MOSCOW FOOD CO+OP

Moscow Food Co-op
Work Plan

FY 2020

Executive Summary

The Moscow Food Co-op is Moscow, Idaho's downtown grocery store. The Co-op is owned by over 7800 community members and has operated for 46 years.

In 2005 the Moscow Food Co-op moved to its current location in the heart of downtown. Store sales have grown exponentially. 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.

Reinvestment in the Co-op is essential for long-term viability in our downtown location. Therefore, we undertook a major remodel/reset project of our Center Store in 2018. This work included replacing inefficient equipment, updating our bulk shopping fixtures, and increasing available back-stock areas. The primary objectives of this project were to improve the customer experience, to increase our energy efficiency, and to boost staff morale. So far, we've been delighted by the preliminary results.

In January 2018 the Moscow Food Co-op opened its first satellite location located at 822 Elm Street on the University of Idaho campus.

We spent all of 2019 preparing to relocate the Co-op's bakery into a new location at 630 N. Almon Street. This new-to-us facility more than triples the bakery's production space.

The mission of the Co-op is determined by the Board of Directors and was updated in 2014. The Board worked hard during 2019 to reinvent our Ends statement. This led to the adoption of new Ends policies clarifying the long-term objectives of the Co-op. This Work 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. We will regain 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 serious problem for the Co-op historically. In the past several years we have made tremendous gains in controlling and reducing labor costs and thoroughly reviewing our cost of goods. We still haven't recovered from the margin erosion we experienced in both 2017 & 2018. Remedying this is our number one priority for retail operations.

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

Melinda C Schab
General Manager

2020 Priority Work aligned with the Global Ends

New Ends Policy – The Moscow Food Co-op is at the heart of a thriving, healthy, and inclusive community where:

1. We embody and embrace cooperative principles and values.
2. All community members have local access to environmentally friendly, socially responsible, and healthful choices.

While developing our preliminary interpretations and operational definitions of this new policy, we're still prioritizing the work that aligns with our owners' priorities:

- **From the February 2019 Co-op Heart Activity in order or priority:**
    1. We provide nutritious local food
        - We will continue to grow our local sourcing and develop relationships with additional vendors
        - We will continue to offer healthy food options to consumers
        - We will be responsive to customer feedback with respect to development of healthy food options
    2. We support and value our local economy
        - We will continue to support our local economy by choosing to do business local whenever possible
        - We will continue to actively participate in Buy Local Moscow and the Moscow Chamber of Commerce
        - We will look for opportunities to build relationships with other downtown, locally owned businesses
        - We will continue to refine our Business Partner Program
        - We will work to improve our business operations
    3. We model environmental sustainability
        - We will continue to compost, participate in TREX, recycle, bale our cardboard, offer real cutlery for take-out, work to make additional packaging changes that reduce plastics, and track our consumption through NCG's Co+Efficient platform
        - We will continue to reward customers for riding a bike or walking instead of driving a car
        - We will work to recover more food waste from our business operation
        - We will work towards producing our own sustainability report
        - We will look for additional ways to reduce our own impact
    4. We support and enhance our community
        - We will continue to partner with community organizations whose missions/goals align with those of the Co-op. We will look for new partners and new ways to partner to strengthen our community
        - We will continue to offer access discounts to ensure that the Co-op is as accessible to all segments of this community as possible

5. <u>We foster positive relationships internally and externally</u>
    - We will continue to monitor internal staff treatment for equity and fairness
    - We will continue to be responsive to customer feedback
    - We will continue to bring-to-life the cooperative principles and what they stand for
    - We will develop a staff training about cooperative values and how they inform workplace relationships
6. <u>We offer educational opportunities to community</u>
    - We will continue to offer cooking classes, healthy living classes, classes about food and drink, and more
    - We will continue to partner with key players like the Palouse Clearwater Food Coalition, UI Extension, and others to brink educational opportunities to our area
7. <u>We grow in a sustainable and responsible way</u>
    - We are undertaking this e-commerce project at a slow pace so as to not disrupt business
    - We do not have any expansion plans on the horizon
    - We will need to invest in some prepared foods prep space upgrades as cash flow can support that investment

