

Business Plan for Relocation

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History

Beginnings:

Co-ops have had a very storied history over the past 170 years. Though cooperative endeavors have been long practiced for centuries, the galvanizing point was in 1850 when a small food Co-op in Rochdale, England presented a simple principles and values list to guide them and they recommended it to other fledgling Co-ops (Appendix A).

Co-ops grew rapidly in England and spread across Europe. Immigrants brought the Co-op ideals with them and they started to flourish in the Midwest and on the East Coast.

A Cooperative is simply a business that acquires most of its capital from its Members, usually in the form of buying equity shares. The Members are actually (legally) its owners and the organization is run on democratic principles. The main difference between a public corporation and a Co-op is that each member gets one vote no matter how much is invested. As Co-ops grow, they generally elect a Board to guide the venture.

United States Co-ops were popular and growing in the 1920s, 1930s and 1940s. But in the 1950s, as large supermarkets started to become ubiquitous over the American landscape as well as folks moving out to the suburbs, the Co-ops declined and most floundered.

In the late 1960s and 1970s, new community Co-ops started to spring up all over the country focused on healthy foods, a healthy community and a healthy workplace. These were called the New Wave Co-ops and are generally credited with bringing healthy food choices to the masses and the start of the Natural/Organic movement.

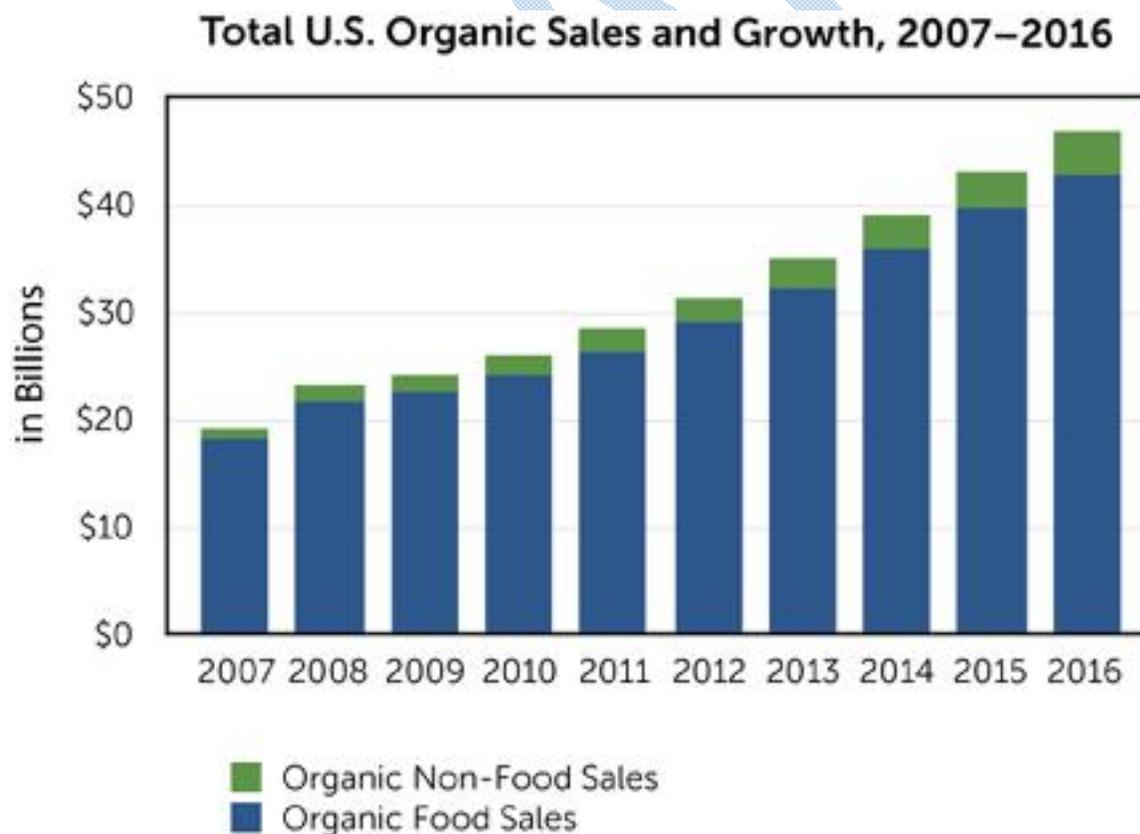
As these Co-ops grew, they created a national organization called the National Cooperative Grocers (NCG) which operates as a food broker leveraging the buying power of its member Co-ops (currently at 146). This allows Co-ops to compete in the rapidly growing segment of Natural and Organic foods.

Organic and Natural Foods:

The New Wave Co-ops were mainly concerned with the lack of quality of the foods being offered in the market place. Not only was there a preponderance of processed foods that had little or no nutritional value, the supermarkets simply did not offer the healthy alternatives. There was no choice.

Concern for health was not only focused on the individual but also on the planet as reports were accumulating showing how industrial farms with massive pesticide spraying was getting into our water supplies and destroying our environment.

While a fringe group during the 70s, people who understand the benefits of a natural and organic lifestyle are growing enormously. All the major supermarkets now carry a wide variety of Natural and Organic products. It is currently one of the fastest growing segments of the food industry:



(Organic Trade Association, "Robust organic sector stays on upward climb, posts new records in U.S. sales", May 24th. 2017)

The Silver City Food Co-op's focus on Natural and Organic foods gives us a very powerful competitive advantage also. We have a well-deserved reputation as being the experts on Natural and Organics. Our Staff has long been knowledgeable about our products and we are known for our exceptional customer service.

We also excel in carrying a large selection of local NM products which are very popular with our Members and Customers and help our local economy.

We have a specialty shop advantage with this growing market segment. Putting a plethora of healthy choices in front of people is often much preferred than having to hunt all over a huge supermarket for the specific items that they desire.

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The Silver City Food Co-op:

It was a lack of natural products in the local groceries that caused a small group of local folks to form a food buying club so they could obtain the foods they wanted. They met at a home on Bullard St just across from our current location beginning in 1974.

The small club grew and opened a store front on Broadway. They kept attracting more and more folks and moved to our current location at the southeast corner of Bullard and 6th St in 1986.

