



**General Manager's Report
January 2012
Presented by David Lippman**

This month's report will focus in on the following areas:

- Financial Update for Q3
- Store Changes
- General Operations News & Notes

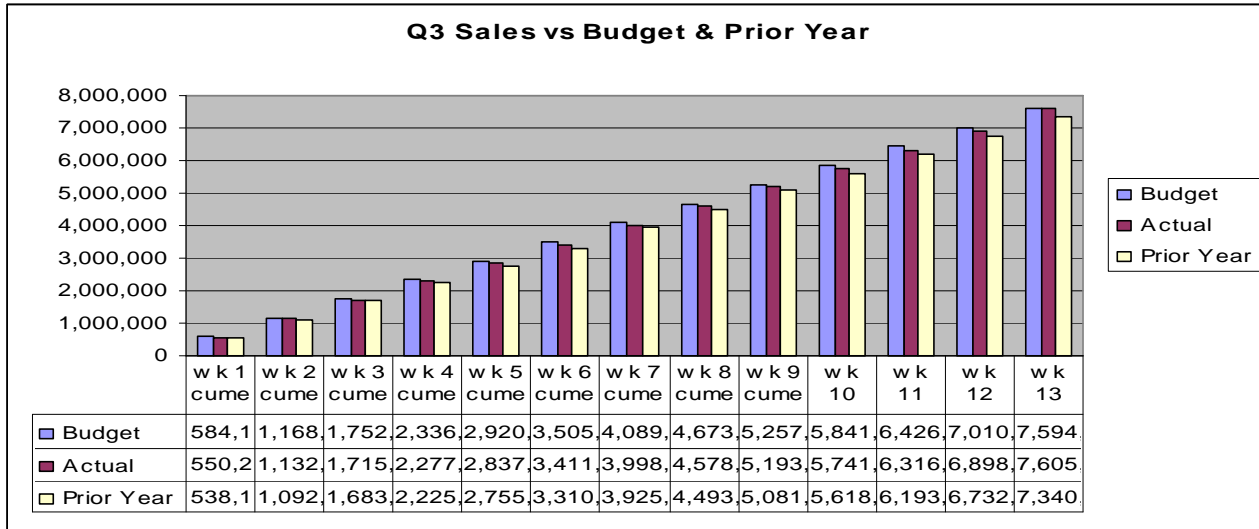
I am preparing this report a little earlier than normal as I will be out of town the early part of the week of the Board meeting. I'll be in Boise Idaho for an NCGA General Managers meeting and visiting the Boise Co-op, a recent new member of NCGA. I fly back to Humboldt Wednesday night, so with just a little luck I should be at the Board meeting! There are several items including finances and store changes that will likely get updates at the meeting.

Financial Update for Q3

Third Quarter Financials – Sales for Q3 finished very strong, with over \$700,000 in the final week leading up to Christmas, an all time weekly record. As a result our Q3 sales came in at \$7,558,932; that is just a hair under budget but it was definitely our best quarter of the year, about \$240,000 more sales than Q2. An anomaly worth noting: typically on Christmas week we have only 6 sales days since we're closed on Christmas Day. This year Christmas Day fell on Sunday, the first day of the *next* quarter.

On the expense side, while still awaiting final numbers, it appears that payroll was actually down just a bit from Q2. (Once again there is an anomaly to note: holiday pay for Christmas Day will fall into the fourth quarter. Q4 this year will have two days of holiday pay) Health care costs were higher than Q2 but not as bad as I feared they might be. Other expenses appear to be under control, though we may see a little bit higher maintenance costs as we've been catching up on a variety of deferred but necessary projects.

The one key factor that I don't have finalized at this time (as of 1/17) is gross margin. We'll be discussing gross margin and how it affects financial performance at the next Finance Committee (carry over from Board Orientation) but overall performance for the quarter cannot be accurately determined until that number is finalized. For that to happen, inventory needs to be checked, extended and added up and all invoices for product must be processed. There are still some questions that need to be answered. I will have an update on financials for the Board meeting and full report at finance Committee the following week. I do expect that it will be a very good healthy quarter.



So... what's the outlook for the fourth quarter and year end? Thanks to this unusual and anomalous year, sales will almost certainly exceed budget; that is because Q4 will be comprised of 14 weeks rather than the normal 13, so total sales will be high despite lower average weekly volume. Our fiscal year always ends on the last Saturday in March, which means that every five years or so we get a 53rd week in the fiscal year. That is happening this year. That 14th week will also affect some, though not all, of our expenses. An extra week of payroll will most certainly put that line item over budget for the quarter (though likely we'll still be under budget for the year). Some other expenses will not be affected; For example, we pay rent in Eureka by the month, so there will be no added impact on that expense. Overall I expect that we will see a small profit for Q4 and a surprisingly good profit for the year, well in excess of budget. Jeff and I will be working on a careful projection for the fourth quarter but cannot do that very well until third quarter is buttoned up. I hope we'll have it done for Finance Committee.

