



2016 Annual Report

Community Owned Since 1973

Hancock, MI • keweenaw.coop • 906.482.2030

From the Board



The Board's primary focus in 2016 was to develop the processes and skills necessary for relocation. While not as exciting as actually relocating—which we are not *quite* ready for—or as newsworthy as last year's adoption of an official relocation policy, this work is an essential step for the successful relocation of the Keweenaw Co-op.

What did we do specifically? Each member of the Board chose and dedicated themselves to an area of focused study such as relations with other co-ops, methods of engagement, funding, and so on. Throughout this process we worked with Management and Owners, consulted with cooperative development and legal professionals, attended workshops, made use of online resources, and connected with fellow co-ops in our region. All in all a very useful and purposeful year of work. Although the tangible results are not very dramatic, it was a vital step to build and secure the processes necessary for future success.

The Board as a whole also continued the on-going process of revising and streamlining the Governing Policies so that as much oversight as is needed is maintained while avoiding duplication of effort in order to free up time for the Board and Management to focus on the current and future work of relocation.

As you will read elsewhere in this annual report and hear at the Annual Meeting, it is a challenging time for food co-ops in the USA. Competition from conventional stores is rising. Big box stores are selling goods with claimed equivalencies, yet without the values based focus on community, sustainability, and health. Here at the Keweenaw Co-op we saw no retrenchment, no retreat, and no excuses but rather a sales growth of 7% for the year (even as prices in the store continue to fall)! The important message this tells us is that we have great owners that are dedicated to supporting the business and the community.

We the Owners and the Board can pat ourselves on the back for a job well done, but it's our Staff that really gets the work done. Board member, Mike Mallow, noted in a recent meeting that when he's out and about representing our co-op people frequently respond: "Oh, you're one of the good co-ops!" A statement that is clearly directed towards our staff—everyone from the Front End to the Deli, to Curt our General Manager, and to the backend folks who never get acknowledged, to everyone! Challenges always arise and the staff this year have met them with grace and dignity and most importantly from my observations a wickedly good sense of humor!

You may recall at last year's Annual Meeting one of our Owners brought up the important issue of how to increase both the hourly compensation of our staff and the number of full-time employee positions. I'm happy to report we've made progress on these issues in 2016. Is there more to do? Of course!

So what is next? What can you do? Here are three things:

1. Continue to do what you do, support the Co-op! Shop here, encourage your friends to shop here, and pay with cash or check. It may seem trivial but credit card and debit charge card fees are about equal to our annual net profit!
2. Tell our story, encourage others to join us. Yes it takes effort, yes it jars us out of our Midwest comfort zone, but it has impact! This year I've found 2 new owners. Imagine if each of our 1,200+ Owners did that!

3. Be involved, come to meetings, respond to surveys, and reach out to our co-op community—yes, to the broader community too—but particularly to our own community. Thank the staff, appreciate other owners, celebrate our accomplishments, and strive for new goals. We are a community, a family, let us be a good one!

As always it is a pleasure and a privilege to work for you as a member of the Board, please share your thoughts, your concerns, your dreams—we are in a good place, and it can only get better. The cooperative process works!

Total Owner Investment

\$318,008

58%

Sales to Owners

Caring for Community in 2016

24,856
Bags Saved in 2016

Community Sponsorships

25 Organizations
21 Events
\$4,565 Donated
(not including labor)

Co+op Explorers Program

298
 Kids participating
(age 12 and under)

Senior/Student Day Discounts **\$13,348**

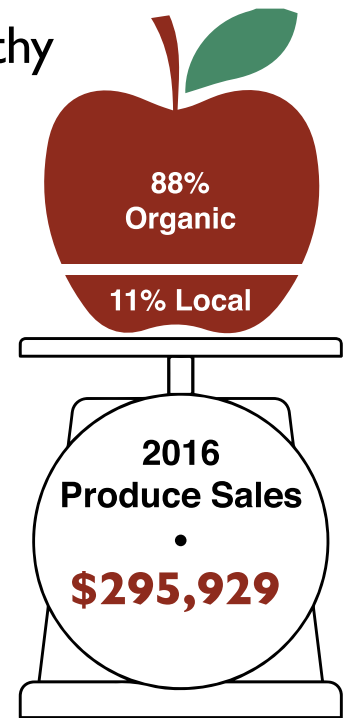
Owner Appreciation Day Discounts **\$5,311**