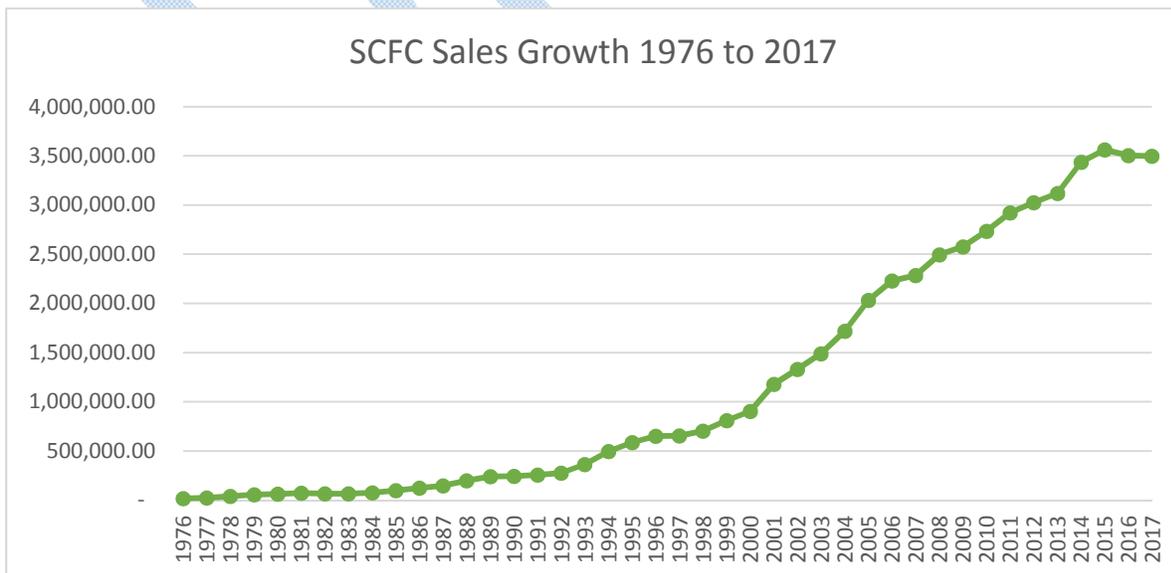
In 2006, busting at the seams, our Co-op purchased the building behind it at 111 6th Street. This is used mainly as our backstock and staging area as well as some offices and our commercial production kitchen.

This warehouse allowed us to carry more product so that we were not out of stock so often. It was a big boon. It is speculative if folks then realized that it would help fuel our growth from 2 million to 3.5 million revenue in 9 years.

Now, the Co-op has maxed the capacity with the stable revenues in the past 3 years pointing to a ceiling at this location.

It was known that we need to relocate and the Board of Directors had decided in Sept 2017 that our goal is to do such.

The Board ensures oversight of the organization, planning for the future and watching that our Mission Statement, our Global Policy and our triple bottom line are enabled.



Current Situation:

- * Our Co-op has experienced explosive growth and we have outgrown our current space.
- * Our narrow aisles are blocked often with just 2 people in them. We employ the smallest shopping carts we can find (width 19") and quite popular are our rolling baskets that are easy to navigate the store though they are very limited in with what they can hold.
- * The limited parking around the Co-op is in competition with the 3 restaurants next to us. It is all city parking.
- * Even worse is that this space is frequented with daily delivery and service trucks for us and our 3 restaurant neighbors. Often there are 2 trucks or more competing for space blocking all parking.
- * Despite the parking and narrow aisle issues, our store receives around 400 people a day - often in large numbers at certain times of day. We have only 2 registers to serve them so lines can get long even with our most efficient cashiers staffing the registers. What's more, a problem transaction, customer, machine or procedure can stop a line for many minutes at a time or much longer.
- * As the Co-op grew, limited space as well as availability prevented us from offering more than a couple of shelves in one door of fresh meat. While we do carry frozen meat, many are shopping for their dinner that day and do not have the time to defrost it. More fresh meat is requested often.
 - * A standard in the grocery industry is to be able to purchase large quantities by the pallet for reduced cost which are either passed on to customers and/or increase margin. Our Co-op is unable to take advantage of the opportunities because we simply do not have the storage room nor the floor room to display the increased stock. This is a loss to both our Members/Customers and our stores profit margin.

- * Our inventory resides in two buildings. With insufficient retail floor space to stock at the industry standard of 1 case plus 3 units minimum, the daily sales volume necessitates stocking throughout the day
- * The all-through-the-day stocking competes with customers for limited floor space further crowding our store.
- * As we have a very loyal Membership who frequent our store, a high percentage of our shoppers know each other. Just stopping to exchange pleasantries block others from shopping an aisle or obtaining a product. While Staff are always aware of this and have learned how to side-step and work around customers, the customers themselves can be unaware to others around them and can jam an aisle for many minutes at a time.
- * Our steady sales for the past 3 years after years of growth suggests a plateau and that we've maxed the possibilities of the location.
- * Our limited space means limited variety. For better or worse, our society appreciates variety in its choices. Whereas an individual may always have toast, coffee, eggs, bacon and orange juice for breakfast, at lunch and dinner, daily variety is often sought. Besides being evident at restaurants with long extensive menus, it is noticeable in the variety of flavors each product may come in. For example, our extremely popular product "Tasty Bite" comes in many varieties. If we only offered 3 of our most popular - sales would plummet. Still we cannot offer all the varieties as our competitors can.
- * In today's world, we all know that wages will be going up. Walmart is already starting employees at \$11.00 while we start at \$10.00. This pressure to increase wages is particularly hard on us as it is difficult to generate more revenue out of our maxed limited space. The only solutions are to raise prices and sell product for more than our competitors do or to cut payroll costs - which will effect our services (such as our stellar Customer Service) that helps distinguish us from other shops.
- * Our consistent growth has also put a squeeze on our Staff space. We have no break room and Staff store backpacks and coats in our prep room and also use it as a lunch room, interfering with other Staff who are working. There is nowhere to sit and Staff find corners of the warehouse

and in back rooms, often sitting on boxes and balancing their food on their laps.

- * These cramped quarters extend to our offices too. Each of our small main offices offer very little work room and can get quite hectic and loud. The inability to concentrate is the biggest complaint. This is very inefficient and a time consumer.
- * Our Grab and Go Kitchen is too cramped to put in a stove and ovens for greater capacity. Freshly prepared foods is one of the fastest growing segments of the Organic/Natural Food Market and we are unable to take advantage much more than we already have.
- * We have no meeting space for small Staff meetings and more importantly, confidential meetings.
- * Co-ops are known for their educational opportunities. Classes and lectures are found at many Co-ops and is a great draw as well as creating community networks. Until recently, we had a community room in our second building but with our explosive growth, that space was transformed into additional warehouse space and our Grab and Go Kitchen.
- * Co-ops have long promoted sustainability and environmental sensibilities being dominant in offering recycling, education and opportunities to the Membership and community. Not only do we have zero space to offer these services, our own recyclable packaging waste must be stored in precious warehouse space. It will drive any retail business manager crazy to have garbage taking up space that can be used for product.

Opportunity Overview

Strategic Plan:

In 2017, the Co-op's Board-of-Directors set a 3 to 5 year plan to move our Co-op. Previously (since 2013) we have investigated different locations and determined that there was no spot on Bullard that would be suitable for our Co-op considering the size of the operation and the traffic that it generates.

