread, gardening and small scale farming, alternative education, herbal medicine making, and fermentation.
- Our wooden token program has enhanced sales at the FBFC Wednesday Tailgate Market. EBT sales totaled \$3,564 for the year and credit/debit transactions totaled \$3,730. It is likely that this \$7,294 would have never been spent at the market, were it not for the token program.
- We've significantly increased the amount of classes sponsored by the FBFC. This is mostly through Living Web Farms by Melissa Fryar, our HBC Manager. This year we plan to increase the amount of classes happening onsite.
- We became part of the Go Local Card program last year and saw a heavy usage of the card at the store. This, we feel helps us increase the amount customers are buying at a time and next year we will likely use it to enhance sales before noon, as there is plenty of parking available at that time.
- We are currently enhancing our ability to communicate with the public via social media and we've completely revamped our email blast system. There is a lot more we can do, so we plan to make this kind of communication a focus for the coming year.

FINANCIAL PERFORMANCE

Ratio Analysis: **Year Ended:**

| NCGA Benchmarks ▼ | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales Growth > 3% | 18.5% | 17.8% | 7.74% | 3.18% | -2.8% | -2.3% | -5.3% | -14.12% |
| Net Income > 0.5% | 3.8% | 4.8% | 2.32% | -.25% | .35% | -3% | .6% | -2.8% |
| Current Ratio > 1.25 | 4.4 | 4.08 | 2.74 | 1.17 | 1.75 | 1.67 | .94 | .79 |
| Debt to Equity < 3.0 | .25 | .27 | .2 | .24 | .56 | .58 | .55 | .69 |
| DCH > 10 | 31.27 | 33.6 | 9.53 | 6.22 | .58 | .05 | 2.88 | 3.92 |

Current Ratio: An indication of a company's ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is. Current ratio is equal to current assets divided by current liabilities. Median* = 1.89

Debt to Equity: A measure of a company's financial leverage. Debt/equity ratio is equal to long-term debt divided by common shareholders' equity. Investing in (loaning to) a company with a higher debt/equity ratio may be riskier, especially in times of rising interest rates, due to the additional interest that has to be paid out for the debt. Median* = 0.81

Days of Cash on Hand: cash on hand / average daily amount of COG's + cash operating expenses + interest expense + taxes. This ratio doesn't include depreciation/amortization, patronage dividends, or "other expenses/income." Note: this ratio assumes 90 days per quarter.

** Based on medium sized co-ops (\$2-4M annual sales) that are members of the National Co-op Grocers Assn.*