Special Order Case Discounts **\$25,400**


Co+op Deals & New Owner Coupons **\$5,455**

NCG Promotional Rebates (passed on to customers) **\$43,549**

Eating Healthy



Supporting Our Local & Regional Economy

48¢ of every  spent stays in 

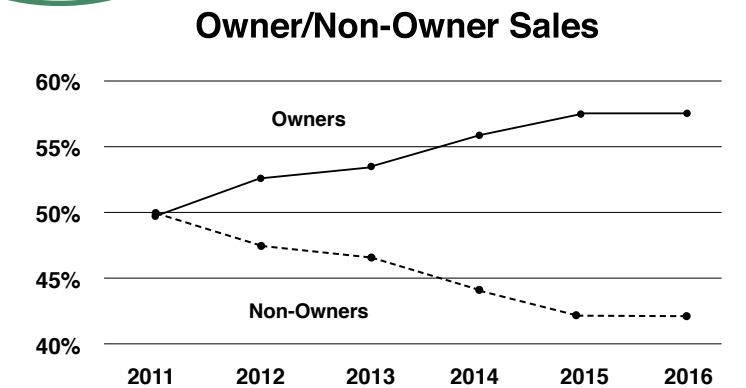
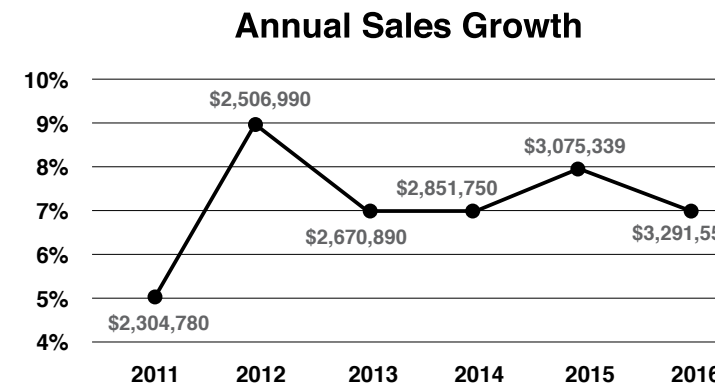
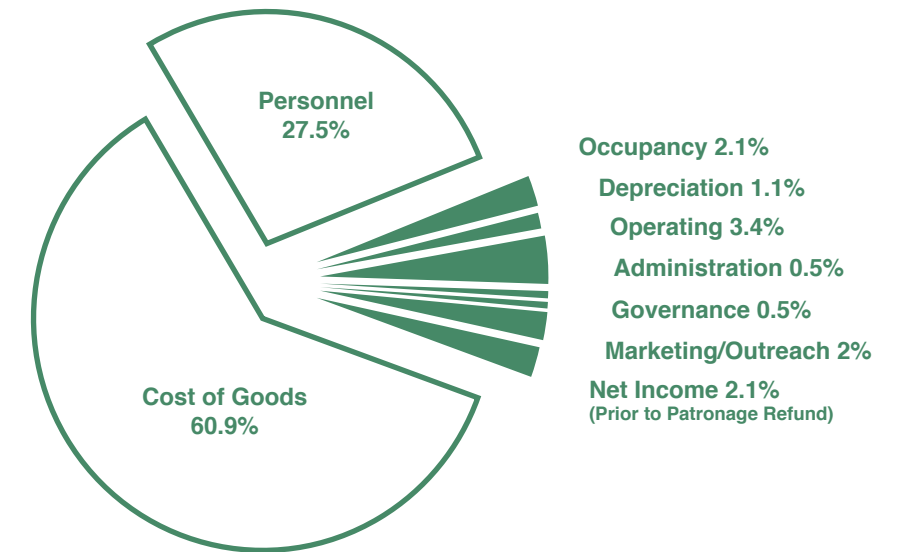
Balance Sheet

