



GROWTH FOR THE SAKE OF...?

Annual Meeting 2015 - GM Report

by Bobby Sullivan

2014 was the year we proved to ourselves and to Asheville that we are not only here to stay, we are a serious force in this town. After a decade of pretty dramatic highs and lows, we experienced an encroachment of stores that could have given us an even more serious hit than Greenlife, which almost put us out of business after they opened in 2004. Thankfully, since then we have firmly established our own, finishing that decade with glorious results, culminating in our certification as a Living Wage employer.

This is very significant considering we are the smallest grocery store in Asheville and we now pay the most to entry level staff. It's also significant in that our mission statement actually states that "We are committed to use profits... to provide a livable wage to our employees." As a point of reference, I made \$5.25 an hour when I worked in the produce department in 1997 and that position now pays well over double that amount - \$11.85!

From 2013 to 2014 as you know, we experienced what was dubbed "Asheville's grocery invasion" by the local press, yet our sales kept increasing, although our growth percentage diminished a bit. That said, we experienced rapid growth for 3 solid years and double digit growth is hard to maintain year after year, without significant renovations or an expansion. This year's growth is actually better than last year's so far and what makes that particularly satisfying is that we budgeted for flat sales. This will hopefully give us the opportunity to stay in step with a dramatic living wage increase of 65¢/hr., which would make our entry level wage \$12.50.

Following our first ever financial audit by Wegner CPA's in 2013 which came out clean, our finances are in top order, with assets of well over \$1 million and our property completely paid off. And our balance sheet doesn't even include the actual value of our property. It's valued at the price we paid, so we are now in a great position to purchase the property next door and to begin planning the next 2 decades of expansion and business development. This includes our current focus on training our staff for bigger and better services and planning on having a wider influence in Asheville in general.

I hope you know that as part of a national co-op, of which I am now on the board of directors, our finances are monitored regularly as a safeguard. All the coops in this organization share a joint liability, so it is in all our best interests that things don't go wrong with individual co-ops. That also means both the store and the board of directors have a lot of resources at our disposal operationally, professionally and financially. And with membership in the national co-op comes shared buying power, which makes us a strong competitor in our highly saturated market. In fact, our little store has better buying power than Earth Fare, a chain with 30-odd stores and a much larger format.

OPERATIONAL RESULTS

As of the end of 2014, ownership levels are soaring! We are now experiencing increases that are setting new records at almost 40% over the same period last year, giving us over 2000 owners. We also have a new worker owner program, with new jobs emailed out regularly, as there is a new

focus on complementing the work that the staff does, rather than replacing it. This is actually in compliance with our union guidelines and also helped to create an additional paid position, where that worker owner not only now makes a wage, they also get a better discount.

Another positive trend I can report is that the sales of local products is also up almost 40% and we now have well over 1 thousand local products in the store on a regular basis. Probably the most significant victory, which I would say is a culmination of all that I've already reported, is that the weekly sales record we achieved in 2014 has already been surpassed twice this year. Once it happen in March because of the truck load sale we did and the other time it happened was last month, because of our 5%-off-on-the-5th day and our sales at the Spring LEAF Festival. Other sales stats are as follows:

Department Sales Growth in 2014

Last 2 Years

1st Place	DELI	12.7%	#4,2
2nd Place	HBC	7.4%	#3,4
3rd Place	GROCERY	4.2%	#2,3
4th Place	PRODUCE	3.5%	#1,1

Grocery #1 in \$ growth

Sub-Department Sales Growth in 2014

1. Gen. Merch.	31.3%	#3,14	9. Grocery Dry Goods	3.1%	#9,3
2. Bulk Herbs	26.3%	#14,6	10. Special Orders	.8%	#6
3. Cooler	20.2%	#2,13	11. Supplements	-1.6%	#12,8
4. Meat	17.7%	#11,1	12. Bread	-3.2%	#15,12
5. Deli	15.5%	#10,9	13. Freezer	-5.2%	#4,11
6. Bulk	4.2%	#5,10	14. Cheese	-6.4%	#13,5
7. Body Care	4.1%	#8,7	15. Beer & Wine	-13.4%	#7,4
8. Produce	3.5%	#1,2			

All this leads me to my big question for you – growth for the sake of what, exactly? What is **your** main goal for our growth? As our managers and I currently dissect a book called the Good Jobs Strategy by Zeynep Ton, an MIT professor at the Sloan School of Management, we want to make the FBFC a place worthy of our long standing employees like Roz & Ellie, Karen and Michael, Joy and Lola, and of course all the other outstanding newer staff members. I want us to be Asheville's banner employer. I also want us to help preserve the things I loved about Asheville when my family and I moved here 20 years ago – small businesses working together and innovating in ways that are both good for this community and good for the planet.

