MOSCOW FOOD CO-OP
General Manager Monitoring Report

General Manager's Monitoring Report – March 8, 2017
Policy Type: **Executive Empowerment** Policy Title: B2 – Business Planning and Financial Budgeting
I report compliance with all parts of this policy.

Melinda C. Schab, GM Moscow Food Co-op

Attachments

- Operating Plan FY 2017-2019
- FY 2017 budget
- Livable Wage Model background
- Livable Wage Calculator results
- Disclosure of planning assumptions

Policy Language

The General Manager must not operate without annual budgets and multi-year plans that address intentional and incremental progress towards Ends accomplishment along with avoidance of fiscal jeopardy.

Interpretation

Financial planning is essential to avoid financial jeopardy. The Moscow Food Co-op will have in place a multi-year plan containing, as a component, a financial plan crafted to ensure the fiscal success of the co-op. The plan also addresses the desired results in a larger context, including the social and environmental goals with the appropriate planned activities, so as to reasonably comply with the limitation policies while pursuing the desired results inspired by the Ends policies.

Operational Definitions

- The Co-op will operate with a multi-year plan updated for each fiscal year.
- The plan will be aligned to the board-stated Ends policies.
- In B2.1a, the Board has defined "fiscal jeopardy" as those conditions that do not meet the criteria set in the Financial Conditions (B1) policy. The budget included as part of our annual planning will be designed to meet or exceed those criteria.

Data

- The operating plan for FY 2017 is included with this month's board packet.
- Within the operating plan, pages 13-18 describe the connection between the Ends policies and the operational plans.
- See B2.1a below for data about fiscal jeopardy.

GM Note:

The attached operating plan is a summary and distillation of all research and inputs. The Co-op's plan is distributed to a wide audience. For prudence and confidentiality, the financial worksheets in the plan are condensed statements.

The GM respectfully reminds the board that this is an operational document and is not presented for Board ratification.

Data: Compliance with the primary points of all the sub-policies will demonstrate compliance.
I report compliance with the top level policy.

Policy Language
The GM must not:

B2.1 Create plans or budgets that

a. *Risk incurring those situations or conditions described as unacceptable in the Board policy "Financial Condition and Activities."*

Interpretation
In executive limitation terminology, the operating plan is designed to guide the co-op financially and set goals and procedures in place that avoid the unacceptable conditions as set forth in the B1 – Financial Condition and Activities policy. In terms of planning, the essential criteria are those that require sufficient sales, net income, debt to equity and cash reserves. The GM has provided the Board the Operational Definitions for these criteria in the B1 report dated March 2017.

Operational Definition
Each budget for the Co-op will show planned financial conditions within the limits defined in policy B1

Data

Policy	Financial Condition	FY 2017 Budget Projection	
B1.1	Sales growth >3%	Sales growth =	3.42%
B1.2	Net Income > 0.5%	Net Income =	1%
B1.4	Debt to Equity < 1	Debt to Equity =	0.7
B1.11	Cash Reserves > 10 days	Cash Reserves =	>25 days

Data supports compliance.

B2.1 Create plans or budgets that

b. *Omit credible projection of revenues and expenses, owner investment and return, separation of capital and operational items, cash flow, and disclosure of planning assumptions.*

Interpretation
The GM will plan for the success of the Co-op, both in the short term and the long term by beginning with a realistic forecast of sales. Over the last several years, the co-op has developed a detailed method of projecting revenue based upon historical data and trend analysis. With projected revenue in place, expenses are proportionally allocated. Net revenue is projected to reflect a positive cash flow and return on owner investment. A capital budget is prepared to

both replace equipment and to support strategic initiatives. Assumptions on revenue, cost and capital purchases are carefully examined and reviewed using historical data and current trend analysis.

Operational Definition

- Projection of revenues (sales), expenses, and owner investment equity are based on historical data and trend analysis.
- We don't specifically make projections of patronage dividends, but we strive for a positive net income – from which a patronage dividend is derived.
- A capital budget is prepared separately from the operational budget.
- Cash flow projections are clearly shown.
- Assumptions we make in creating the operating plan and annual budgets will be clearly stated in writing in the plan.
- I test the overall credibility and reasonableness of the plan, including the embedded projections and assumptions, by having the plan reviewed internally by our Leadership Team (Retail Support Team) and externally by other knowledgeable professionals when appropriate.