Back to Basics

Department Priorities: Campus

2020 Campus Financial Goals	
Sales Growth	3%
Margin	37.3%
Labor	24%

1. Achievement of key financial indicators
2. Work with downtown store staff to adjust product mix to further grow sales
3. Provide excellent quality and consistent quality coffee drinks
4. Stock enough prepared foods options to maintain an abundant display, at least Monday through Thursday
5. Work with IT to streamline UNFI ordering using Auto-reorder feature in Catapult
6. Achieve a positive net income at year-end

Department Priorities: Bakehouse

2020 Bakehouse Financial Goals	
Sales Growth	5%
Margin	64%
Labor	31.2%

1. Achievement of key financial indicators
2. Get settled into new, larger facility, working out adjustments to flow.
3. Plan to grow sales 10% (beating budget by 5, meeting NCG project proforma budget)
4. Increase production to eliminate OOS (out-of-stocks) on key items and to create consistently abundant displays
5. Grow wholesales business accounts in a sustainable, paced manner
6. Continue coordinating bakery merchandising and packaging solutions that reduce plastic reliance and appeal to customers

Department Priorities: Front End

2020 Front End Financial Goals	
Labor	2.53%

1. Achievement of labor budget goals
2. Work with Marketing to achieve 3% increase in ownership in 2020
3. Elevate store conditioning
    a. Establish standards of cleanliness and systems for maintaining those standards, including public restrooms, parking lot and entrances, outdoor trash removal, and assist with deli seating area
4. Customer service excellence

Department Priorities: Center Store

1. Achievement of key financial indicators
2. Manage OOS to zero caused by Co-op errors
3. Improve endcap merchandising and rotation to drive sales
4. Build systems for training, development, and accountability to ensure that operations are stable with regards to customer service excellence, cleanliness, set maintenance, and stocking
5. Actively seek out opportunities to cross-merchandise with other departments
6. Conduct regular price updates to ensure margin goals are being met. Set prices with the Co-op's price perception and access goals in mind
7. Seek out local, sustainable, and organic food and goods to enhance our product mix
8. Work to reduce plastic reliance in Center Store and increase plastic-free options and possibilities

2020 Center Store Financial Goals			
Sales Growth		Margin	Labor
Packaged	2%	37%	4.6%
Bulk	1%	38%	
Refrigerated	4%	32%	
Frozen	4%	36%	
Vendor Bread	3%	32%	
Bulk Tea	1%	46%	
Beer & Wine	3%	29%	
Non-Foods	4%	35%	
Body Care	1%	42%	7.30%
Mercantile	1%	45%	
Supplements	2%	48%	
Publications	0%	30%	
Logo	10%	20%	

Department Priorities: Meat

1. Achievement of key financial indicators
2. Ensure that department displays communicate cleanliness, abundance, and organization.
3. Maintain full displays at all times
4. Practice category management to ensure in-demand items are consistently in-stock, while maintaining appropriate levels of inventory overall
5. Focus on customer service excellence in the meat department

2020 Meat Financial Goals	
Sales Growth	3.5%
Margin	29%
Labor	13.2%
Turns	24

Department Priorities: Prepared Foods

2020 Prepared Foods Financial Goals			
Sales Growth		Margin	Labor
Deli	1%	64%	33.1%
Coffee Bar	1%	60%	
Cheese	3%	39%	

1. Achievement of key financial indicators
2. Ensure that the Co-op is maintaining high standards for food safety
3. Elevate customer service in the Deli
4. Implement systems to maintain full sets during all business hours: Salad Bar, Hot Bar, Self-serve salad bar (cold bar), Grab & Go, Cheese Case
5. Ensure excellent quality and consistency of coffee bar beverages
6. Implement and deploy a hot cereal program
7. Offer packaged soups in the Grab & Go
8. Reduce shrink by developing exit strategies for cheese and baked goods
9. Coordinate merchandising and packaging solutions that reduce plastic reliance and appeal to customers

Department Priorities: Produce

2020 Produce Financial Goals	
Sales Growth	5%
Margin	34%
Labor	10%

1. Achievement of key financial indicators
2. Manage shrink to 4% or less
3. Eliminate OOS on key items
4. Maintain consistently abundant displays
    a. Develop never-out list
5. Ensure staff are focused on delivering consistently excellent customer service
6. Create impactful promotions and prepare for biweekly fresh flyer
7. Use the front table to create exciting promotional displays that are attention-grabbing
8. Improve department margin while managing price perception