Ideally, we saw the area around College and Pope as being appropriate for our business. The only business location that was possibly available was the Morning Star building (809 N Bullard St). It would almost work for us if we were able to also obtain the other buildings to the north of it (the auto glass building and the hair cutting business).

As we studied various locations - the one that stuck out was located on the northwest corner - the former Life Quest property. It has the parking we were looking for, it was significantly bigger than our current space, it has room to expand and is in the perfect spot for us.

We approached them to see what their future plans were to see if there was any possibility of us obtaining that property down the road. This non-profit organization said that they have been there for years and had all kinds of plans for future expansion. They were a vibrant organization and an important community service to our town. Though we found that they were unavailable, the property was used as a base to compare other properties.

Quite unexpectedly, the organization lost their funding and needed to abandon their entire operation asap. Understanding the importance of our Co-op to our greater community - they offered the entire property to the Co-op at \$150,000 below the assessed value.

While not within our original planned timeline, we recognized this property was the location we wanted and could accommodate the Co-op for decades to come. It was decided to see if we can make the best of this unique opportunity which will serve us well.

Why location is important to our Co-op

For a grocery store, having visibility is one of the most important considerations if not the most important. A specialty store such as our Co-op, in fact, can and does act as a destination location. Our business is strong enough that it has grown on Bullard and pulls folks into the downtown area.

However, it is difficult to see and when it is seen - it is often difficult to find parking.

The busy corner of College and Pope is visible from all directions. In a study by the Marketing Department at Bindura University of Science Education (Journal of Emerging Trends in Economics and Management Sciences, 2013, The Role of Store Location in Influencing Customer's Store Choice by Divaries Cosmas Jaravaza & Patience Chitando), it is stated, among other things:

"In general, a good location may enable a retailer to succeed even if its strategy mix is mediocre. On the other hand, a poor location can be such a liability that even the most able retailer may be unable to overcome it"

"It was noted that outlets with better parking space attracted high income earners, whilst proximity to other complimentary outlets increased pedestrian store traffic. Out of ten factors that may influence store choice, seven factors were considered by customers to be pertinent. Of the seven factors, four were store location features namely traveling time, location convenience, proximity to complimentary outlets and store visibility."

"The other three are ambience conditions, prices and service quality."

As a community organization, our Co-op has long been involved in the preservation of the historic downtown. This location has provided continual growth over the years. As our business grows, it is important to us that we remain part of the downtown environment which helps maintain Silver City's tourist draw.

While not on Bullard, the College & Pope address is at the northern entrance to downtown maintaining our involvement and drawing people to the area. The Co-op has long been considered one of the main anchors to downtown and has already been instrumental in the revitalization of the area.

Being visibly present on College is also very important as it is the main access street to the University.

The immediate neighboring businesses also compliment our Co-op as a community organization. Single Socks, a community thrift store (run by a former Co-op Manager), Gila Hike and Bike, the new home of Bike Works (another community organization) and the Morning Star sport store are all businesses that our current cliental frequent. What's more, we would be just down the block from the Hidalgo Medical Services buildings as well as the Office of Sustainability bringing our services closer to a high office population.

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Convenience

In today's fast paced age, the internet which provides easy access to even fresh foods, people are seeking faster ways to accomplish their tasks. As shopping on the net is challenging brick and mortar stores, having a difficult to access location along with a crowded store discourages people from frequenting an establishment.

To be successful in today's environment necessitates an easy to access and easy to shop store. The College and Pope location offers this. The importance of easy parking cannot be overstressed.

Through internal questionnaires as well as anecdotal comments, it is well known that parking and our tight quarters are discouraging to shoppers. From a Board Member whose husband (who does the main shopping) will not shop at the Co-op because of the crowded environment to myself who has gone to other stores because I only need a few things and don't want to deal with the parking and long lines at the two registers, the inconvenience factor will be eliminated at the new location.

For a store to succeed in today's environment, it **MUST** be convenient and it must cater to shopper's need to move quickly through the market

In our situation, the three important parts of convenience are three things that are non-existent in our current location:

- * Parking
- * Ease of maneuvering around the store
- * Quick check-out

The new location accommodates these needs.

But what is it worth in terms of revenues? That is a more difficult question to answer because convenience alone cannot make a store successful if the product and service is sub-par. While that is certainly not our case, putting projected revenue numbers into play can be quite tricky. It is easy to say that these three components alone can bring 10% to 20% increased revenue, but that simply cannot be known.

We know it will have an effect but it is wise to limit our expectations and project with due caution. Thus for our purposes, we will limit these to 1% increase each for a total of 3% growth or around \$100,000

Efficiency

While there are great efficiencies that will be garnered from this location, I will focus on just one and that is stocking the store.

It is an industry standard that a product should be given minimum shelf space for 1 case plus 3 individual units. Each product is given the maximum space based on turns between replenishment trucks (thus a high turn item may ideally get 5 cases of floor space plus 3 individual units). The top 20% or so may get some extra cases for backstock in the event a truck does not arrive (it happens).

Obviously, items would not be stocked until there are 3 or less units on the shelf. This also ensures stock rotation and the decrease in items that are out of date.

There are two important aspects here:

1 - The continual stocking is eliminated saving payroll dollars. However, those savings probably will not be seen in the bottom line as those dollars will be redirected to more useful endeavors (cashiers, customer service, education, marketing, etc)

2. - Most important is that empty spots will be greatly reduced. Customers cannot purchase what isn't on the shelves. An average hour currently moves around \$1,000 worth of product. Quickly - empty spots start to appear around the store. The amount of stocking needed gets beyond the stockers capability to keep on top of, particularly in busy times.

In real terms, sales increase when the product is there when the customers want them. Hard to quantify so I will attribute a .5% increase in sales to this to project low and be on the safe side.

Added categories

** Meat*

Fresh meat is our most obvious lack. This category - especially for humanely raised and organic products - has been experiencing good increases throughout the industry.

Looking at Co-ops with sales between 3 to 4.5 million, their Meat departments show a range of \$60,000 to over \$300,000 with the most common being between \$100,000 to \$200,000 (appendix D). Figuring low - we can expect this category to contribute 3%.

The increase in this category does not represent the effect it will have on us. A customer wanting some chicken or steak for dinner will now be able to come to the Co-op to obtain their product. While here, the customer will purchase other products. Currently the customer will not even come to the Co-op because the main product they want is non-existent here. While difficult to quantify - to figure low - we can attribute .5% revenue gain.

** Soup & Coffee*

Another lack is fresh Soup and Coffee. Direct revenue from here will not be material at first however it should be noted that Starbucks kiosks that are in supermarket locations have proved to be profitable for that company.

