Moscow Food Co-op
Operating Plan
FY 2017, 2018, 2019

Working together to nourish and nurture our community.

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Executive Summary

The Moscow Food Co-op is Moscow, Idaho's downtown grocery store. The Co-op is owned by 7800 community members and has operated for 43 years.

In 2005 the Moscow Food Co-op moved to its current location in the heart of downtown. Store sales have almost tripled in 11 years. The playing field continues to change as natural, organic, and local food becomes more mainstream. We must step up our game to be positioned to compete with companies that are capitalizing on the changes we've helped shape in the food system.

The mission of the Co-op is determined by the Board of Directors and was updated along with the Co-op's strategic plan in 2014. This led to the adoption of new Ends policies clarifying the long term objectives of the co-op. This operating plan makes the link between our Ends Policies and operational practices for the upcoming fiscal year and beyond.

Our pro forma financial statements will have as an assumption a very moderate sales growth (just over 3%) compared to what we have seen in past. We will maintain profitability through responsible cost-containment. Personnel costs, labor and benefits, are high in comparison to the retail grocery industry but consistent with other co-ops nationally that have large food service operations. The inability to control both labor and cost of goods has been a major problem for the Co-op historically, In the past few years we have made tremendous gains in controlling and reducing labor costs and thoroughly reviewing our cost of goods. With an experienced team in place, cost control is to be managed to budget.

Reinvesting in the Co-op is essential for long-term viability in our downtown location. The Co-op will be undertaking a major endeavor and remodeling our Center Store in 2017. This work will include replacing inefficient equipment, updating our bulk shopping fixtures, and increasing available back-stock areas. The primary objectives of this project are to improve the customer experience, to increase our energy efficiency, and to boost staff morale.

This operating plan connects the goals of our Ends directly to the day-to-day work in our store.

We're looking to the future – our vision of what we believe is possible when we commit to accomplishing our Ends and all the ways our Co-op brings value to our shoppers and to our community at large.

Melinda C Schab
General Manager

The NCG Trends Report
A Summary

The good news: there is strong demand for natural products; consumers want fresh, local, quality products and values matter.

The bad news: 77% of co-ops report flat or declining sales

Co-ops are losing market share. In the natural channel, conventional grocers are increasing their market share while natural foods grocers are seeing a decline in theirs. According to Natural Foods Merchandiser, total sales in the natural foods retailers grew 6.3% (2015 over 2014) compared to 11.6% growth at conventional retailers.

This loss in market share is attributable to a combination of factors: natural competitors (Natural Grocers, Whole Foods, Trader Joes, Sprouts, and Fresh Market) are opening stores faster than NCG co-ops and mainstream retailers (Costco, Kroger, Target, Walmart) are offering more organic products. Competition has dramatically increased.

There are opportunities for co-ops to remain successful in the face of increased competition.

- Millennials and younger generations are buying more organic and other specialty products.
- Organic is not the only reason that consumers might shop a co-op. Fair Trade and Local are on an upward trend.
- The new trend in grocery is smaller stores with a curated assortment of products.

Co-ops must identify their weaknesses in meeting consumer needs and build on strengths to attract and retain shoppers in the face of fierce competition.

Themes

Cross Shopping

- It's now the norm.
- Half of all consumers shop two or more stores per shopping trip.

Cooking is Cool

- Consumers view cooking as a desirable skill, not a chore, and look to expand their skills.
- Consumers are expanding their kitchen skills by cooking with others, taking classing, researching recipes, and using meal kits.
- Millennials, in particular, love to cook.

FRESH Matters

- Fresh is the number one driver of tore choice
- Fresh represents a cultural shift toward all things healthy, real, pure and special (Hartman Group research)
- Price, appearance, variety, and sourcing are important, particularly local sourcing.
- Customers want value-added produce.

Customers want Transparency

- Shoppers want local produce because they believe it is safer than food grown far away.
- Research shows that 80% of Americans believe that there should be mandatory GMO labeling.
- 47% of Americans check ingredient lists before making a purchase
- Millennials are more likely to look for organic, other certifications, and product narratives.
- Co-ops can and should inform their consumers how the co-op is minimizing food waste and keeping it out of the landfill.