Data

- The trend analysis summary is found in the body of the operating plan and sales and income projections are shown on the FY2017 pro forma income statement. All historical data are stored separately.
- The pro-forma budget shows that we plan for a net income before patronage dividends of $117.234.83
- A separate capital budget was prepared for FY2017 and is based entirely on the equipment needs of our remodel plan.
- Cash flow projections for FY 2017 indicate positive cash flow. Projections were derived based on the positive net cash provided from operating activities and the cash required for investing and financing activities.
- Assumptions to the financials are included in supporting documentation.
- The Leadership Team (Retail Support Team) has reviewed the plan. The plan has also been partially shared with peer GMs as part of our NCG quarterly check-in calls.

Data supports compliance.

B2.1 Create plans or budgets that

c. *Do not address excellence in business systems and operations.*

Interpretation

Business and operating plans for the Moscow Food Co-op must address excellence in business systems and operations.

Operational Definition

We've identified what we call Organizational Critical Issues that address improvements to be made in our business systems and operations

1. Sustainable Workforce

   a. Total Compensation Package – increase wages to be more competitive
   b. Bench Strength – leadership development for future opportunities
   c. Succession Planning – formal succession planning and career paths at all levels
   d. Employee engagement with the Co-op – dedication to customer service and great food
2. Cost Control
   a. Managing labor to budget
   b. Margin and cost of goods management
3. Accountability
   a. Consistency across all departments
   b. HR Training
4. Systems Development
   a. Departmental SOPs
   b. Technology – fits our changing needs as a growing organization
5. Competition
   a. Customer service
   b. Knowledgeable staff

Data

- All critical issues are addressed in the Operating Plan:

Critical Issues	pages
Sustainable Workforce	
*Total Compensation Package	16
*Bench Strength	16
*Succession Planning	16
*Employee Engagement	15 &16
Cost Control	
*Labor budgets	14 & 18
*Margin & cost of goods	15 & 18
Accountability	
*Consistency	13 & 16
*HR Training	16
Systems Development	
*SOPs	14
*Technology	14, 15, 16
Competition	
*Customer Service	13 & 15
*Knowledge	13 & 15
*Best Practices	14

Data supports compliance.

B2.1 Create plans or budgets that

d. Have not been tested for feasibility.

Interpretation

This policy provision applies to major projects: expansions, relocations, or other plans that require substantial debt. In *The Expansion Toolbox,* Bill Gessner outlines five ways to assess the feasibility of a major project: market feasibility, internal readiness, financial feasibility, design feasibility, and risk assessment. The Co-op will not undertake any major project unless we have assessed feasibility in this way.

Operational Definition

Feasibility analysis for any major project will satisfactorily answer the following questions:

- Financial and Capital analysis
  - Can we raise the money?
  - What are the financial projections, ability to repay debt, return on investment, etc?
- Market analysis
  - What are the sales projections?
  - What is possible in our trade area?
  - Are we thinking too big or too small?
- Organizational Capacity
  - Do we have the capacity (leadership, governance, management, staff, systems, alignment, owner engagement, commitment) to handle this project?
- Design
  - Can the facility be operated efficiently as a store? Will products, work and customers be able to flow effectively?
- Worst case scenario/contingency planning
  - What could go wrong and are we prepared?
  - Do we have sufficient cash to weather disruptions of a variety of types?
  - Are the contingency funds and working capital sufficient?

Data

- Expansion to Pullman
  - Financial and capital analysis are addressed in the pro forma budget prepared by the Development Co-op
  - Multiple market analyses were provided by CDS Consulting Co-op
  - Organizational capacity work is currently being done by management and staff
  - Design feasibility will be addressed when we arrive that stage of the project
  - Worst case scenario/contingency planning will be addressed when we have a property/design and can imagine the best case scenario.
- Remodel
  - Financial and capital analyses are addressed in the pro forma budget prepared by the Development Co-op.
  - Market analysis work was provided by CDS Consulting
  - The remodel project doesn't require any changes to our current capacity.
  - Store designers at the Development Co-op developed the floor plan

- Worst case scenario/contingency planning is being addressed by Management with the assistance of the Development Co-op.

Data supports compliance.

B2.2 Provide less for Board activities during the year than is set forth in the board budget.

Interpretation
I interpret this to mean that the Annual Budget with the Operating Plan contains adequate funds for governance as called for by the Board.

Operational Definition
The Board's budget is included in the Operating Plan. If the Board fails to submit a budget, the General Manager and the Finance Manager create one based on the previous year's expenses.

Data
The FY 2017 budget on page 19 of the Operating Plan contains a line item for Cost of Governance showing $37,465.00. This is a slight decrease compared to 2016 because of changes in training costs & locations.

Data supports compliance.