The value of our business has increased 21% over the past two years. This represents continued Owner Investment (Owner Shares), retained Patronage Refunds and retained Net Profit. Capital Improvements were funded by this investment in 2015-16 as indicated by the shift in assets from cash (Current Assets) to equipment. However, in 2016 we managed to recover and build our cash position. Building equity will help us secure funding for a relocation/expansion project.

	2014	2015	2016
ASSETS			
Current Assets	679,724	648,387	692,380
Property/Equipment	56,706	172,857	196,133
Other Assets	29,269	33,627	40,218
Total Assets	\$765,699	\$854,871	\$928,731
LIABILITIES			
Current Liabilities	78,941	110,748	102,264
Total Liabilities	\$78,941	\$110,748	\$102,264
EQUITY			
Pre-2010 Equity	38,208	38,098	37,998
Owner Equity	175,476	196,381	213,773
Retained Patronage	60,924	74,147	104,235
Retained Earnings	384,808	412,150	435,497
Net Income	27,342	23,347	34,964
Total Equity	\$ 686,758	\$744,123	\$826,467
Total Liabilities/Equity	\$765,699	\$854,871	\$928,731

2016

Total Sales
\$3,291,556



Income Statement

Sales softened slightly in 2016 but growth continued. We anticipated stronger growth in response to our 2015-16 store improvement project. However, co-ops in the Midwest experienced flat sales growth on average in 2016, so we credit our project for helping keep us well ahead of that trend. Our Gross Margin remained solid in a large part due to reduced cost of goods thanks to NCG brokered deals. This allowed better retail pricing which in turn drove higher volume. Most Operating Expenses grew at a rate lower than sales growth. We expect this as we gain economy of scale. Labor remained higher

	2014	2015	2016
Sales	2,851,753	3,075,339	3,291,556
Cost of Goods	(1,745,823)	(1,900,011)	(2,003,796)
Gross Profit	\$1,105,930	\$1,175,328	\$1,287,760
Operating Expenses			
Personnel	803,993	851,859	904,001
Occupancy	64,954	68,386	70,668
Depreciation	11,421	14,081	37,028
Operations	95,807	103,808	110,290
Administration	29,726	41,452	16,517
Governance	15,321	13,034	15,016
Marketing/Outreach	48,029	54,031	64,412
Total Expenses	\$1,069,251	\$1,146,651	\$1,217,932
Operating Income	\$36,679	\$28,677	\$69,828
Other Income/Expenses	14,213	14,753	6,163
Patronage Refund	(18,590)	(16,940)	(33,315)
Income Tax Paid	(4,960)	(3,143)	(7,712)
Net Income	\$27,342	\$23,347	\$34,964

than budgeted as we continue to try and balance better wages and benefits with operational efficiency and productivity – a continuous process. We should note expense categories that deviated significantly from sales growth: Depreciation increased dramatically as we began to expense the remainder of the 2015-16 store improvements. Administration decreased significantly (2015 included extra consultant expense related to expansion and relocation planning). The Board invested in consultation in 2016 to build governance capacity. Marketing and Outreach was in transition for much of 2016. We kept giving back to the community throughout those transitions.

Sales / Square Foot

Retail store:
4300 sq.ft.



Average Inventory (last 4 quarters)

\$251,753



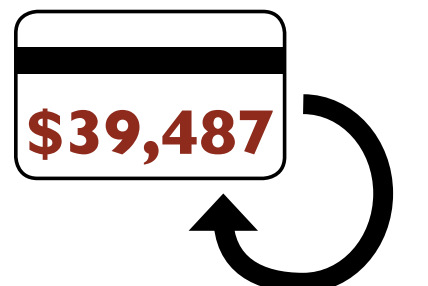
Average Transaction

\$30.07



Credit/Debit Processing Fees

\$39,487



From the General Manager



I write this year's annual management report while tending a fire as the 2017 maple syrup season commences. I reflect on the changing of the seasons, that constant change that slides through the year as we circle the sun once again.