Introduction to The Moscow Food Co-op Global Ends

Principle 1: Voluntary & Open Membership
Principle 2: Democratic Member Control
Principle 3: Member Economic Participation
Principle 4: Autonomy & Independence
Principle 5: Education, Training & Information
Principle 6: Cooperation Among Co-operatives
Principle 7: Concern for Community

It is our foundation resting solidly on the seven co-operative principles and the co-operative values that defines our organization and our business model. Co-operatives are organizations formed by people when they see a need to employ a different economic *tool* to accomplish their shared goals. The economic functions of our co-operative impact the community, stakeholders, and society. Co-operatives accomplish their shared social goals through these economic activities.

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The primary social impact of any co-operative should be through the impact it makes on its owners. The relationships between the co-operative and its owners are truly what create the co-operative difference. A co-operative is defined by and draws strength from its relationships. This difference can be expressed as a triple bottom line: our profit which drives our ability to make change; our people and the social responsibility we have to our employees and the community; and our planet and the goals of sustainability we set for future generations.

While all seven of the co-operative principles are important, it is Principle 7, Concern for Community that is brought to life by the co-op's Ends. Ends are a statement of who we are (our identity) and a description of the world we want to create by operating a successful natural foods cooperative.

Ends create a framework for measurements that provide our community with a tangible way to see the Co-op's value. Ends are visionary in nature and progress towards achievement is necessarily incremental and forward-looking. With Ends, success must be seen as a series of purposeful steps that are inevitably driven by long-term plans. The outcomes of the activities to meet the Ends are ever evolving, for as we grow and change, we will adapt our business and community activities.

The Co-op doesn't exist in a vacuum. We rely on many partnerships and relationships with other organizations to accomplish this important work. We have formed a large number of collaborative relationships with other organizations. We believe that partnering with like-minded organizations lifts everyone up. Working together enables us to do more in the community – working together allows us to truly nourish and nurture our community.

We are rooted in community.

Global Ends of the Moscow Food Co-op

Building on the foundation of the Seven Cooperative Principles, the Moscow Food Co-op shall:

1. Promote the local, sustainable, and organic foods economy.

2. Be a workplace of choice for all employees.

3. Increase economic and cultural accessibility for all community members.

4. Educate our owners, customers, and the wider community about food and food systems.

5. Model environmental sustainability through our activities, facilities, products, and services.

6. Grow and expand to further our mission.

MOSCOW FOOD CO+OP

rooted in community since 1973

Organizational Goals in Support of the Global End Policy
FY 2017-2019

A1.1- Promote the local, sustainable, and organic foods economy.

Interpretation

Co-op stakeholders have an interest in local food and in supporting local growers and producers. The Moscow Food Co-op, which operates a community natural foods store, is thus charged with being a champion of the local, sustainable, and organic foods economy. The Moscow Food Co-op exists to serve its owners and the community while educating them about the importance of sourcing local, sustainable, and organic food.

With the introduction of the P6 program in 2016, we updated our definition of local. We define *local* as *grown within 250 miles of the Co-op and/or produced within the state of Idaho and/or produced within the state of Washington.*

We interpret *sustainability* with regard to food systems as the idea that *we must meet the needs of the present without compromising the ability of future generations to meet their own needs. Sustainability* is, therefore, stewardship of human resources and natural resources.

The USDA defines the term *organic* with regard to food as that which *is produced using sustainable agricultural production practices*. The Co-op relies on this definition and use of the USDA Organic label to highlight certified organic foods.

Promote is interpreted as meaning *contributing to the growth or prosperity of.* In the case of our Co-op's operations, *promoting* means that we actively seek to grow the local, sustainable, and organic foods economy by:

- Offering a broad selection to consumers
- Paying producers fair prices for local food & goods
- Actively promoting the value of buying local food and goods to the larger economy

Measurements

1. Increasing purchases of locally sourced food and goods
2. Increasing sales of P6 designated products
3. Increasing sales of locally sourced food and goods
4. Providing direct and indirect education for consumers
5. Merchandising with an emphasis on local products & education
    - Including delivering consistent messaging & branding throughout the Co-op
6. Building and maintaining relationships with local producers & vendors
7. Establishing relationships & partnerships with other community organizations that support the local, sustainable, and organic foods economy

A1.2 – Be a workplace of choice for all employees

Interpretation
The Moscow Food Co-op should be an amazing place to work.