Being closer to offices (HMS; Wells Fargo), we would like to encourage folks to come in for lunch. We already have a good flow with our sandwiches and salads and having fresh soup will round out the offerings.

The soup and coffee direct revenue will, conservatively estimated, contribute another .25% growth.

We can also expect that it will spur sales from our Grab & Go and will add another .25%

** Bulk Water*

A staple in Food Co-ops is to offer water machines that offer reverse osmosis water but also, recently, oxygenated and alkali water. This category will not produce much revenue directly to be material.

It is more of a customer service and absolutely a draw. It also helps brand us and makes us more of a one stop shopping experience.

Expanded categories

** Produce*

Between our display cases on the floor and our storage walk-in, we cannot house enough produce to satisfy demand through our busy produce season.

Doubling the size of our Produce department will make it more appealing with enough stock to satisfy demand. For produce, abundance is the name of the game. Full produce coolers sell better than sparse ones as those suggests old and picked over product.

Local produce is very important to us as a business and as a Co-op. Once again, our current limited size curtails the amount of product we can accept.

Produce is our number 2 department in terms of sales but it takes up less than a quarter of the space of the number 1 department making it number 1 in sales per sq ft.

Unlike many other products, produce wastes quickly making at least weekly trips to the market necessary.

Once again - we want to be very conservative so we will limit the revenue contribution projection to 1%.

** Dairy*

Like produce, dairy is quickly perishable and is a weekly draw to the Co-op. It is one of our departments that showed growth during the two years where revenue flattened (2016 & 2017).

Well stocked and stuffed into 5 doors, dairy is a category that is ready to explode. As other departments, keeping the dairy doors stocked takes constant vigilance. By relocating our fast moving dairy product to open air coolers instead of closed doors, we should see a significant increase in the product turns.

Cheese and gourmet cheeses have been a steady growth component of our store. Limited by space, our selection is small. By having an open display or cheese island will draw more attention and excitement.

Through all the sub categories of dairy, it is clear that this department will have significant growth although, once again, we will project just .5% revenue contribution to total sales.

** Frozen*

Rather surprisingly, Frozen has been a high growth area with the “dinner” categories which include entrees, pizza, burritos and veggie burgers leading the way. Ice cream and fruits and vegetables are nipping at its heels.

If you walk the frozen aisles in an average grocery store, it is noticed that there are many, many doors. This is because the key to moving frozen is variety. When there is limited selection, it is easier for shoppers to go to another store with a much larger selection and stock up which eliminates those purchases from our revenue stream.

Keeping this area stocked is a constant chore and it too suffers from not enough space for the 1 case plus 3 standard to apply. We currently have 7 doors of frozen and we are looking to expand to 15.

This can be a huge boon to our store but once again - it is preferred to keep projections down to insure that they are met so we will give it a .25% increase in revenue.

** General Merchandise*

General Merchandise is a broad category from coffee mugs, to cards, to socks. Because of lack of room, we have always been very limited to how much we can carry. We always increased inventory around the holidays to good effect.

At our old Market Café, this category generated \$32,621.42 in 2016. Meanwhile the store itself showed almost \$15,000 which was around \$10,000 less than each previous year of 2013, 2014 and 2015. Thus we saw over \$22,000 in increases that have now disappeared since we cannot offer the space the product had at the Market Café location.

General Merchandise is a very under-tapped market and based on the experience with the Market Café, we can see a .75% additional contribution to store sales.

** Herbs and Spices*

Our Herb and Spices is a tiny department both in size and numbers. However, it is the only place in town where bulk herbs and spices can be obtained. It is a big draw for our Members and Customers.

The very cramped space/aisle it is in becomes blocked with even two people there making the rest of the aisle impossible to shop. By increasing space here, not only will this department become more accessible, which holds true for the items across from it as well, but it also becomes more visible which helps brand our Co-op with uniqueness and choice.

This is a tiny department and even doubling its revenue will not be material in its own right. Currently, we have little prepackaged spices and herbs because of space. The new location would have a selection but it is unclear as to the direct revenue potential.

** Local*

The Silver City Food Co-op already has a solid reputation of supporting local producers by selling their products throughout our store. We also turn down many local items and producers because we simply have no room in the store.

We have found that our Members and Customers prefer to purchase local when available instead of national brands.

While much may be said about this, it does not necessarily generate more revenue unless unique products are placed in our store. At the same time, local is part of other categories and increases in local revenue would be seen in that particular category.

Thus expanded local is not a revenue generator by itself. It is, however, a major identity/branding effort, thus while difficult to quantify, it is a major draw for us and is likely to entice more shoppers to our store. While important as a marketing entity, we cannot attribute any growth to it for this purpose.

** Special Deal Sales*

In October of 2015, we had our “Big Sale”. This was a large pallet sale for one weekend set in the back of the Market Café. It was minimally advertised and a little hard to find. Yet this first ever attempt for us at a large special deal sale resulted in breaking even through the sale and more than making the expected profit as the remaining product was cleared over the next 3 months. This has shown us that there is a good interest for this type of event.

With the amount of property available at the new location, these sales can be combined with other draws such as including the artisans who used to display their wares monthly at our Market Café as well as musicians, food vendors and of course - more deals inside the Co-op.

** Future*

Café - At this point in time, we are opting for an increased Grab and Go presence. Down the road, we would like to include a more Café style area with seating both inside and outside. This would include a Juice Bar, a salad bar and a made to order sandwich area. A timeline for this would be within 5 years.

This accomplishes minimizing our financial outlay immediately, focuses our attention on what we are already doing well and will create a boost for us as our store sales start to eventually flatten.

Brewery - The New Mexico alcoholic beverages laws are quite strict with limited licenses available. These licenses, when available, auction off for hundreds of thousands of dollars. No Co-op in New Mexico has been able to afford or obtain a license.

A brewery license is very affordable though, and also allows the selling of other New Mexico beers and wines. A small brewery can be set up with a minimal investment. Our focus would be organic beer and perhaps hard apple cider. A similar time-line as the Café - or perhaps within 3 years - would again give our finances a boost and will keep the Co-op exciting and interesting to our Members and our community.

Garden Center - Focused on growing vegetables, a garden center would focus on much more than seeds and simple tools. Hydroponics, LED growing, green houses and only organic fertilizers and pesticides (hydroponics are technically not organic but depending on how set up, darn close) would all be offered

However - perhaps more importantly - part of the scope of the center would be to help local folks get the ability to produce for our Co-op so that our reliance on produce from large farms in California, Mexico and other locals is lessened. Time-line, 2 to 3 years or 5 to 7 years depending how we prioritize. This will not generate the higher dollars available with a Café or brewery.