Here are a few bits of wisdom I'd like to share that are helping us focus our efforts. They come from the Zingerman's model of management. They are a worker co-op in Ann Arbor and we have been using within our organization for a couple years now:

Bee Keeping & Leadership

1. The Leaders Don't Make the Raw Material
2. Good Beekeeping Means That Everyone Wins
3. Exploitation May Get Short-Term Results, But in the End it Isn't Sustainable
4. Working Together Means Working Better
5. If We Fight With the Workers, We Get Stung
6. If We Fight Harder, It Even Gets Worse
7. If We Spray the Workers to Stop Them, We Only Get Momentary Relief
8. You Can't Make the Bees Do Anything

The following list is especially good for considering how we will manage an expansion:

12 Natural Laws of Business

1. An inspiring, strategically sound vision leads the way to greatness (especially if we write it down!).
2. We need to give customers really compelling reasons to buy from us.
3. Without good finance, we fail.
4. We do our best work when we are part of a really great team.
5. If we want the staff to give great service to customers, the leaders have to give great service to staff.
6. If we want great performance from our staff, we have to give them clear expectations and training tools.
7. Successful businesses do the things that others know they should do... but generally don't.
8. To get to greatness we've got to keep getting better, all the time!
9. Success means we get better problems.
10. Whatever our strengths are, they will likely lead straight to our weaknesses.
11. It generally takes a lot longer to make something great happen than we think.
12. Great organizations are appreciative, & the people in them have more fun.

Forgive me if I'm wrong, but it feels to me like grassroots approaches like these have been diminishing with Asheville's growing tourist economy. That is why our opportunity is so unique. We have a structure that can help us do something that is what most local people are really hoping for – thousands of local people (our owners) helping to co-create an ever expanding and sustainable local economy. Co-ops are uniquely positioned to do this, as they are designed to keep the money here in our local economy, which then multiplies the dollars as they continue to circulate.

In the end though, I work for you – our owners – through the board of directors, so I'm open to all the input you may have on what this really means. That's why we have breakout groups scheduled today.

As far as the expansion goes, we are talking about a development that could encompass a plot that is over 2 acres, right here in downtown Asheville - from the corner of Hilliard all the way up to City Bakery. We've so far hired a local firm, Civil Design Concepts, to do a feasibility study which will give us multiple scenarios to consider, including not developing the whole thing, but just expanding our current store. Regardless, parking is a huge concern and would need to be addressed even for our current size.

Civil Design Concepts will also give us a determination of our return on investment and the best-use of the land in this area, while utilizing local resources for cost efficiency. We hoped to be able to share their results at this meeting, but their timeline was pushed back because they recently moved their offices from Swannanoa River Road to Patton Avenue, here in downtown. That said, once we get the results, we will schedule another community input meeting like the one we just had on the Spring Equinox this year.

Leading up to hiring them for help in determining engineering potential, we spent a lot of lot of money getting 2 market studies done in 2009 & 2013 to help us understand the financial potential of our location, based on demographics and current grocery offerings in our market area. This type of study focuses on our industry and was a step Katuah Market failed to do in vetting the location they chose.

Here are the details we have thus far: the proposed store would be a little over 4-times our current size, which would still be considered "small" by industry standards – which in my mind

means manageable. The bigger picture could, if we so chose, incorporate a mixed-use facility including offices, other retail storefronts, a green space, community space, increased parking and affordable housing, among other possibilities. A very real concern for some, is that this scenario would also likely need to include a space for various income-level housing structures, so we are looking at options.

The bottom line is that for a big project like this to succeed, which includes affordable housing and the rest of the “bigger picture,” which we received from input at the March meeting, we would likely need to subsidize it with a higher end housing model. The good news is that if we went in this direction, the site is so big, it’s possible to do multiple ventures without degrading the integrity of the grass roots nature of our co-op. Regardless, whichever path we choose, we will make sure to see whether or not the market can bear what we propose to bring to fruition.

I think it’s most important to point out at this time that nothing is decided yet, as ALL we are currently engaged in is researching the suggestions made at the last community input meeting and seeing how we can make it all happen.

We are happy to answer any questions and concerns you may have, and we will be transparent throughout the entire process. We ask you to be open minded to various creative scenarios and as a reminder, we will have another community input meeting when we know more. Don’t forget that our board of directors represents you. Any concerns or questions you may have after this meeting can be sent to their email address at any time. It is board@frenchbroadfood.coop. That goes directly to them and I don’t have access to it, if you need confidentiality. You can reach me at our info email address: info@frenchbroadfood.coop

Thank you very much!

NCGA Benchmarks ▼	2014	2013	2012	2011	2010	2009	2008	2007	2006
Sales Growth > 3%	5.5%	18.5%	17.8%	7.74%	3.18%	-2.8%	-2.3%	-5.3%	-14.12%
Net Income > 0.5%	2.02%	3.5%	4.8%	2.32%	-.25%	.35%	-3%	.6%	-2.8%
Current Ratio > 1.25	4.67	4.4	4.08	2.74	1.17	1.75	1.67	.94	.79
Debt to Equity < 3.0	.23	.25	.27	.2	.24	.56	.58	.55	.69
DCH > 10	28.2	31.27	33.6	9.53	6.22	.58	.05	2.88	3.92

Year	Sales	Sales Growth	Net Income
2014	\$3,937,101	5.5%	2.0%
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%	-.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%