Being a workplace of choice means that the Moscow Food Co-op is one of the best employers in the region – the regional workforce would choose to work at the Co-op over most competitors. To help achieve this, the General Manager is responsible for creating a rewarding work environment for our many talented employees.

As mentioned in the introduction, it is the relationships between the co-operative and its owners that truly create the co-operative difference. A co-operative is defined by and draws strength from its relationships. Although the relationships between the co-op and owners are important, it is the relationships between the co-op and its employees that matter the most.

A rewarding work environment is one where the employer works to build relationships with employees by nurturing a healthy workplace culture, maintaining excellent workplace communication, offering robust development programs, and offering competitive pay and benefits.

Measurements

1. Providing opportunities for connection between employees
2. Maintaining excellent systems for workplace communication
3. Investing in the development and training of staff
    a. 100% on-time evaluations
    b. Formalized cross-training program
    c. Strategic succession planning for key positions using formal development plans
4. Offering competitive pay and benefits
    a. Paying 100% of staff a livable wage for fulltime work
    b. Increasing our starting wage to $9.50 in 2017
    c. Increasing our starting wage to $10.00 in 2018
    d. Developing a formal gainsharing program to reward staff for achieving business goals

A1.3 – Increase economic and cultural accessibility for all community members.

Interpretation

All co-operatives exist to serve the shared needs and aspirations of our ownership. Our Co-op strives to meet these shared needs while also ensuring that all members of the greater community are welcomed. In order to achieve this, we must address and overcome real and perceived barriers, upholding the right of all persons alike to purchase healthful foods at the Co-op.

In its simplest form an **economic barrier** is nothing more than **affordability**. Economic barriers are the easiest to overcome.

Cultural barriers are more difficult to define. They consist of:

- The **perception of elitism,** which includes the notions that the Co-op is only for rich people, only for healthy people, or only for well-educated people.
- A **lack of knowledge about & comfort with natural foods** stemming from a lack of exposure to co-ops and natural foods.
- **Misperceptions about co-ops and co-op ownership** includes confusion about whether non-owners can shop, if non-owners have to pay a surcharge, and general underexposure to the Co-op business model
- **Confusion about industry political issues** including misconceptions about vegan & vegetarian lifestyles, about what Non-GMO means & why it matters, or about what free-range means.

All of the **cultural barriers** described above can only be addressed by intentional education and outreach that reaches beyond our current customer base.

Measurements

1. Increasing affordability while maintaining financial fitness
2. Providing outreach & education to address issues of cultural accessibility
3. Reaching out to under-represented segments of our larger community
4. Providing staff training on customer service excellence
5. Monitoring the *customer experience* and our ability to deliver excellent customer service
    a. Regularly reviewing comment cards for trends
    b. Using Mystery Shop data
    c. Reviewing Manager-on Duty checklist
    d. Evaluating success of cross-merchandising
6. Increasing staff ownership levels towards 100%

A1.4 – Educate our owners, customers, and the wider community about food and food systems.

Interpretation
Our Co-op strives to be an influential champion of local food by investing our time, energy, and money in the development and support of a dynamic local food system. As champions, we are responsible for educating our community about food and food systems.

Food is simply the things that people eat. A *food system* is essentially everything from farm to table. *To educate* means that we provide accurate, thoughtful, and well-researched information with the intention of improving the knowledge base of our community and helping to create better consumers.

It is the goal of our Co-op to directly and/or indirectly educate consumers and community members about all aspects of local food from the farm to the table.

In-store education about food and food systems takes place in both formal and informal ways.

- Formal food education happens as part of the FED Initiative, as part on-site outreach and education programs, and with informative signage around the store
- Informal food education happens when customers interact with knowledgeable employees

Beyond-store education about food and food systems includes written and digital education and off-site classes, workshops, and outreach programs. Beyond-store education also includes education that occurs when we form strong community partnerships with other organizations that focus on the local food system.