Other Business Priorities

1. Customer Satisfaction
    a. Use Customer Experience Survey program data to improve the quality of customer service at the Co-op
        i. The goal is to achieve better than an 85% on metrics for *Overall Satisfaction, Availability of Staff, Friendliness of Staff, Helpfulness of Staff, Cleanliness of Store, Availability of Products,* and *Greeted by Someone Other Than Cashier*
    b. Customer Feedback (comment cards) is always responded to within a week
    c. Prioritizing cleanliness in all public areas
2. Turnover reduction
3. Marketing Priorities
    a. Increasing Ownership Numbers & equity investment dollars by:
        i. Converting owners to lifetime owners
        ii. Recruiting new owners
        iii. Metric: 3% ownership growth year-over-year

b. Increasing Customer Count by:
    i. Driving extra weekly visits to the Co-op
    ii. Renewing relationships with former customers/inactive owners
    iii. Attracting new shoppers to the Co-op
    iv. Encouraging more staff to shop at the Co-op
    v. **Metric: Customer Count recovery to 2016 levels (average of 1540 per day) or better**
    vi. **Metric: Improving Average Daily Sales to exceed $33,000**
c. Increasing Average Basket/Basket lift by:
    i. Merchandising/signage improvements
    ii. Increase in passive demos throughout the store
    iii. Revamp the Demo Program for active demos, including FED
    iv. Coordinate promotions specifically intended to build baskets
    v. Improve the Staff Picks Program
    vi. **Metric: Average Basket consistently above $20 downtown and $5 on campus**
d. Controlling expenses
    i. Conduct an advertising audit to determine what advertising options have been the best investments
    ii. Review programs for efficiency gains, effectiveness, alignment with Ends

4. <u>Administrative Priorities</u>
    a. HR
        i. Handbook update and sent for legal review
        ii. Follow up on feedback and suggestions from the Employee Opinion Survey
        iii. Systematic pay increases to bring up the starting wage from $10/hour to $11/hour effective January 2021
        iv. Investigate Beekeeper for improved internal communication
        v. Customer Service Class update and reboot
    b. <u>Finance</u>
        i. Develop content for Board training on Co-op finance. Implement training in 2020
        ii. Modify Board training content for Managers and implement
        iii. Update 2009 profit sharing/gainsharing plan and launch in 2020
    c. <u>IT</u>
        i. Hire a Managed Services Provider for out-of-house IT oversight
        ii. Ensure MSP has offsite back-up capabilities
        iii. Firewall replacement and upgrades
        iv. E-commerce project – finish development and launch in 2020
    d. <u>Facilities</u>
        i. Simplify the facilities ticket system to make it user-friendly and more effective for Managers and staff

Moscow Food Co-op

Summary Income Statement

2020-2022

Future Scenarios	2019 Actual	2020	2021	2022
Total Income	$11,521,375	$11,902,979	$12,379,098	$12,874,262
Cost of Goods	$6,718,186	$6,884,616	$7,056,086	$7,338,329
Gross Profit	$4,803,269	$5,118,882	$5,323,012	$5,535,933
Expenses				
Personnel	$3,117,003	$3,167,054	$3,218,565	$3,218,566
Occupancy	$443,889	$452,197	$470,406	$4,589,222
Operation	$1,285,024	$1,463,205	$1,521,391	$1,582,247
Governance	$27,959	$22,808	$23,000	$23,000
Total Expenses	$4,873,874	$5,135,263	$5,233,362	$5,313,035
Net Ordinary Income	-$70,605	-$16,382	$89,650	$222,898
Other Income	$50,135	$4,164	$0	$0
Net Income	-$20,470	-$12,218	$89,650	$222,898
Key Ratios				
Gross Margin	41.70%	43.00%	43.00%	43.00%
Labor	27.10%	26.60%	26.00%	25.00%
Net Income before Taxes	-0.20%	-0.10%	72.00%	1.73%

