

**General Manager's Report
February 2010
Presented by David Lippman**

This months report will focus in on the following areas:

- Third Quarter Financials
- Health Benefit costs
- 2011 Budget process
- Store Improvements
- Richardson Grove Controversy
- Spring Board Training
- General Operations News & Notes

- **Third Quarter Financials**

As discussed at Finance committee, Q3 of FY 2009-2010 is a mixed bag of results. On the positive side, sales of \$6,893,970 exceeded prior year by 7.7% and budget by 6.1%. Gross Margin percentage for the quarter was higher than previous year but under budget, but thanks to good sales our total gross margin dollars exceeded budget by \$115,000

	Q3 2010	Q3 2009	Budget 2010
Sales	6,893,970	6,401,629	6,500,000
Cost of goods	<u>4,423,987</u>	<u>4,122,226</u>	<u>4,145,185</u>
Gross Margin	2,469,983 (35.8%)	2,279,403 (35.6%)	2,354,815 (36.2%)

Unfortunately, expenses rose even more than sales. Total operating expenses of \$2,502, 043 were up \$86,216 from prior year, so performance was greatly improved year-over-year. However, expenses exceeded budget by \$143,000, missing budget target by \$21,403 and resulting in a net loss for the period of (\$25,978) vs. a budget of (\$4,575).

	Q3 2010	Q3 2009	Budget 2010
Op. Expenses	2,502,043	2,415,827	2,358,765
Income	(32,060)	(136,424)	(3,950)
Other Income	412	(6,422)	3,675
Prov. for Tax	(6,494)		(3,050)
Net Income	(25,978)	(130,001)	(4,575)

The areas of major expense variance to budget for the quarter include:

Advertising	+17,000	seasonal variation, near budget for the year
Consulting	+11,000	expensing off balance of funds paid John Sutti
Employee Events	+5,000	solstice party over budget
Repair & Maint.	+13,000	necessary / unavoidable repairs
Sponsorships	+6,400	over budget
Recruitment	+6,400	relocation costs and agency fees
Training	+7,300	Rising Stars, Retail Basics, CCMi
Travel	+2,000	For training above
Admin wages	+26,000	Mostly demos and special events
Front End Eureka	+27,000	Additional customer service, security, Sr. Clerks

Year to date, we show a net income of \$52, 584 vs. a budget of \$6,225 after 3 quarters. This is deceptive, however, as we are subsidizing health care costs out of the Medical Trust Fund (see below) which is not a sustainable program. If our P&L showed our total costs for health benefits we would have year to date losses of over \$100,000.

- **Health Benefits Cost Analysis**

As most of you are aware, we have seen our health care costs double over the past two or three years. Last year we believed that the previous year was an aberration; another year with escalating costs makes it seem like the new normal. This year we budgeted what we thought was a generous \$700,000 for health care benefits with the agreement that any costs in excess of \$175,000 per quarter would be withdrawn from the Medical Trust fund Account. So far this year we have withdrawn \$165,000 from the Trust, almost half the balance, and could very well be more by years end. If all things remain as they are we would plan to budget over \$1,000,000 for health benefits next year, almost 4% of sales. This is a much higher percentage of sales than most any other co-op.

We have begun the process of digging into the health benefits plan and the reasons for our escalating costs. We (Jeff, Lisa and I) met with our health plan administrator, WSIS, to request statistical data that will allow us to see where health benefit dollars are going, first to determine if there appear to be any frivolous or inappropriate payments, then to be able to assess cost benefit relationships. Once we have data (hopefully this week) along with relative costs of fully funded plans, we will hold a series of forums to engage the workers in a dialogue to let them know what is happening and to give management (and the Board) a better sense of what is most important to them. Since the health benefit plan is a subject of negotiation with the UFCW, we are not in a position to unilaterally make changes with the basic structure of the plan. The Co-op has, however, been contributing an amount far in excess of what the union contract calls for.

- **2011 Budget Process**

Jeff and I are working in earnest on the FY 2010-2011 budget. We are approaching the year with a more aggressive expectation regarding sales growth. Unfortunately, we need to budget additional dollars for expenses, particularly in the area of health benefits (see above). We continue to work with the numbers to develop a budget that projects a profitable year while meeting operational needs and supporting the goals expressed in our strategic plan. We will schedule a finance committee meeting in March to present the business plan and budget as soon as it is ready.