Measurements

1. Increasing in-store education for customers
2. Providing beyond-store education for the wider community
3. Providing education to staff about natural foods
4. Providing food systems education

A1.5- Model environmental sustainability through our activities, facilities, products, and services.

Interpretation

Our concern for community comes alive in our initiative to model environmental sustainability. On behalf of our owners, we are consistently & actively striving to reduce the Co-op's environmental impact. Our impact includes our direct resource consumption, the amount of garbage we produce, the amount of cardboard we recycle, the amount of compost we generate, and the environmental impact of the products we sell.

We consider sustainability to be an important piece of our business operations. Because A1.1 addresses our support of the local, sustainable, and organic foods economy, that data is not repeated here. The information below is in addition to our work on A1.1.

Measurements

- Maintaining an active sustainability committee
- Ensuring that the Sustainability Committee is engaged in meaningful work that is important to owners and beneficial to the cooperative
- Using Co+efficient to track data and highlight places for improvement
- Educating the community about sustainability issues
- Effectively communicating our successful sustainability efforts to the public

A1.6- Grow and expand to further our mission.

Interpretation
All of the possible options our Co-op has for future growth and expansion must be considered in relation to our mission statement, *Working Together to Nourish and Nurture our Community*. We must ask ourselves if a growth scenario supports our intention to work cooperatively in the nurturing and nourishing of our community.

The word community means many things. For our purposes, we are using an all-encompassing definition that includes all inhabitants of our region as part of our community, not just the smaller community of current Co-op owners. By *community* we mean anyone who lives in our region and may someday become a customer of our Co-op, including children.

Using this definition of community makes the challenge of nurturing and nourishing a big job.

Measurements

- Increasing our support for other community organizations
- Growing our ownership numbers and equity dollars
- Working to grow the cooperative economy
- Growing our sales 3% annually (minimum)
    - Improving the quality of OBM huddles
    - Effectively managing labor to meet budgets
    - Increasing profitability to meet stated requirements for expansion
    - Expand our business in ways that are fiscally responsible

Department Goals for 2015-2017

I. Operations Department Plan

a. Objective 1 – Review the historical performance of the Operations Departments and evaluate opportunities to more closely align activities to achieve compliance to the Global Ends.

i. Building knowledge in the operations departments about cooperatives and cooperative values by training staff & management

- Measurements
  - a. Staff will attend all NCG and regional trainings deemed appropriate.
  - b. Staff will take the Co-op Identity class

ii. Purchasing departments will focus on local sourcing whenever possible

- Measurements
  - a. Local vendors are labeled correctly for accurate tracking
  - b. Local purchases and local sales are tracked to show increases year-over-year

iii. Managers and supervisors comply with all Co-op HR policies and goals

- Measurements
  - a. 100% of evaluations are on-time
  - b. Managers and supervisors have had HR training that includes *Painless Performance Management*
  - c. Manager and supervisors participate in an annual HR workshop (internal)

iv. Operations department staff works to make the Co-op as affordable as possible

- Measurements
  - a. Margins are managed regularly to account for price decreases
  - b. Inventory is managed to ensure adequate stock-on-hand of promotional items
  - c. Case ordering is encouraged

v. Co-op staff delivers consistently excellent customer service

- Measurements
  - a. Customer Service workshops are required of all staff
  - b. Mystery Shop results average 90% for customer service
  - c. Train managers and staff in ways to reduce/prevent shoplifting

vi. Co-op staff are knowledgeable about natural foods

- Measurements
  - a. Staff are formally trained in natural foods
  - b. OBM department huddles

vii. Co-operators have an eye out for sustainability improvements

- Measurements

        a. Use Co+efficient data to track decreases in our energy usage
        b. Develop department SOPs that address sustainability improvements

    viii. Operational efficiencies
        - Measurements
            a. Successfully managing labor to budget
            b. Adopting NCG Best Practices into our operations

b. Objective 2 – Monitor performance and make corrections as necessary to meet or exceed budget expectations in the upcoming fiscal year.
    i. Department heads maintain labor and margin as budgeted
        - Measurements
            a. Corrective action taken as necessary
            b. Achievement of labor reductions (through attrition and/or increased sales) to meet budget