RESOURCES

1. NCG September 2019 Trends Report
2. Prepared Foods Department Summary Recommendations from Ken Wallace

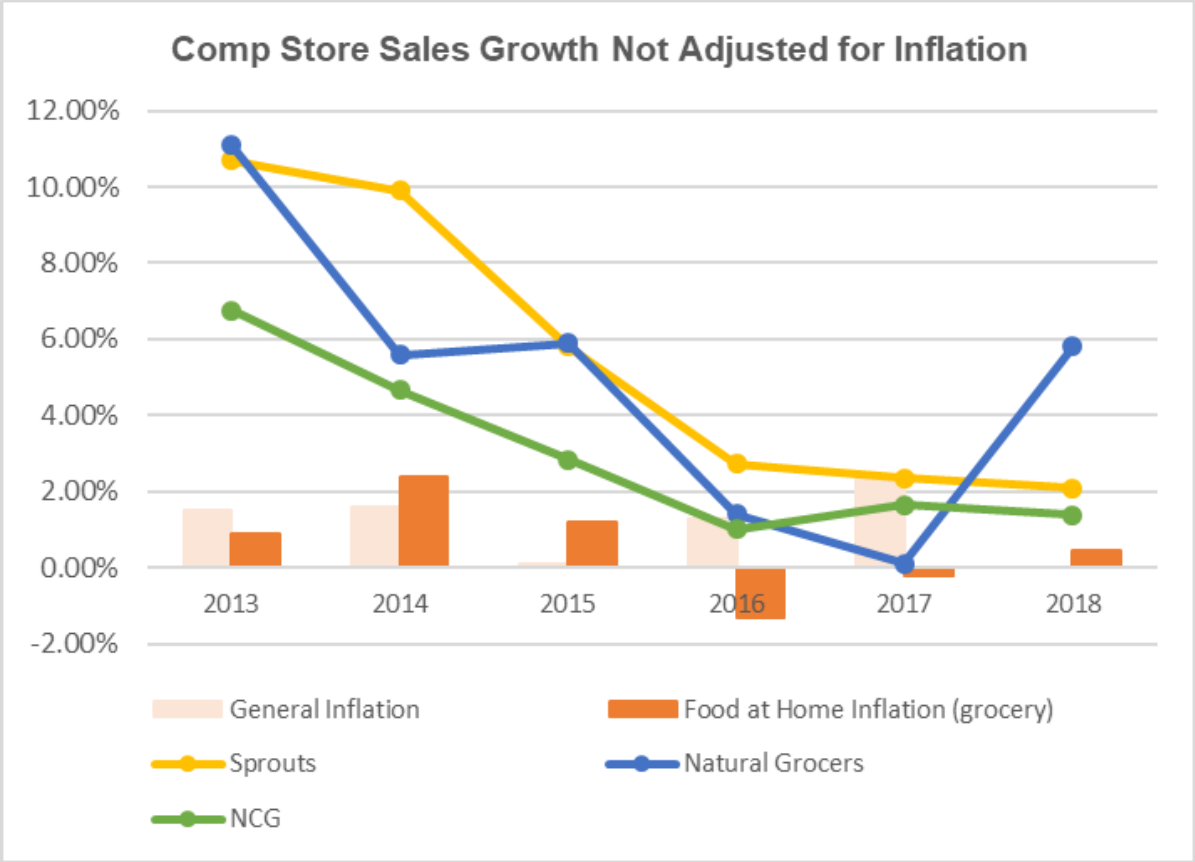
NCG September 2018 Trends Report
A Summary

Introduction

- Natural products sales are growing
  - Sales in 2018 reached $158 billion, up 6%
  - Natural products retailers saw 3.2% growth; sales of natural products at conventional retailers up 7.1%
- Organic is the fastest growing label
  - Organic industry grew 6% in 2018
- 90% of co-op shoppers would recommend their co-op to others
- Price is by far the biggest deterrent to shoppers spending more at their co-op

