



Marquette Food Cooperative, Inc. Business Plan

June, 2015

Business Description

The Marquette Food Cooperative, Inc. (MFC) is a Domestic Corporation of the State of Michigan organized as a cooperative. The MFC is an organic and natural, community-owned grocery store specializing in local food. We also provide a wide variety of services and programs surrounding food, agriculture, healthy eating and nutrition. The MFC is known for its exceptional customer service. We employ 96 people in our downtown Marquette location. The average hourly wage of staff is \$10.17 and the average salary of our exempt employees is \$37,595.00. We own our current location. We have 9,000 sq. ft. of retail space which produces \$893.00 of revenue per square foot. We have an additional 12,000 sq. ft. of space that houses administrative offices, a meeting room and teaching kitchen, a production kitchen, refrigeration, equipment room, and a receiving area. The MFC has been in existence since 1971 and has completed 4 successful expansions in its 44 year history. Since 2006, the MFC has grown from less than \$1 million dollars in sales to an expected \$8 million dollars in 2015. Additionally, since 2005, the MFC has taken a local food awareness campaign and transformed it into a significant segment of its business. In 2014, local food and other local products accounted for 9 percent of sales- or more than \$600K. This figure is more than double the local food sales since 2009.

Substantial Outreach programming places MFC representatives into our community in a variety of ways. Healthy eating presentations, cooking classes, food preservation/growing workshops, organizational partnerships, and community service group leadership positions are all ways in which the MFC mission and vision are disseminated throughout our community and region. Outreach efforts have culminated in the creation of the organizational infrastructure and cold storage space of a regional food hub housed at the MFC. This hub, the U.P. Food Exchange, is a collaborative effort between the MFC, Michigan State University Extension, and the Western U.P. Health Department that is part of a region wide effort at which the MFC is the center.

The mainstay of the MFC is the store. We serve on average close to 800 customers a day, 60% of whom are members of the MFC. Those members account for 72% of all sales. The organization is governed by a 9 member Board of Directors operating under the guidance of Policy Governance. Directors may serve two consecutive 3 year terms. The election cycle is such that 3 seats are opened annually.

Value Proposition

The MFC successfully completed an extensive expansion of its operations and facility in May of 2014. In order to do so, \$4.6 million dollars of investment went into the expansion project.

In February of 2012, after a Market Study, performed by Deb Suassuna of G2G Research, the MFC purchased two buildings, adjacent to one another in downtown Marquette; 500 & 502 W. Washington. 500 W. Washington now serves as the production kitchen for the new store. 502 W. Washington, built in 1955, was originally a neighborhood grocery store, and we have returned it to its original purpose. Between 2013-14 the buildings were completely gutted and re-outfitted including all mechanical, plumbing, and electric service. We also built a 1,500 sq. ft. addition on the back of the existing main building to serve as a receiving and loading dock area. The buildings at 500 & 502 W. Washington were connected via construction of an adjoining passage.

The store is highly energy efficient. Through insulation, energy efficient refrigeration, and LED lighting set to timers, the store has increased its energy usage from its prior location by only a third while increasing its physical size by three times. Additionally the store utilizes excess heat generated by refrigeration to heat all the water needed to operate the store as well as supplement the gas furnaces to heat the store in the winter. Rainwater is collected from the rooftop and used to irrigate the green space around the building. Condensate runoff from all of the refrigeration is collected in a filtered gray water system and is used to flush toilets.

Compared to the prior location, the new store allows our members and shoppers to navigate wider aisles with an increased selection of products. There is ample parking. A fresh meat and seafood department and a full service deli bring new value to our community. Local food is a fast growing component of our business and the new store has increased capacity for it. We work directly with dozens of local vendors bringing local food and other products to our community directly from farms and onto our shelves. The new store serves a "mixed use" as it allows the MFC to further grow its Outreach programs and services through its work to build small farm capacity and by connecting directly with our members and shoppers via classes and workshops. The 5,600 sq. ft. basement space at 502 W. Washington is partially renovated into use as a "Food Hub" complete with cold storage, a teaching kitchen, and educational classroom.