Store Changes

The pace of change in the store is accelerating rapidly, so much so that I'll plan to update you all at the meeting. We have the end panels that we've been waiting for to change over the beverage cooler in Eureka so that should happen soon. That then allows replacement and relocation of the beverage cooler in Arcata, followed by installation of the new Customer Service desk. All of this has been a long time in the planning so we're excited to see it come to fruition. Ideally, the changes in Arcata will be largely completed by early February, allowing the Lexicon of Sustainability art show to be displayed in and around the old customer service area. We're keeping our fingers crossed.

Thanks to a change in our magazine supplier we have new displays at the front ends of both stores. They look really nice and seem to have had an immediate impact on the volume of magazine sales. The magazine distributor picked up most of the cost for the racks; we also get a significantly higher gross margin. We also recently moved the Arcata floral display to the front end near the registers and this too had an immediate positive impact on sales.



We are sneaking in under the deadline for an energy efficiency program, having new LED lights put into the refrigeration cases in the two stores. Upfront cost is about \$7,500 after the rebates. Return on Investment should be about six months. The new lights use less power plus they generate less heat, saving refrigeration costs. This is another project that came our way through the California Energy Smart Grocer program, same program that got us the new compressor control system in Arcata.

The Management Team recently had a presentation from Arcata architect Kash Boodjeh and his team regarding suggestions for addressing some of the issues around the front of the Arcata store. These were very preliminary thoughts aimed at making the front of the store more inviting and should ultimately help us develop a master plan to address multiple needs in phases over time.

General Operations News & Notes

Staff Changes

We are continuing our search for a new IT Manager. We have received a number of resumes from several good, qualified applicants. The goal is to find a well qualified professional who will be a good fit and a productive member of the team.

401K Audit

David L. Moonie & Company, a local CPA firm, recently completed the required audit of our 401K program. Our systems and procedures were deemed to be adequate and appropriate. Assets grew by almost \$500,000 to more than \$4,300,000. Employees contributed over \$230,000 towards their retirement savings and the Co-op's 5% match totaled over \$150,000; both represent increases over prior year. We are pleased that as responsible employers we are working together to facilitate our employees saving for retirement.

Loss Prevention

As this program has evolved over time it has become more effective and less controversial. A lot of that has to do with the staffing from PLP. Our current primary Loss Prevention Officer is very good. He really focuses on catching people who are actively stealing significant amounts of merchandise, so there is rarely any drama involved with his stops. We reduced the overall expenditures in this year's budget and have consistently stayed within those parameters, so I think that we can feel that we are getting appropriate value for the money we spend. Store management is also spending far, far less time trying to determine intent versus behaviors. As I previously let the Board know, we recently approved our first request for restoring of shopping privileges. Kelli and I met with the person in question, reviewed what had occurred and clearly set out our expectations; they agreed to comply with those expectations so we granted the request. It should be stated that we will not hesitate to act in the future should there be a repeat offense.

Diversity Training

On the 26th and 27th we have Dr. Peggy Farmer coming in to do workshops on Diversity in the Workplace. Peggy has previously done trainings with our Managers and Department Heads on communication techniques and is a strong and engaging presenter. We'll have four workshops and will be trying to get all employees



scheduled for one of them. The workshop is designed to enhance the sensitivity towards and appreciation of diversity in our work environment.

Open Book Management

OBM is a program that is being used at many co-ops and other businesses to improve employee engagement. As the name suggests, it is designed to make financial information available to all employees. In addition, it gets those employees engaged in making plans and projections and developing the solutions to the issues that challenge the business. Kelli Reese is very interested in the process and volunteered to head up the project. I've had some basic instruction in the concepts and approaches and Kelli will be leading a team of managers at a special training in OBM that NCGA is holding in Portland in May. This is a wonderful opportunity to send a group to learn together for the cost of sending one person to specialized training. (Not so sad to say I won't be able to join them 'cuz I have long planned reservations in Loreto, Mexico that week.)

Board Training

Attached is info on NCGA's Board Training program to be held March 31 in Portland. Cynthia and Melanie have attended in the past. If the Board would like to send one or more representatives we should make reservations sooner rather than later (last year prices went up for tickets, etc., as the event got closer).