NCG Co-op Performance

- NCG co-op same store sales grew in 2018, but at a slower rate than 2017



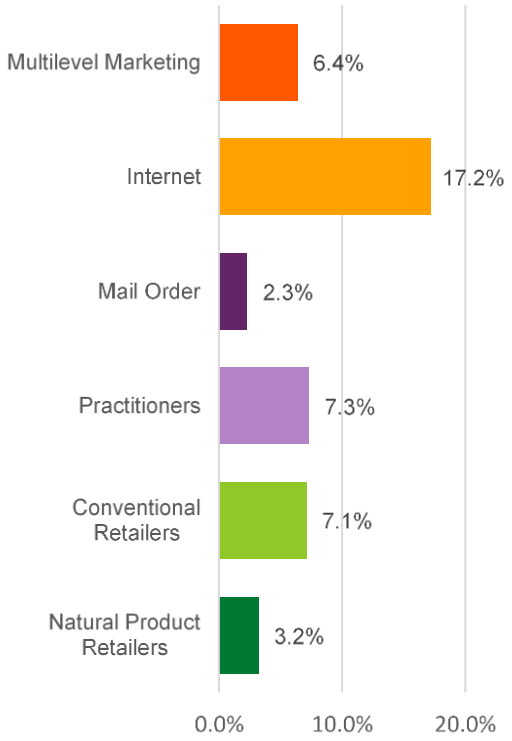
- In 2018, NCG co-op earnings reached a new low as a percentage of sales

Retail Landscape

Natural Products Sales

- In 2018, sales of natural products – for conventional and natural product retailers – were up about 6%, for a total of $158 billion
- For natural products retailers, sales in 2018 totaled $58 billion. Total organic sales in natural products stores were $18.2 billion, up 2.7% from 2017
- 64% of natural product retailers saw an overall net sales increase in 2018, and 49% are expecting stronger growth in 2019
- For conventional retailers, sales of natural products totaled $70.3 billion

Growth by Channel:



Growth: Within the natural product channel, these categories showed the greatest growth in 2018:

- Meat, fish and poultry = 6.1% growth
- Supplements = 3.8% growth
- Snack Foods = 3.5% growth
- Packaged/prepared foods = 3.3% growth
- Beverages = 3.2% growth
- Fruits and vegetables = 2.9% growth

Organic Sales: top categories for organic product sales in the natural products channel

- Fruits and vegetables = $5.9 billion in organic sales; account for 33% of all organic sales

- Dairy = $2.66 billion in sales; 15% of all organic sales
- Beverages = $2.25 billion in sales; 12% of all organic sales

Competition and Regional Competitors

- Consumer Report rated 96 grocers based on a survey of 75,000. Price was cited as the top reason for choosing a grocery store
- Regional grocery chains are the primary source of competition for food cooperatives.
- Many middle-sized natural chains are moving into markets where consumer demand for natural and organic is high
- The number of natural retailers finding a new competitor in their neighborhood declined from 35% in 2014, to 22% in 2018
- Whole Foods Market
    - Opened its 500th store in April 2019
    - Four years ago, Whole Foods started opening its smaller-format, value-focused, no-frills chain called 365
    - By the end of 2019, all 12 of these 365 stores will be converted to traditional Whole Foods stores
    - Increased supplier costs have led to higher prices on around 600 items
- Kroger
    - Sales grew just 1.5% in 2018, vs. Walmart's 3% growth
    - Kroger sold its convenience store business in 2018
    - Expanding home delivery and pickup offerings
- Costco
    - Sales increased 9.7% and profit increased 17% in FY 2018
    - Plans to open 21 new stores in both 2018 and 2019
    - Private label Kirkland Signature was the biggest driver of sales growth
    - Has loyal customer base; 90% member renewal rate in U.S.
    - Research by JP Morgan reports that Costco prices are 58% lower than Whole Foods
- Natural Grocers
    - Sales climbed 8% in the first half of 2019 vs. 2018. For Q1 2019, net sales rose 6.7% to $230 million
    - Private label is a focus of growth. Natural Grocers launched its store brand with 35 SKUs last fall and has expanded with another 75 items since
    - Plans to open 8 new stores and relocate 5 stores in 2019
- Target
    - $14.5 billion – or 20% -- of the company's total 2018 sales (which totaled $74.4 billion) was in food and beverage. This reflects 20% growth in the food and beverage category in 2018

Consumer Trends

Shopping Habits

- Among all shoppers
  - Half of shoppers use the supermarket as their primary grocer
  - 22% say a supercenter is their primary grocer
- Among Co-op shoppers
  - One-third spent half or more of their grocery budget at the co-op
  - Almost 60% shop at their co-op at least weekly
  - Shoppers say lower prices would increase their spending (by a wide margin), followed by better product selection, more local products and improved store location
- The level of satisfaction among all shoppers with their primary grocery store rates 8.7 out of 10
- Most important attributes in a primary store
  - High-quality fruits and vegetables (78%)
  - High-quality meat (76%)
  - Low prices (76%)
  - Clean, neat store (75%)
  - Great product selection and variety (75%)