- **Store Improvements**

For a change things have been a little quiet on this front. The Arcata Deli continues to perform well, and we are figuring out how best to use the new display space in the Arcata entrance. And we have ordered some new racks for bulk herbs to replace the beat-up and shabby units currently being used; good news there is that Pioneer Herbs, our supplier, offers the racks with “free fill” which just about covers the cost of the rack! We continue to discuss possible changes to the Arcata store including the relocation of seating to the front windows. We remain at a pretty early planning stage without any kind of consensus

on what else would move where. I will keep the Board informed as we start moving towards a plan. Any thoughts or ideas that you may have would be appreciated.

- **Richardson Grove Controversy**

There is a controversy brewing in regards to the Cal Trans proposal to realign or widen Highway 101 at Richardson Grove. The issue that Cal Trans is looking to address is access to our area by standard STAA tractor / trailer trucks which currently are not allowed through Richardson Grove. The proposal has the backing of many local businesses including many of our local food producers who ship products out of the area. It is being opposed by people with concerns about the environmental impacts and / or the potential growth of big box type stores. In my discussions with some of the local food producers, I expressed support for their position and as a result North Coast Co-op was identified as a supporter of the project. For the record, I do believe that the realignment of the road will help keep food prices down and will support our local producers, both in alignment with our Strategic Plan goals. Board President Dave Feral has requested that I arrange for an informational presentation to the Board at the March 25 meeting; this would be comprised of brief (5 to 10 minute) presentations by a representative of the Cal Trans proposal and a representative of the opposing viewpoint. While the Board can, of course, discuss the issue as it pleases, this is not intended as a “public forum”, rather as informational. The situation at this time is that Cal Trans looks to have made its decision to do the project; and it would be expected that the opposition will sue to stop it. No action by the Board or Management is likely to impact either of those realities.

- **Spring Board Training**

Cynthia, Austin, Wayne and I are scheduled to fly to Portland for Board training on March 27. We fly up on Friday and return Saturday night after the training.

- **General Operations News & Notes**

January & February Sales – Sales continue to be good. January growth was a little less than the last few months but was still up 3.6% in Arcata and 6.8% in Eureka... this despite the loss of sales due to the earthquake. In the first three weeks of February sales growth has been up 7% in Arcata and 8.6% in Eureka.

New Members - Here's the info for January...108 new members

Arcata	59
Eureka	46
Mail	3

Conflict with April board meeting – The April Board meeting is scheduled for 4/22. I have an NCGA Corridor Meeting in Grass Valley the 22nd and 23rd. I will confer with the Board President as we approach the meeting date and determine if I should have a representative attend the Board meeting in my place or if desired I can attend via conference call.

Mural Proposal – I have been approached by local artist and arts educator (and former Co-op employee) Maureen McGarry about doing a community mural on the I Street wall

of the Arcata Co-op. Consideration of this project would have to be coordinated with the budget process.

Co-op Training Manual – Valerie has for each of you a copy of our new training manual about cooperatives and the history of North Coast cooperative. The general co-op information is provided by Karen Zimbelman and NCGA; the sections on our co-op were collaboration between Valerie and Jacque Torres. All existing employees will receive a copy, and all new employees will be trained on this material as part of their new employee orientation. This is another example of how we are fulfilling the goals for the strategic plan in terms of supporting and training our employees.

Promotional Pricing comparison – As I mentioned last month, we have been taking a more aggressive stance towards our promotional pricing. At the same time, I believe that in response to member input NCGA has been more aggressive in negotiating exceptional promotional buys on our behalf. The result is more and more instances where we are advertising sale items at lower prices than our competitors. Coupled with our Basic Bulk Buys program, I believe that we are offering our members and shoppers much more competitive pricing. Changing the public image will take time but I think that we are moving in the right direction.

CCF –

Point of Sale System – We continue with the process of searching for the best possible new Point-of-Sale (POS) computerized cash register system. We have site visits scheduled with representatives of three different companies, the first one this Wednesday 2/24 with two more scheduled for March. Given the large nature of the investment and the necessity to take on debt, I will be bringing management's recommendation to the Board for approval.

Emergency Power Backup – We have been trying to get together with North Coast Electric to discuss possible backup power options but have not yet been able to meet. We'll continue to pursue the issue and will report back to the Board on progress. We know that previous quotes on full backup systems came in around \$250,000 to \$300,000. With the anticipated purchase of a new POS in the coming year it seems highly unlikely that we can swing another acquisition of that magnitude. We are also looking at the possibility of smaller scale options that might provide strategic backup capacity.

September Board Meeting – Once again I apologize in advance for being unable to attend the Board meeting on September 23, 2010. I have an NCGA General Assembly meeting in Cambridge, Massachusetts the week prior (the 14th, 15th & 16th), and then a family wedding in Cape Cod on September 25.