Our new location places us in the underdeveloped western extreme of downtown Marquette and also keeps us within our Downtown Development Authority District. The location borders a residential neighborhood, is across the street from a well-used park, is next to a large downtown hotel, and a city bike path is across the street. We are the only full service grocery store in downtown Marquette.

Industry Analysis and MFC Position

GROWTH

The Marquette Food Co-op is well positioned for continued growth in its market area. Our experience with growth mirrors national trends in the grocery sector. Despite the resultant growth caused by our expansion, the natural foods segment of the grocery industry retains an overall strong growth position in its own right. We are in the right business at the right time.

In 2013, the total natural retail market grew 10.5% to reach \$89.4 billion in sales, compared with \$80.9 billion and 10.5% growth in 2012. Total natural sales non-retail reached \$20.1 billion in 2013, up 8.8% from 2012. Here's a breakdown of the pie:

Natural products retailers had 10.3% growth and took 41% of the natural market, for \$45.4 billion in sales. Food accounted for \$26.6 billion, supplements \$12.7 billion and personal care/other \$6.1 billion. Conventional retailers took 40% of the natural market in 2013 for \$44.0 billion in sales and 10.7% growth. Food tallied \$29.3 billion, supplements \$9.9 billion and personal care/other \$4.8 billion. Non-retail segments in the market, comprised of practitioners (4%), mail order (3%), internet (4%) and multilevel marketing (8%), made up another \$20.1 billion in sales.

In 2013, the average household spent \$735.44 per month on household expenses, 17% of which (\$129.60) went toward health and wellness items. By comparison, total monthly household

expenditures in 2010 were \$775.82, with 19% (\$148.50) spent on health and wellness. Co-op shoppers averaged \$203 per month on health and wellness products, which is 57% more than the average. The reasons for not purchasing health and wellness products varies, but topping the list is price.

In their NEXT Forecast 2015, New Hope Natural Media and Sterling-Rice Group predict that the natural industry will claim an increasingly larger piece of the consumer packaged goods pie. They forecast that U.S. consumer sales of natural, organic and healthy products will expand 64%, from \$153 billion in 2013 to \$252 billion by 2019. At a compound average growth rate (CAGR) of 8.6%, this is more than double the projected growth rate of mainstream consumer packaged goods.

Information taken from the National Cooperative Grocers Trends Report, September 2014

COMPETITION

Once upon a time, shoppers knew that farmers markets, co-ops and specialty grocery chains were the go-to places for organics and natural foods. Today, organics and natural foods have gone mainstream. In fact, 59% of shoppers buy their organic food at conventional grocery stores, where the selection is growing—and sometimes at lower prices than found elsewhere. Still, the good news is that the demand for natural and organic products is strong enough to instigate all this competition.

Thirty-three percent of storeowners surveyed by Natural Foods Merchandiser (a trade magazine) said they had at least one competitor open in their region in 2013. In 2013, Whole Foods, Vitamin Shoppe, Sprouts, Natural Grocers by Vitamin Cottage, GNC and other retailers opened new stores and had enacted expansion strategies. Fresh Thyme Farmers Market announced a 60-store plan in the Midwest in the next five years. And Target recently announced its "Made to Matter—handpicked by Target" collection, which features 17 natural, sustainable or organic brands that will release over 120 new products (from baby and beauty to household and grocery) exclusive to Target.

A major player, of course, is Whole Foods, with plans to reach 500 U.S. stores by 2017 and a long-term goal of 1,200 stores, from a current 371 stores. But Whole Foods is feeling competition, too, from stores like H-E-B, Wegmans, Kroger, Natural Grocers by Vitamin Cottage, Sprouts and Trader Joe's.