Health and Wellness Partners

- Consumers see the grocery store as an ally in their quest to eat healthier
- Top 5 health benefits consumers seek from food
  - Cardiovascular health
  - Weight loss and weight management
  - Energy
  - Brain function, memory, focus, cognition
  - Digestive health
- Consumers cite enjoyment and connection with other people as healthy benefits of eating well

Sustainability

- Sales of "sustainable" products have grown 20% since 2014
- Globally, consumers are willing to pay a premium for sustainability features
- Gen Z and Millennials are especially likely to seek out sustainability information
- 95% of core sustainability consumers make purchases with concern for helping their local community
- Sustainable packaging and reduction of plastics is of increasing consumer importance

Trust and Transparency

- Trust translates to shopper loyalty, which translates to sales
- 49% of consumers say grocery and food retailers are very or somewhat trustworthy

- 93% of shoppers say it's important for brands to provide information on food ingredients and how products were produced
- 86% of shoppers have greater trust for manufacturers and retailers that provide more in-depth info beyond the label
- Only 24% of consumers trust the word "natural," yet 51% who purchase natural products believe they are more nutritious

Shopping Habits

- 10% of U.S. shoppers subscribed to a meal kit delivery service in the last year, up from 5%
- 12% of men use meal kits vs. 8% of women
- 25% of shoppers use the app provided by their grocery store
- Digital coupons, weekly sales, and communicating with family about shopping are the primary uses of smartphones in stores

Food Trends

Local

- 75% of shoppers prefer to buy products from their community or region; 39% of consumers are buying more local products than one year ago
- Perceived benefits: supports local businesses and families; local foods are fresher; reduces pollution from transport

Organics

- Organic industry grew 6.3% in 2018; sales of $52.5 billion. That's more than double the rate of 2.8% growth shown by the overall food market
- Food accounts for more than 91% of all organic sales
- Sales trends in key categories
    - Produce: The largest organic category. 15% of produce sold in the U.S. is organic; sales up 5.6% to $17.4 billion in 2018
    - Bread: Up 22% over the past four years
    - Cheese: Four-year growth rate of 26%
    - Eggs: 16% growth
    - Baby food: Accounts for 26% of the overall category; four-year growth rate of 11.6%
    - Meat: Organic fresh meat up 14% in the past four years

Produce

- Sales up 1.7% over 2017
- 84% of shoppers prefer to buy locally grown produce, associating it with higher quality and better shelf life
- Trends in key categories
    - Value added: 28% of all shoppers and 55% of core shoppers will purchase more value-added items in the coming year
    - Snacks: 4 in 10 shoppers want convenient shack-size vegetables and fruit snack packs

Meat & Poultry

- 86% of shoppers report that they eat meat
- 94% of shoppers purchase meat at a supermarket; only 2% prefer to buy at specialty/organic retailers
- Shoppers are looking for better price and value, better customer service, more variety, more information on where and how livestock were raised.
- Frozen meat say above-average growth of 5.2% in both dollar and unit sales
- Two-thirds of shoppers look for "better-for-you" options like leaner cuts and production attributes; 38% look for local

Seafood

- Sustainable seafood is a strong trend
    - 39% of shoppers buy sustainable seafood
- Average basket is $95 when seafood is purchased

Bakery

- Total sales of bread and baked goods reached $59.7 billion in 2018
- Primary grocer is where shoppers buy 74% of functional items (bread, buns) and 40% of special occasion bakery items (cakes and cupcakes)
- Top 3 most important bakery claims
    - Fresh (70%)
    - Baked today (56%)
    - Made in-store (44%)
    - Shoppers look for whole-grain, multi-grain, no artificial and minimally processed ingredients

Grocery

- Sales of functional beverages are estimated to hit $49 million in 2019 and grow to $62 million by 2022
- Sales of frozen food grew in 2018
- 35% of shoppers increased their consumption of frozen foods in the past year thanks to convenience, easy preparation, taste, price and time savings
- Retail sales of plant-based foods grew 11% in the past year