II. Marketing & Outreach Plan

a. Objective 1 – Increase Ownership
    i. M & O will support ownership drives with marketing initiatives and expand outreach efforts to include recruitment of diverse ownership base.
        - Measurements
            a. Develop new initiatives geared towards growing student owner base.
            b. Allocate advertising dollars towards reaching a diverse base of shoppers & potential new owners
            c. Create an ownership promotion for employees

b. Objective 2 – Increase Owner Value
    i. Continue to support Business Partner program
    ii. Continue to support a successful FLOWER program
    iii. Provide support for Owner Meetings/Forums and effectively communicate to owners in a timely manner
    iv. Continue to support outreach and education partnership opportunities
    v. Support to Participating Owner Program by utilizing POs for education and outreach
    vi. Evaluate success of Owner Appreciation Events
    vii. Implement customer satisfaction survey
        - Measurements
            a. Increase in business who are Co-op Business Partners
            b. Increased FLOWER participation
            c. Increased attendance at Owner Meetings and other outreach events
            d. Continued evolution of communication channels with improvements
            e. Increased utilization of Participating Owners
            f. Owner Appreciation Events directly linked to our mission and values
            g. Customer satisfaction survey results analysis

c. Objective 3 – Education
    i. Update brochures, recipe cards, and other specific information sheets used to educate shoppers and increase sales
    ii. Continue to revamp the demo program to provide more educational opportunities in-store
        - Measurements
            a. Updated marketing materials + new marketing materials used for education in-store
            b. Increased active demos & passive sampling opportunities
            c. Development of specific types of store tours: New Owner tour, Sustainability tour, tours for specific dietary restrictions

III. Human Resources Plan

a. Objective 1 – Wage work
    i. The Co-op strives to be an amazing place to work. In order to achieve this, we must pay competitively
    ii. Implement cross-training programs in all departments
        - Measurements
            a. HR will work with the GM to finalize and implement a plan for competitive pay adjustments that raise our starting wage to $10 by 2019
            b. HR will investigate the feasibility of providing employees with a statement of their total compensation package, at least semi-annually
            c. Develop a system for hiring and cross-training that ensures adequate coverage for absences

b. Objective 2 – Bench strength
    i. Leadership development is required for our continued success and for future opportunities
        - Measurements
            a. HR will develop additional manager trainings in identified skillset areas
            b. HR will develop a formal succession planning process to ensure backup for critical tasks/job duties, and to develop a bench of candidates for leadership advancement.
            c. HR will investigate the development of a formal Mentor Program to prepare internal candidates for promotional opportunities
            d. HR will develop standards for ongoing professional and leadership development for management, ensuring a high standard of performance is modeled.

c. Objective 3 – Sustainability
    i. Conduct and assessment of HR processes with the intent of reducing our impact on the environment and improving department efficiencies.
        - Measurements
            a. Implement changes to processes that increase efficiencies.
            b. Move towards paperless HR using Orbital Shift and Kronos tools.

IV. IT Plan

a. Objective 1—Price audits
    i. The IT Department will work with operations departments on an automated system for price auditing. Items are not currently checked for adherence to established margins and rounding rules on a frequent enough basis. IT will develop and maintain an automated system for routine price audits for adherence to established margins and rounding rules.
        - Measurements
            a. In coming fiscal year, IT department will develop system for correcting pricing errors and implement, bringing all items into established parameters.

b. Objective 2 – Information accuracy
    i. Currently, the system for getting labels and ingredient information on kitchen and bakery products is cumbersome and error prone. The IT department will work with these departments and outside vendors in order to make sure that information is consistent across costing system, the POS system, and all scales.
        - Measurements
            a. Information is consistent in all three locations and departments are able to efficiently print labels containing all necessary information.

c. Objective 3 – Loyaltybot
    i. The IT department will coordinate with Marketing department and Retail Support team to implement Loyaltybot automated coupons. This system has the capability to automatically email customers based on set rules, with the intention of increasing sales.
        - Measurements
            a. Loyaltybot is configured and sending email to customers.
            b. ROI is sufficient to pay for itself

d. Objective 4 – Sustainability
    i. IT will develop and implement system for digitizing all past owner sign-up sheets and develop and implement system to digitally capture all future owner signups.
        - Measurements
            a. All physical owner sign up forms are digitized and all new owner sign-ups will be captured digitally.

e. Objective 5 – Catapult training
    i. IT will develop and implement a Catapult University program to train all employees (when appropriate)
        - Measurement
            a. Every employee will be trained by the end of FY2017.