Adding it up

While it could easily be said that the estimates for revenue gain are on the conservative side, the Natural/Organic market is in great flux at this point in time. The economy too, though strong right now, can surely take a hit so being extra cautious is a good way to ensure stability with this move despite financial variables.

Adding up our projections, we find the following:

location	3%
meat	3%
additional sales from having meat	.5%
efficiency - less out-of-stocks	.5%
soup and coffee	.25%
expanded grab and go	.25%
produce	1%
dairy	.5%
frozen	.25%
gen merch	.75%
Total	10%

In real terms - this would amount to \$350,000 of increased revenue. If we figure a low margin of 33% (average margin is around 36.25%) to account for possible discounts, we find we have \$115,500 per year to pay for debt service (\$9,625 per month) from the increases.

Figuring in \$20,000 per year from member equity plus \$20,000 conservative profit on our current revenue (2017 was over \$30,000) we now have an additional \$3,333 per month for debt service. Of course, based on these projections, we do not need to leverage this \$13,000 entirely but this is our upper limit.

Contingency

The conservative estimates of revenue increase are most certainly sound. It is likely the increase would be more, though to budget and spend beyond the 10% increases risk for each percentage higher.

Yet, though very unlikely, we must be prepared for the possibility that the market is saturated and there is no revenue increase. The close proximity of the new location assures us that we will have no Member/Customer drop-off so sales will remain stable where they are. This is a worst case scenario.

The increased debt service would be more than the business could handle through revenue alone so cutbacks would need to be made. This would be difficult but could be accomplished.

It would eventually need a restructuring of the Staff. We can tighten our belts on supplies and be very austere in general but we are pretty tight right now and there isn't much saving there. The only area large enough to get most of the saving is in payroll.

For these purposes, we will use a \$10,000/month (\$120,000/year) debt service amount which would be the additional bottom line increase if revenues rose by 10%.

First - as mentioned previously, at the size and performance we are right now, we are generating equity and profit of about \$20,000 each so immediately with no further action we have \$40,000 for the debt service bringing the total needed down to \$80,000.

Second - we need to assume that we had been advertising and marketing and that has had no effect. Thus there would be little reason to continue the marketing, donations and printing our Newsletter. Those savings would be around \$15,000 year so we now are down to \$65,000 of reduction that we still need.

Third - there will be increased efficiency in stocking the store - preliminary numbers show we can save up to 5 to 6 hours a day in stocking. While our current goal is to redeploy these hours to other areas, they can also easily be eliminated for a savings of \$25,000. There is \$45,000 of cuts still needed.

Fourth - reduction of the number of buyers - while our current setup works very well for us - and though not desirable, these tasks can be done by less people. Part of our current situation again revolves around stocking - buyers spend significant time stocking their own departments. The efficiencies introduced by a bigger store with more floor space cuts down on their stocking time. Produce & Bulk can be combined as can Frozen & Refrigerated and HABA & Supplements. While that can save us up to \$35,000, conservatively we will set this at \$20,000 leaving us just \$25,000 left to reduce.

Fifth - The final step would only be done in the most critical situation but would enable us to keep the Co-op in the black: Either the elimination of the Grocery Buyer position which would be covered by the GM and the AM OR the elimination of the AM position with responsibilities being handled by the GM and Office Staff OR the elimination of the GM position with the rest focusing on daily store operations. Which of these would work the best for the Co-op would need to be determined depending on the situation at that time.

There are a number of smaller cuts that can be made such as: since marketing is cut back - there are hours that can be saved in graphic design. And of course, we can eliminate most Staff meetings and rely on memos and input forms - the website can be used for info sharing and forums. There are also small cuts that can be made in governance and finance/Office.

Also - the choice to raise our margin is there too. While we currently watch our margins closely and have been nudging them up overall in select areas, an increase of 1% - 2% is probably do-able though not advisable at this point which is why it is not included in the above 5 steps.

Of course - this is just back-up and it is believed that the minimum revenue increase projections are accurate and conservative.

The likelihood of the Co-op encountering this scenario is highly unlikely but, in the event that this occurs, we are prepared to meet it.

Building in Steps

At the time of writing this Business Plan, we are exploring various ways to proceed:

- > Our “bare bones” plan which just gets us moved and open with minimal investment.
- > Our optimum plan as how to set us up quickly, efficiently and set for a good number of years.
- > Our future plan with full expansion adding around 4,000 square ft of retail space, a Café and a full commercial kitchen.

The goal is to proceed in a cautious manner and not overspend before we know what our revenue will be.

The bare bones plan is getting the most scrutiny. Figuring out the minimum that we can relocate for is a very good exercise and could prove to be a necessity. We want to keep our debt service level low.

At the same time, some aspects may necessitate building things that are not needed immediately because it would be too costly and disruptive to do them later.

As of Aug 1st, these plans are not detailed out yet at the cost level. As this information comes in, this Business Plan will be amended.

Financing

For 2017, looking at our Co-op business without the losses from the Market Café, which is now long closed, we had a profit of over \$30,000. That plus our Equity payments of \$20,000 shows that our Co-op is quite strong. 2018 is showing revenue increases over last year.

This is enough to pay debt service on purchasing the property. This will get us the property and we will need other means to move onto renovation and moving.

Our Co-ops are owned by the Membership who reap the benefits of having the business. They have grown by the investment of time and equity of their Membership. In cases of relocation, it is often beneficial to seek funding from the owners.

Most Co-ops do this with even small Co-ops often raising a million or more. Our community may not be so lucrative so it is difficult to predict how much a Member Loan program may generate.

That resultant amount though will determine how much we can accomplish in the renovation/expansion and what is still needed to be raised. It would be coupled with other construction loans to round it all out. The more we raise through Member Loans, the less we need from other sources.

The challenge of Member Loans though, is that they generally are of shorter term than other sources - say 5 years, 7 years and 10 years instead of 20 years or more.

Thus - when we approach the longer term - flipping whatever is left into a conventional loan would be pursued.

Business Strength

There are many ways in which to measure a business's strength. The financial numbers are one way and a necessary one.

Numbers though do not show loyalty to a business as many discover as a competitor comes to town and those numbers drop precipitously.

While not absolute, Member loyalty at the Co-op is high. Members appreciate being owners of the store as our high voter turn-out for our last Board Election shows. Well over 10% voted in an election that wasn't competitive. Many co-ops report a 3% to 4% voter turnout.

Through various venues, we ask our Membership how they are feeling about their Co-op. The amount of positive comments far outweigh any negatives and those seem to be minor such as wishing we would carry such and such product.

Visitors seek out Management to tell them about how our Co-op is one of the best they've seen despite its small size and difficult location.

What people are experiencing is a very positive and dynamic energy when they come into our Co-op. Ask any business person what the secret of success is and they will tell you that businesses are energy and the more spark generated will propel the business forward.