Food Service

- 2019 food service trends (National Restaurant Association)
    - Cannabis/CBD-infused food and drinks
    - Zero-waste cooking
    - Globally inspired flavors in breakfast dishes and kids' meals
    - Hyper-local, house-made, restaurant gardens, onsite brewing
    - New cuts of meat
    - Vegetable-centric cuisine
    - Craft, artisan and local produced spirits
- Restaurant trends
    - Kids meals: global flavors, gourmet items, healthy meals, mini-burgers
    - Snacks/sweets: Thai rolled ice cream, doughnuts with not-traditional filling, chocolate with new flavors, injera chips, artisan ice cream
    - Produce: less common herbs, locally sourced, imperfect produce, exotic fruit, plant-based meat alternatives
    - Condiments: house-made, North African flavors, schichimi spice, Korean gochujang, berbere

    - Global flavors: North African, West African, Peruvian, Ethiopian and Filipino cuisine; globally inspired breakfasts and street food
    - Grains/pasta: protein-rich grains and seeds; quinoa, rice and buckwheat noodles; ancient grants
    - Protein: new cuts of meat, plant-based sausages and burgers, locally sourced meat, sustainable seafood, heritage-breed meats
    - Non-alcoholic beverages: cannabis/CBD-infused, house-roasted coffee, cold brew, house-made soda, gazoz spritzer from Israel
    - Alcoholic beverages: craft, artisan and locally produced spirits, beer and wine; onsite barrel-aged drinks, culinary cocktails

Supplements

- Sales across all markets grew 6% in 2018 to $46 billion
- At natural products stores, supplement sales were up 3.8%
- Trends in supplements
    - Mitochondria
    - Sleep hygiene: calming herbs like lemon balm, hibiscus, chamomile; topical patches with melatonin, magnesium, valerian, essential oils
    - Other trending ingredients: ashwagandha, mushrooms, turmeric
- CBD
    - Supplement sales up 57%
    - 7% of Americans use them regularly

Body Care

- 68% of American women now purchase natural and organic beauty products, up from 49% in 2008
- Trends in natural body care
    - Green ingredients and packaging; plant cell technology and active ingredients, recycled or compostable packaging
    - Beyond organic: Regenerative Organic Certification
    - Sustainability: Younger shoppers especially expect companies to value sustainability, and seek products with supply chains that have lower risk of environmental damage, human trafficking, child labor

Pet Products

- Dog and cat food sales totaled $27 billion in the U.S. in 2018
- 68% of households have pets
- Key trends in pet products
    - Personalization: food that addresses a pet's individual dietary restrictions, taste preferences and caloric needs
    - Snacking: Owners feed their pets 8 – 10 treats daily
    - Transparency and clean food labels: safe quality ingredients that are sourced in a sustainable, socially and environmentally ethical way
    - Online sales: convenience is key; online sales up 4%

Summary Prepared Foods Department Recommendations
From Ken Wallace, NCG Prepared Foods Specialist
August 16, 2019

Salad Bar

1. Develop a plan to thoughtfully exit cheeses to the salad bar and in sandwich specials (to reduce food waste/shrink)
2. Consider some pre-prepped produce for the salad bar to cut down daily production.
3. Consider cross-merchandising pre-packed bulk on the top of the salad bar
4. Implement a hot cereal program

Grab & Go

1. Par levels need to be followed and production needs to be increased incrementally to keep up with increasing sales
2. Sandwich production and packing composed salads needs to be done in the evening as well as in the morning
3. Shelves should be full, fronted and faced before 9am
4. Create value priced sandwich basics and offer them in both retail locations. Packaged half-sandwiches would be a logical next step

Soups

1. Mason Jar Soup Program

Bakery

1. Consistent supply and placement will drive sales
2. Try creating exit strategies for muffins, bread twists, and pastries to the hot bar in the morning
3. Build consistent schematics and use movement analysis that pair with production of top items
4. Bakery product selection seems to fluctuate with the baking schedule. Consider adding a shelf to the Grab & Go to tighten up the set
5. Consider flavored pretzels for sale

Campus

1. Reduce the size of the green salads.
2. Switch from round containers to clamshells in 8-16-24oz sizes
3. Expand value sandwich line and potentially half-sandwiches