Information taken from National Cooperative Grocers Trends Report, September 2014

More recently, Kroger and Costco battle it out to wear the crown of biggest purveyor of organic foods in the United States- ahead of all other natural foods retailers. But as the national market becomes more crowded with competitors, locally in the Marquette area, we remain relatively free of direct competitors. However, as organic and natural foods have made their way into the mainstream, competition for the supply of such products heats up. It is the demand upon the supply chain that concerns us. Through the National Cooperative Grocers Association the MFC enjoys an aggregate purchasing contract with close to 200 other co-ops around the country. But as co-ops lose market share nationally to independents and national chain grocers, we risk losing bargaining power with suppliers.

Marketing Strategies

The MFC is well established and well known in Marquette and Alger County as well as throughout Michigan's Upper Peninsula. It has been more than a full year since we opened our new store. Our most

effective form of marketing is direct communication with our members and shoppers via surveys, letters, email, website, in-store communications, and social media.

In store promotions for members and shoppers help drive sales of products and people into the store. These promotions include National Cooperative Grocers Association developed “Co-op Deals”, a bi-weekly manufacturer reduced price promotion and also in-store developed promotions such as our “Owner Buys”, “Basic Buys”, and “Temporary Price Reductions”. Planning for “Truckload Sales” are in the works as we now have the parking lot space to host them. Additional storage in the new store allows the MFC to purchase larger quantities of reduced price product to extend lower price promotions for members and shoppers for longer periods of time. Because our volume of purchasing has increased the MFC has begun to qualify for increased price breaks on purchases from our main supplier, United Foods International (UNFI). These price breaks provide opportunity for the MFC to develop a “penetration pricing” strategy- or the strategic lowering of prices on necessary household products, such as milk, bread, and other everyday household items. A revamped pricing strategy will bring increased value to our members and other shoppers.

Key to our success is increasing the number of our members. This is supported by the fact that 60% of our shoppers are members and account for 72% of purchases. In the first full year of operating the new store, over 400 new members have purchased equity shares in the MFC- or more than one per day. Direct connection with members through programs and services like cooking classes, workshops, educational events, partnerships with other community focused agencies, and special events further cement a strong relationship with our core shoppers.

Critical Success Factors

A Market Study conducted by G2G Research, an independent market study firm located in Dublin, CA., and completed in March of 2011 had the following to say about the expanded (future) store. *“As a result, the co-op will be able to offer a greater array of merchandise and specialty/service departments, thus enabling its customers to make more of their weekly grocery purchases at the coop which will translate into higher basket sizes/transaction amounts and higher sales performance levels throughout the trade area. In addition, the larger store size and greater merchandise selection will render the co-op less vulnerable to (or preempt) the possible entry of a future direct competitor into the market.”*

In the grocery industry, there are three broad elements of the business that may be managed for continued success. These elements are margin, labor, and sales. Of these three elements the most managerial control is held over margin and labor. Sales are controlled to the extent of our marketing efforts and our ability to maintain organizational relevancy to our members. As anticipated the Marquette Food Co-op was not profitable in its first year of operation post expansion. The new store is not expected to return to profitability until its third year of operation.

Management plans to return to profitability by:

- Maintaining an overall margin of at least 34%- 36%
- Managing its total personnel cost to a level not to exceed 24% of sales
- Increasing sales annually by at least 6%.

Key to returning to profitability is the reduction of debt from loans necessary to purchase and build the new store. Original sources of debt funds include:

\$2.4 million from senior lender Range Bank at 4.75% interest (As of April 2015- \$2,271,527.00)

\$750,000.00 from Northcountry Coop. Dev. Fund at 7.5% interest (As of April 2015- \$566,051.00)

\$400,000.00 from Northern Initiatives at 7.5% interest (As of April 2015- \$161,715.00)

\$98,000.00 from Northern Initiatives at 3% interest (As of April 2015- Paid in Full)

One important strategy to reducing debt is to continue to seek investment from members through the sale of preferred shares. The proceeds from the sale of preferred shares will be used solely to reduce long term debt; particularly long term debt that holds a high interest rate. Preferred shares will carry a 4% annual dividend for members. This offers a significant savings for the store in the face of 7.5% interest on debt from the Northcountry Cooperative Development Fund and Northern Initiatives. The purchase of preferred shares by members builds up the equity side of the MFC balance sheet thereby strengthening the financial position of the cooperative while simultaneously reducing long term debt. This is a “win, win” situation for both the members and the cooperative.