** Staff*

The spark in our Co-op is our Staff and our attention to our Members and Customers. While we are always striving for higher service levels, our Staff has set the bar quite high.

Customer Service is paramount for us and we sport one of the most enthusiastic, positive and engaging Staffs in town. Not only are they helpful and resourceful, they are inquisitive and always learning more about the products we carry and how to help more fully.

The dedication goes beyond Customer Service to the details of the work. Quarterly, the Dept of Agriculture comes though and checks our pricing - they check 100 items and we are allowed 1 mistake. We pass quite handily

quarter after quarter. Our inspector says that it is very rare that a store is so tight.

Our cashiers balance almost to the penny shift after shift and month after month. Bank tellers inform us that we are one of the few whose deposits always balance.

Our auditor tells us how clean and accurate our financial reporting is as well as how orderly our inventory control is considering our small space and high turns. He has marveled how such a small space can generate so much.

Our perpetual inventory system helps keep tight control on our inventory movement with immediate information that helps in product control. It has also allowed us to put a few departments on auto-ordering which also increases accuracy and availability of product. More departments will be added to auto-ordering soon.

Even our newsletter comes out on time monthly year after year with nary a mistake in it.

We hire for attitude and demeanor. We can teach the rest. This has proven to be a winning formula.

We aim our payroll at 25% of sales and do not anticipate additional staffing that would alter this. Our plan is to move with approximately the same amount of Staff and increase as sales increase.

**** Board of Directors***

In democratic organizations as are all Co-ops, our Board of Directors are elected by our Membership. Though the relocation opportunity came after the recent elections were underway, our current Board is uniquely qualified to determine the future path of our Cooperative:

Jennifer Johnston -President -

Jean-Robert P. Béffort - Vice President

Jean-Robert P. Béffort has been a member of food co-ops in Montana, Oregon and New Mexico over a 30 year period and a Board Member @ SCFC for 5 years. He operates a downtown business called a)sp..."A"(c)e Studio/Art/Gallery. He has been a collage /assemblage sculpture artist and merchant in this endeavor for the past 9 years. He provides community driven interactions in his multipurpose 4000 s.f. space such as hosting music, poetry, dance and theater events, artist workshops, art activities for the public, and sponsoring art shows of other local artists. He has a Bachelor of Architecture from Montana State University in Bozeman, Montana. He also has experience as a self-employed designer and builder, draftsman, carpenter, stone and wood artisan, recycled glass and ceramic mosaic artist and art teacher.

Laurinda Anderson - Treasurer

Laurinda Anderson is a long-time Silver City resident and co-op member with a BS in Food and Nutrition Service, a MBA and 30 years of management experience. She has skills in leadership, strategic planning, policy and procedure development, budgeting, quality improvement, customer service and public speaking. She also has leadership experience in cooperative and non-profit boards and skills in listening, consensus building and conflict resolution.

Shanti Ceane

Raised in Silver City, Shanti Ceane is a registered Professional Engineer in the State of New Mexico. She has 17 years experience as a civil engineer including project design, estimating and construction management of projects ranging in value from \$200,000 to \$60 million. Her experience has developed her skills in community involvement, consensus building, public speaking, customer service, time and budget management as well as effective and efficient communications.

Julianna Albershardt

Julianna Flynn Albershardt was appointed to the Co-op board in May, 2018. She was a member of the Mimbres Regional Arts Council board of directors from 2011 to 2016, and served as Vice President. Julianna earned her BA in Psychology and Writing from the University of Pittsburgh while working as a professional puppeteer. She has worked as a counselor, therapist, client treatment coordinator and group facilitator; and has provided management and coordination services. Writing credits include curriculum, newsletters, brochures, articles and website copy. Most recently she has concentrated on design services and adaptive reuse of historic buildings; Furniture/Fixtures/ Equipment procurement; and project coordination. She is currently an independent designer focusing on the psychology of design in the built environment.

** Market Competition*

The 3 major competitors, Walmart, Albertsons and Food Basket, have all increased their natural/organic product lines with a large expansion starting in 2015. There is another small store, Cactus Jacks, which sells many of the same items we do as well as having prepared foods. This increased competition is another factor that has led to a plateauing of revenue.

It is also important to note that despite this competition, while it helped flatten our sales, it did not threaten us business-wise. Our loyal Membership, while purchasing at these other locations, still support our Co-op at its highest revenue levels ever.

Market competition is fierce overall and the Mountain View Co-op in Las Cruces, NM is a case in point. Starting to push 5 million in sales in 2014, increased competition from Albertsons, which is across the street from them as well as the opening of a Natural Grocers close to them, has dropped their revenue to 2.7 million in 2017. We have not experienced this type of drop from any factor.

There is also beginning to be a “shake out” in the industry as some areas are beginning to get oversaturated. Again we see evidence of this in Las Cruces where the opening of a Sprouts Market earlier this year has hit the Co-op another 10% but also dropped sales of Natural Grocers by 36% and Toucann’s Market, another Natural/Organic outlet, is closing one of their stores.

Locally, we can see the lack of understanding and care of this segment of the market. Where the huge push of organics by Albertsons in Oct of 2015 was a store wide celebration, it has diminished in signage and selection based on observation. We are seeing lower prices from the local competitors as they try to skim our market. Yet our Co-op has remained stable.

Not only do we offer a wider spread of product types in the natural/organic category than our competitors, we have more local products, knowledgeable helpful Staff and excellent customer service.

We are well situated to weather the competition should the other outlets put on another push into this market. We are a very strong entity.

At the same time, our current location acts as an anchor simply due to its limited size and difficult location. We “force” our Member/customers to shop elsewhere because we cannot provide them with what they want/need.

This relocation would eliminate the impediments of our current location and set us up as a potent and dominant provider to this segment of the market.

** What is the future at our current location?*

Obviously, this can only be totally speculative as we weigh the forces at work.

First, we must understand that our business is probably plateaued revenue-wise. We might be able to pull another half million a year but that is not supported by what we have learned in the last three years. It would probably entail higher margins (higher prices) and renovation of parts of our current facilities.

Second, no matter what we do to our place, the parking, cramped space and inefficiencies will not change. It is these factors that limit our growth.

We have established that we have a steady growth history and that our current location is inadequate. There are 3 major forces that will strain our resources if we stay in this location.

Parking and access: This will not get better. As a matter of fact, it will certainly get worse. A local restaurant’s relocation to just one block from us will certainly jam our parking even more. And probably quite seriously as they are quite successful already and have a very dedicated and loyal clientele. Just getting to our Co-op will become even more problematic. Plans by Main Street and the City also have the probability to increase traffic to Bullard.