I enjoy the change of seasons, even the unpredictability.

I embrace the opportunity to approach each day differently, depending on the weather. And I love that with each new season, some new activity is offered. From scooping and skiing to syrup and pruning to paddling and gardening and storing it away for another season...

And so it is in a year at the Co-op. We serve over 1,200 Owners whose needs are as varied as the weather. We provide jobs for 40 staff who each bring a unique set of skills to the table. The Co-op's role in the broader community requires yet another level of diverse interaction. These stakeholders, like boiling sap, require patience and constant tending. But this too is an opportunity. It's what the Co-op thrives on. It informs our approach as we strive for sweet and enduring results.

Time does fly! For me, that was the shortest winter I can remember. It seems that the cycle of change around us is moving at light-speed. Doing business as this change happens requires constant effort, adaptation and leadership. Doing business well requires stepping up our game on all levels.

But it's not easy. Already in 2017 three of our sister co-ops have closed their doors including our Great Lakes partner, the East Lansing Food Co-op. The pressures within our sector continue to grow. This environment requires agility, and co-ops, while historically known for innovation, have not always been the most agile structures. Today our Co-op remains on solid ground (details accompany financials in this report). While we weathered some changes over the last year, the Co-op grew, beyond just sales, in ways that I see as maturing.

Building agility. In recent years, the Keweenaw Co-op's agility training included three key accomplishments: Policy Governance clearly defined board and management roles. Reincorporation gave us a structure that accommodates growth and facilitates investment. Joining our peers in the National Cooperative Grocers (NCG) gave us access to tools, support and inspiration to raise the bar, as well as providing us a competitive edge. In retrospect, these changes, which at the time seemed to move at a rate closer to molasses than maple syrup, have put us in a ready position.

Strengthening leadership. We focused on internal communication, morale and fostering a positive attitude throughout the store. We took steps to reorganize our structure to build in efficiency and accountability, recognizing the importance of putting together the right team and retaining (and attracting) talent. We renewed expectations and efforts to develop our Management Team into more effective and strong leaders. In turn, that team is focusing on developing our staff. At the same time we extended benefits and stepped up our wage

scale. In short, our staff experience was a big focus in the past year.

For well over a decade you have observed my approach and challenges. You've likely noticed that it takes a while for the sap of my thoughts to become sugar. It is all a learning process and in this job I am reminded every single day that the more I learn, the more there is to learn. I'm good at weighing risks, but it's more recently that I'm learning to seize opportunities. I am learning to manage change.

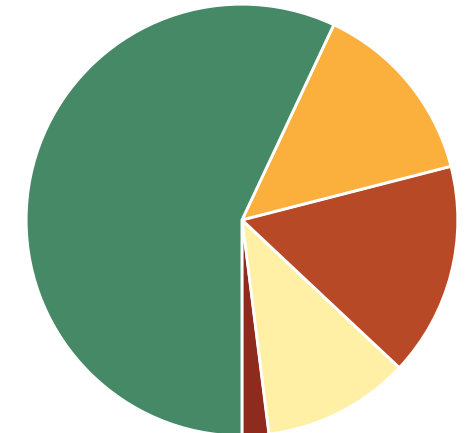
Navigating change. It's not always easy. It can be fun, and at least exciting. It's not even always right, and sometimes we have to change what we just changed, we have to keep trying. That is the key: To keep trying new things and new approaches, and to adopt new ways of telling the story.

How does a co-op make changes with its owner's interests in mind? Arguably, 100% of our Owners want the Co-op to succeed. So we have to base decisions on the best interest of the organization. There are multiple demands and many moving parts. Simply put, it's not a simple equation. We will remain transparent, keep sight of our Ends and frame them within fiscal responsibility to effect change that serves our collective interests.