V. Finance Plan

a. Objective 1—Planning
    i. Review the historical performance of the Co-op and evaluate past allocations vis-à-vis improving the connection to our Global Ends.
        - Measurement
            a. In pre-planning the budget, successfully meeting with staff to move the Co-op forward in ensuring closer synchronization of budgetary planning and Global Ends for upcoming years.

b. Objective 2 – Collaboration
    i. Collaborate with staff to set a budget ensuring the short and long term financial health of the Co-op.
    ii. Monitor performance and make corrections as necessary to meet or exceed budget expectations.
        - Measurements
            a. Creating of a pro-forma income statement
            b. Regular production of reports showing department performance compared to budget
            c. Course correct as necessary during the fiscal year
            d. Fiscal compliance to budget
            e. Provide education for managers on financials

c. Objective 3 – Sustainability
    i. Conduct and assessment of Finance Department processes with the intent of reducing our impact on the environment and improving department efficiencies.
        i. Measurements
            1. Implement changes as needed to reduce inefficiencies and streamline workflow
            2. Go paperless if/when possible

d. Objective 4 – Auditing
    i. Work with Wegner to complete first-ever financial audit work in spring 2017.
        i. Measurements
            1. Implement audit recommendations

Moscow Food Co-op

Summary Income Statement

2017-2019

	FY 2016 Actual	FY 2016	FY 2017	FY 2018	FY 2019
Ordinary Income/Expense					
Income					
40000 · SALES	11,369,563.09	11,324,773.38	11,763,906.20	12,172,113.75	12,594,486.09
Total Income	11,369,563.09	11,324,773.38	11,763,906.20	12,172,113.75	12,594,486.09
Cost of Goods Sold					
50000 · COST OF GOODS	6,585,313.90	6,483,538.63	6,747,192.93	6,981,924.44	7,224,197.22
Total COGS	6,585,313.90	6,483,538.63	6,747,192.93	6,981,924.44	7,224,197.22
Gross Profit	4,784,249.19	4,841,234.75	5,016,713.27	5,190,189.30	5,370,288.87
Expense					
60000 · PERSONNEL EXPENSES	3,187,943.23	3,406,792.12	3,271,098.28	3,385,064.83	3,502,526.58
71000 · OCCUPANCY EXPENSES	378,047.65	386,641.17	474,318.00	490,536.18	507,557.79
72000 · OPERATIONS EXPENSES	959,430.23	887,010.76	1,131,897.16	1,170,957.34	1,211,589.56
72600 · GOVERNANCE EXPENSES	40,597.30	39,042.00	37,465.00	38,950.76	40,302.36
Total Expense	4,566,018.41	4,719,486.05	4,914,778.44	5,085,509.12	5,261,976.29
Net Ordinary Income	218,230.78	121,748.70	101,934.83	104,680.18	108,312.58
Other Income/Expense					
Other Income					
80100 · OTHER INCOME	60,805.12	26,820.00	15,300.00	15,823.75	16,372.83
Total Other Income	60,805.12	26,820.00	15,300.00	15,823.75	16,372.83
Other Expense					
80500 · OTHER EXPENSES	585.20				
Total Other Expense	585.20				
Net Other Income	60,219.92	26,820.00	15,300.00	15,823.75	16,372.83
Net Income	278,450.70	148,568.70	117,234.83	120,503.93	124,685.41
Key Management Ratios					
Gross Margin	**42.08%**	**42.75%**	**42.64%**	**42.64%**	**42.64%**
Labor Margin	**28.04%**	**30.08%**	**27.81%**	**27.81%**	**27.81%**
Net Income before Taxes	**2.45%**	**1.31%**	**1.00%**	**1.00%**	**1.00%**