Wages: This is probably our most serious threat. One way or another, wages will increase. We currently start at \$10.00/hr yet Walmart is \$11.00. We do have better benefits - right now. As in other states, we can predict that minimum wages will increase although we cannot predict a time-line for New Mexico. Without the ability to grow our business, to increase wages we would need to either raise prices or cut Staff. Higher prices with less

Staff (less customer service) is a probable and problematic scenario if we remain at our current location.

Competition: Competition is growing and we no longer have an exclusive on most of our products as we once did. Coupled with the parking issue, our competitors will draw our Members and customers away from us.

If we look at these factors over the next 5 to 10 years, it is quite obvious that the Co-operative will shrink to a smaller size. Whether it would eventually stabilize at, maybe, half its size and influence, is guesswork. Yet becoming unsustainable is a very real possibility.

And finally - while not part of the big three forces - we must also face the fact that much of our refrigeration will need to be replaced costing us dollars that will certainly strain us. Our aging building will continue to demand more maintenance dollars. With no growth and probably shrinking, we will not have the dollars to take care of these needs.

Appendix A - Co-op values and principles

Emanating from the Rochdale, England Co-op in the 1850s, driving Cooperatives forward are a set of agreed upon values and principles. It is generally recognized that the International Co-operative Alliance is the quasi-official “keeper of the flame” and has revised the principles a couple of times.

Cooperatives are independent and do not have to belong to any organization to function fully. Cooperatives do band together for mutual benefit.

There are two sets of values. These values work together to form the 7 principles:

Co-operative Values:

- * Self-responsibility
- * Democracy
- * Equality
- * Equity
- * Solidarity

Co-operative Ethical Values:

- * Openness
- * Honesty
- * Social Responsibility
- * Caring for others

The Co-operative Principles

1. Voluntary and open Membership
2. Democratic Control
3. Member economic participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation among Co-operatives
7. Concern for Community

Appendix B - Our Vision and Mission

Termed in 1994 by John Elkington, the “Triple Bottom Line” has proved to be a framework that Co-operatives naturally fell into.

While there is no set way to reporting on this (other than financial), the three bottom lines are known as People - the social bottom line, Planet - the ecological bottom line and Profit, the standard bottom line.

Working with this concept along with tenets of Policy Governance, our Co-op created our Policy A and it's End:

POLICY A ENDS

GLOBAL ENDS STATEMENT

Because of all that we do, our member-owners, our food co-op, and our extended community will gain and maintain health.

Also part of our A policy are our Vision, our Mission and Strategic Values:

POLICY A

VISION

Promoting the inherently healthy relationship between food, community, and nature.

Strategic Values

The following statements describe the five strategic values of our organization, the Silver City Food Co-op. In these statements, “we” refers to the people of the Silver City Food Co-op.

1. **Cooperative Model**

The cooperative model is of paramount importance—we apply the seven cooperative principles in all aspects of our work and business practices.

The cooperative principles are: (1) voluntary and open membership, (2) democratic member control, (3) economic participation by members, (4) autonomy and independence, (5) education, training, and information, (6) cooperation among cooperatives, and (7) concern for community.

2. **Quality of Products**

Our co-op commits to providing high quality products. Our focus is on organic, whole, nutritious, and minimally processed food.

3. **Quality of Service**

Our co-op is a great place to shop and work because we are responsive to all individuals (member-owners, customers, vendors, employees, visitors, ...) and cultivate relationships with them.

4. **Local and Regional Resources**

We prioritize the use of local and regional resources. Resources include growers, producers, distributors, lenders, member-owners, employees, and professionals such as contractors, plumbers, electricians, lawyers, and CPAs.

1. **Care for the Environment**

We strive to reduce our negative impact on the natural world in all our decisions by considering the impacts of production, transportation, packaging, storage, waste, construction, renovation, ...

MISSION

The Silver City Food Co-op is a member-owned cooperative that provides healthful food and products, supports local growers and vendors, and cultivates a responsive environment for members, staff and community.

In support of this mission, we are engaged in and committed to

- Incorporating the seven cooperative principles in all aspects of our work and business practices.
- Focusing on organic, whole, nutritious, and minimally processed food.
- Providing a great place to shop and work through responsiveness to all individuals and cultivation of relationships with them.
- Prioritizing the use of local and regional resources.
- Pursuing earth-friendly decisions that consider the impacts of production, transportation, packaging, storage, waste, construction, renovation, ...

Strategy

Our Direction for the Next 5-10 Years

The Silver City Food Co-op is southwest New Mexico's leader in the cooperative economy. As such, we are the destination of choice for organic, whole, and natural foods shoppers.

We achieve this through

- Managing our growth to meet member-owner and customer needs.
- Developing and providing a marketplace for local and regional foods, products, resources, and services.
- Growing our reputation for excellent customer service, community service, and education.
- Applying creative methods of sales, storage, and distribution.
- Forming strategic alliances with others committed to increasing the availability of local foods, products, and services.

Appendix C - MAD Survey

During Feb/Mar of 2016, a quick survey at the registers was conducted of Members who were using their MAD discount (Member Appreciation Days)

There were two open ended questions:

What is the best thing you like about the Co-op?

What is the worst thing about the Co-op?

The survey was presented to 829 Members.

150 answered neither question

144 answered the positive question but left the negative question blank.

213 answered the positive question and wrote “nothing” or a similar sentiment for the negative question

109 answered “prices” for the negative question

66 wrote “parking” for the negative question

57 mentioned “too small and/or crowded” for the negative question

90 had various misc things written for the negative question

- 37 of these were about specific products or stock levels

- 11 mentioned out of stock or limited supply of Produce

- The rest ranged from 4 folks thinking the worst thing about our Co-op are surveys, to 3 who don't like the music, to 3 who don't like the people outside, to 2 who don't like the fluorescent lights.

Open ended questions allow the respondent the freedom to go in any direction with their answers. Correlation between answers is of significant importance especially when we factor in that these were answered quickly

at the checkout counter so they were the first things that came to folk's minds.

While we appreciated all the positive things that people said in the first question, it was the info in the second question that we were really after.

It's significant that 150 chose not to answer either question but it is not clear what it actually signifies. Most probably they just didn't want to be bothered or just didn't care. Others, perhaps, couldn't think that fast.

A combined 357 had nothing negative to say about us and 213 actually took the time to write something in the negative spot that even further indicated their satisfaction with our Co-op. This clearly points to the loyalty of our Membership and is the reason our Co-op is hugely successful in this inconvenient small space.

The inconvenience factors of parking and limited space combined for a total of 123. We have been unable to counter this at our current location.

Next was 109 folks who mentioned prices as the worst thing about our Co-op. Some responses were hedged such as "high prices on some items" and "high prices but understand why".

None-the-less, prices are something that we do have the ability to work with and in the last two years we have greatly increased our "Basics" program which keeps prices for those products at a reduced price. We have also put in more discount days as well as spot sales. Many of these offerings are top sellers in their categories.