Something I love about boiling sap is that I get to step back from the task at hand and literally watch the world go by, as buds swell and birds migrate. The Co-op's Annual Meeting provides a time for reflection on the progress we've made and an opportunity to look forward together. We do make a positive impact, as the infographics throughout this report demonstrate.

Looking up from the Co-op calendar, dotted with the tasks and projects that move us toward our goals, and looking out at the world, I'm offered these reminders as well: Stay flexible, keep a sense of humor, maintain grace and compassion, keep it fun, and take every opportunity to celebrate success. I hope you will enthusiastically join me as we move through this year.

Percentage of Total Sales by Department \$3,291,556



- **Grocery**
56.5%
- **Produce**
14%
- **Prepared Foods**
17%
- **Wellness**
10.5%
- **General Merch**
2%

<p>How many...</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>1262 Owners <small>*As of December 31, 2016</small></p> </div> <div style="text-align: center;"> <p>301 Customers (per day avg.)</p> </div> <div style="text-align: center;"> <p>40 Employees</p> </div> </div>	<p>Total Transactions</p> <p>111,572</p>	<p>Average: Weekly Sales</p> <p>\$63,299</p>
	<p>Customers per day</p> <p>301</p>	<p>Daily Sales</p> <p>\$9,067</p>

Busiest Day of the Week?
Wednesday

- 151⁺** Cooperatives we network with
- 12** Cooperatives we do business with
- 25** Cooperatives on our shelves
- 5** Cooperatives we belong to

What to say about relocation?



So, what is up with relocation? Given what we know today, we can say that we are working toward an expansion and relocation project, but we are still in the feasibility stage. As things develop, more information will come your way. That's not the most satisfying answer, unless the complex process therein is understood.

Diligence in the realm of feasibility helps ensure success. To test the feasibility of a project there are numerous questions to answer and if the answer doesn't indicate feasibility, then there's work to be done. It is an ongoing process of testing, refining and testing again. We have numerous tools and resources at our disposal to help us through the process. There are four main areas of feasibility that we are exploring:

1) Financial Feasibility – Can we afford an expansion and relocation project? Do we have enough money in the bank? Can we secure funding? Do financial projections support the Co-op's continued existence after a relocation project?

We have a financial pro forma which is a tool that projects financial performance based on multiple assumptions. With this tool we can set pre-project financial goals and determine at what point we are financially prepared to relocate.

2) Market Feasibility – Does our trade area have room to support an expanded Co-op? What size of a store? What is the competitive environment? Are there gaps in local offerings that an expanded Co-op could fill? What target areas that would maximize the success of a relocation (considering traffic, visibility, retail synergy)? What is the potential sales volume for a prospective site? (Numbers from the Market Study get plugged into the pro forma.)

We commissioned a general Market Study in 2015 to start to answer these questions. When a specific site is under consideration, we will update this market analysis.

3) Design Feasibility

What are the physical requirements of a potential new site? Most obvious: Can the site become a functioning grocery store? Is there appropriate square-footage? (Is there room for future expansion?) Does it allow efficient layout of retail and work spaces? Is there enough parking? Is there space for a loading dock (and access for semis)? ...and so on.

Our Shared Vision process is part of developing a checklist of requirements for potential sites. We will continue to gather input from stakeholders as we refine our vision. We are looking at both what we must have and what would be nice to have. The Market Study makes specific recommendations about square footage and parking.

4) Operational Capacity or Internal Readiness – Are current operations profitable? Do we have all needed systems in place? Are we able to respond to change quickly and effectively? Would we have the capacity to operate a larger store with double (or more) the sales volume, more staff, and offering more services?

We are building capacity through continued focus on key indicator performance (sales growth, profit margin, labor margin and inventory turns) and productivity. As the Co-op grows, we are evolving our organizational structure to respond to new and greater demands.

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