The MFC’s financial performance since opening the new store has been solid. Sales have generally been more than 20% OVER projections, personnel costs have been high but trend consistently down, and margin management has been consistently on target. Most importantly the core operations of the store have generated have enough cash to support operations. This has been accomplished within ten months- nearly two years ahead of projections. It is anticipated that the operations of the store will continue on this trend for the years ahead.

The MFC Team

The Marquette Food Co-op, while managed by a team of professionals, is truly led by its members. The Board of Directors of the MFC adopted a set of policies in 2008 by which the store management are monitored for compliance. Policies pertaining to financial management, staff & customer treatment, asset protection, and the overall direction of the business are addressed according to a monthly board schedule. In this way the members of the MFC direct the business of the MFC to serve member and community need.

The management team of the MFC is headed by Matt Gougeon, General Manager (GM). Matt has been the GM of the MFC since April of 2009. Prior to serving as GM, Matt was an active member of the MFC board. He was instrumental in bringing board professional development to the MFC as well as Policy Governance. Matt served on the board from 2005 until he became the MFC’s GM. In collaboration with a Finance Committee made up of board members, Matt also serves in the capacity of CFO.

In March of 2013 the MFC hired Mary Moe as its Operations Manager. Ms. Moe has a long history of professional management experience in the retail food industry, most recently as the Head of Procurement for the Border Grill chain of restaurants in the Upper Peninsula. Ms. Moe’s experience in building internal communication channels has positively impacted the MFC. She has been integral to the first year success of the expanded store by overseeing the management and staff on the floor of the store. She has been instrumental in planning and developing the Prepared Foods Department and its service counters. She also oversees the continued professional development of department managers.

The MFC is also led in part by its Outreach Director, Natasha Lantz. Ms. Lantz serves as the co-lead for the Upper Peninsula Food Exchange, a collaborative effort led by the MFC and Michigan State University Extension and in conjunction with the Western U.P. Health Department. She sits on the board of Michigan Food and Farming Systems (MIFFS) and has held a seat on the State of Michigan Food Policy Council's Farmer Task Force. She is the MFC's link to the state of Michigan, United States Department of Agriculture, and many community partnerships throughout the Upper Peninsula. Ms. Lantz establishes the MFC presence in our region with her extensive knowledge and experience with agriculture, food politics issues, health & nutrition, and community service.

The average length of service of the MFC department managers is 6 years. They bring a wealth of experience to the floor of the store having been present through the MFC's rapid period of growth and facilitating the customer and employee experience through the first year of expansion. The MFC also has an experienced Human Resources Department headed by Kelly Cantway who has been with the MFC for 8 years. The knowledge and experience of this management team will lead the MFC into the future as successfully as it has managed its growth over the last 6 years.

SWOT Analysis

Strengths

- Positive Cash Flow
- Solid Management
- Improving Operational Systems
- Live Inventory System
- Excellent Relationship between Store & Members
- Quality Hiring
- Location
- Consistent Growth
- Improving Communication
- Strong Community Partnerships
- Positive Community Image
- Property Ownership

Opportunities

- Industry Growth
- Demand for Local Foods & Products
- Increased Consumer Health Awareness
- Little Competition
- High Quality Available Workforce
- New Location
- More Community Partnerships
- Consumer Demand for Information

Appendices

Financial Appendices Follow

Weaknesses

- Outdated Pricing Strategy
- Focused Brand Management
- Internal Communication
- Employee Training
- Price Perception

Threats

- Possibility of Competition
- Economic Downturn Affecting:
 - Consumer Spending
 - Food Prices
 - Distribution Interruption
 - Fuel Prices