This survey did not open our eyes to anything that we had not already known. It did however verify what we knew.

We know we have a loyal Membership who really appreciate and like their Cooperative. And we know that there are many inconvenience factors that even our very loyal Membership do not like.

This was the largest respondent survey that the Co-op ever had. While not necessarily scientific, around 40% of our Membership took part which gives the results pretty high credibility.

Three times a year, Members who use their MAD discount have the opportunity to answer these surveys which are only one or two questions long. This Feb/Mar 2016 survey had the broadest of questions. Most are very specific as we determine the wants and habits of our Membership.

For example, the Feb/Mar 2017 survey was a check list of local and regional papers they may read (Daily Press, Sun News, Desert Exposure, etc) and was followed by the June/July 2017 which asked about social media our Members were engaged in and whether they visited our new website.

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Appendix D - MAD Survey 2

During the MAD period through June to July 2018, the Question on the survey was:

Would a yearly equity payment of \$15 or \$20 be acceptable to you to help relocate our Co-op?

Yes \$15_____ Yes \$20_____ No Change _____

Information about our possible relocation has been available in our Newsletter since May. Our main purpose of this question is to bring the idea of relocation directly before our Members and to elicit a response based on a small increase in equity that would effect each member.

Interpretations and extrapolations from this data can be subjective. Reasonable folks can see things in different ways. Despite 3 months of information, there are still those who have not heard of the current opportunities. In retrospect, a choice of “What relocation?” could have been helpful too.

817 Members responded to this survey.

141 did not answer the question. There are probably many reasons from this ranging from “no opinion” to “too little information” to “no interest” and everything in-between. Given that a choice of “No Change” was presented, an assumption that if someone didn’t want us to relocate, they were more likely to give that answer rather than leave it blank. We have no way to test that assumption and it relies on logical possibilities.

184 answered “No Change”. We cannot assume that each of these is a negative opinion on relocating although many likely are. We have a significant number of Members who are on very limited income and run out of dollars until their next check or EBT is refilled. On any given week, an extra \$5 or \$10 would be a burden. We also have Members who lack information about the move and might choose this.

210 said okay to raising the equity to \$15 to help fund a move. It is likely that most of these Members support the move but may have economic or other considerations playing.

253 were fine with increasing the equity to \$20. This is thought to be mostly positive for a relocation along with having the economic means. Coupled with the \$15 answer, we have 431 responders who appear to support the relocation.

29 additional Members chose to write something else or add to their choice.

Of those not checking any of the 3 choices,

- 5 - drew a question mark
- 1 - not enough information
- 1 - need more info
- 1 - not sure
- 2 - don't know
- 1 - don't care
- 1 - no relocation
- 1 - the fee isn't the issue and wouldn't effect my feelings
- 1 - I don't want a relocation
- 1 - lifetime
- 1 - lifetime membership of \$200 - \$300
- 1 - I might donate

Those that responded No change added the following:

- 1 - question mark drawn
- 1- NO
- 1 - not to help relocate
- 1 - I would pay more to rebuild our cash reserve
- 1 - where?
- 1 - as of now
- 1 - unsure need more information

There were 2 who marked the \$15 and also said:

- 1 - possibly yes
- 1 - but I really wish you would stay where you are downtown!

One person marked \$20 and added:

1 - and a \$500 gift one time

Finally 2 Members checked two responses (note: some members checked both \$15 and \$20 and were included in the \$20 count).

1 - checked both “no change” and “\$15”

1 - \$15 if it's indefinitely. \$20 if it's for a couple years

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Appendix E - Meat

Co-op	2016	2017	meat 2016	2017
Co- op A	3,135,261.03	3,471,576.58	792,062	649,266
Co- op B	3,721,536.28	3,884,648.65	358,367	375,481
Co- op C	3,691,025.90	3,788,534.64	287,500	311,913
Co- op D	4,052,135.45	3,946,319.72	286,858	287,155
Co- op E	4,144,444.57	4,466,192.35	261,497	258,977
Co- op F	4,248,014.87	4,647,043.23	248,161	272,489
Co- op G	4,177,179.52	4,352,333.15	217,598	239,447
Co- op H	3,641,618.20	3,717,049.09	193,017	182,503
Co- op I	3,826,041.95	4,351,919.01	191,680	216,985
Co- op J	3,987,815.35	4,305,325.96	176,784	179,023
Co- op K	3,333,024.96	3,594,337.50	169,123	179,646
Co- op L	3,068,588.24	3,614,967.00	134,705	152,391
Co- op M	3,242,283.10	3,575,006.13	125,739	157,015
Co- op N	3,957,980.66	3,896,541.55	108,324	105,440
Co- op O	3,385,868.07	3,492,228.70	62,027	66,260

*Data from CoMetrics
Co-op identities confidential*

Appendix F - Ideal Co-op from 2014

As part of the 614 project, an effort was made to define the ideal Cooperative. There have been some changes and more detail but this was part of the start to find a new location.

IDEAL CO-OP STORE

Version 1, 7/16/14

1. Outside
 - a. Downtown
 - b. Sufficient parking close Ease of entering and leaving building
 - c. Outdoor space for trash and recyclables
 - d. Good visibility from the street
 - e. Delivery truck access and loading docks
 - f. Outdoor seating area?
 - g. Outdoor display area?
 - h. Corner location?

2. Building Structure
 - a. One building with 5,000 to 6,000 sq ft
 - b. Cement floor
 - c. Windows Electrical system up to code
 - d. Plumbing system up to code
 - e. Heating system (what kind?)
 - f. Cooling system (what kind?)
 - g. Structurally sound roof
 - h. Well insulated
 - i. Energy efficient lighting
 - j. Bathrooms (how many?)

3. Space for
 - a. More shelving units than we have now, which will allow stocking whole cases at a time for products that move quickly*
 - b. Five-foot aisles
 - c. Produce section two-three times as big as current which will allow for stocking more of each item*

- d. Larger dairy section*
 - e. Larger freezers*
 - f. Larger walk-in coolers and freezer
 - g. More (or more easily accessible) bulk items - including more bulk liquids
 - h. 3 checkout counters plus a speedy check-out
 - i. Customer service desk
 - j. Space for promotions and case stacking
 - k. Employee break room
 - l. Educational classes
 - m. More efficient prep kitchen
 - n. Offices (? sf)
4. If we so decide, additional space could also be used for:
- a. Meat market
 - b. Demonstration area
 - c. Deli with or without sit down area for customers
 - d. Additional product mix other than food

*To obtain greater detail, such as how many shelving units we need, how much more refrigerated or freezer space we need would involve a detailed breakdown of the exact products we want to carry, so that the space needs can be calculated.