

2016

Annual Report

5,603 OWNERS 82 EMPLOYEES

Community-Owned Since 1971

502 W Washington St
Marquette, MI 49855

www.marquettefood.coop
906.225.0671



2016 FINANCIAL PERFORMANCE SUMMARY



2016 was a year of continued steady financial improvement for the MFC after opening the new store in May of 2014. With support from our members, the NCG, and lenders, we made substantial progress toward increased productivity, cash generation from operations, and an improved bottom line, albeit showing a net loss at year end.

Sales were largely flat during the first quarter of 2016.

This compounded an issue of poor cash growth from the previous year and contributed to a trend of falling behind in payables to some vendors comprising about 3% of total purchases. Some payables became 30-60 days in arrears as we strove, in 2015, to keep operations running smoothly in that second year of double digit growth.

The rapid 46% sales growth we had experienced for the previous 19 months prior to 2016 was over, and as sales growth normalized, our costs remained high. This necessitated a plan. Moving forward, we had three issues to correct: 1. cash depletion 2. A/P in arrears of approximately \$165K, and 3. Underproductive labor. Beginning in the 2nd quarter of 2016, we set into motion a three faceted approach to “right the ship”.

- ▶ We cut back on costs, primarily through divestiture of advertising contracts, expenditures related to packaging, supplies, etc.
- ▶ We sought and received support from lenders for a six month period of interest-only payments on loans and opened a line of credit.
- ▶ We planned and implemented deliberate productivity measures concerning labor which changed systems throughout our operations.

The balance between achieving cost savings and “naturally” occurring cost increases as sales revenue increased netted us savings of over \$40K. The period of interest only payments freed up about \$69K in cash. Assiduous use of the line of credit bought us small amounts of time in order to effectively pay down our past due A/P and come current with all our vendors. In a year we have moved from a total A/P average of \$350K to a little over \$200K.

We started 2016 with 97 employees. We ended 2016 with 82 employees. Looking over the 26 pay periods that span 2016, we reduced hours worked by 5.2%, while sales increased by over 7%. Salary and wage dollars increased by only 2.5% (only 2.5%!), but decreased as a percentage of sales by 4.5%. Meanwhile, productivity as measured by Sales Per Labor Hour increased by nearly 14%. All these metrics have moved in the right direction and it is important to note that all these changes were made in the compressed period of the last three quarters of the year.

There are hidden cost savings inherent in improved productivity. We largely reduced staff through attrition and moved many part-time staff to full-time status. Through not replacing staff, we did not spend the average \$3,500 required to hire, train, and orient a new hire.

The effect all these measures had on cash generation was dramatic. The 3rd quarter of 2016 showed a 2.74% net profit! Cash from operations in 2016 was a positive \$172K compared to a negative \$31K in 2015. This allowed us to come current with vendors and somewhat improve our cash position at the end of the year. More importantly, it has set the MFC up for continued success in 2017.

Some of our financial metrics have not improved. We still had a \$140K net loss on the year- but that is more than a 60% improvement on 2015. Our debt to equity ratio has not improved as the equity side of that ratio is eroded by our three concurrent net losses. (Note that those losses are significantly contributed to by our accelerated depreciation schedule). Our current ratio seems stalled at around one dollar largely because we used our cash to catch up A/P as previously stated. Our debt service is low for the same reason. These metrics will improve in 2017 as we return to full principal and interest payments and reduce debt. We will certainly show much less of a loss in 2017 if not a net profit. Our inventory turns remain strong and sales continue to grow. Our budget anticipates positive cash flow for 2017.

Other highlights from 2016 include the implementation of a Strategic Operational Plan that sought four goals—three of which we obtained; 1.) The creation of a first ever comprehensive annual marketing & promotions strategy, 2.) Attaining 5,000 member households, and 3.) Implementation of three initiatives to increase access to MFC goods and services. A fourth goal of 85% employee retention is yet to be attained. Note: We had a record year of new member equity as over 460 new households became members of the MFC in 2016. **For more detail on the successes for the MFC in 2016, please refer to our 2016 Annual Ends report.**

Additionally, in 2016, our national association, National Cooperative Grocers, performed an operational audit of our Prepared Foods and Meat & Seafood Departments. Recommendations from that audit have been implemented and have resulted in increased sales of product and efficiencies of operation. The NCG also performed an audit of our financial reporting practices as new NCG reporting standards require us to move from tax based accounting to GAAP reporting. Looking forward, we are contracting with Makela, Toutant, Hill, and Nardi PC to complete a financial review for 2017 and to also begin preliminary work for a full audit in 2018.

2016 was a year of productive change for the MFC and we look forward to improved financial condition in 2017.

Matt Gougeon | General Manager

A MESSAGE FROM THE BOARD PRESIDENT



Spring is my favorite time of year. The progression from white to brown to green feels like discovering the world all over again. The mornings fill up with the songs of returning birds, the sun is warm and turns the sky bright blue again, and I love that earthy smell when the snow recedes and the soil begins to thaw. I always envy our local farmers who get to put their hands in the dirt of their warm hoop houses long before the rest of us. Ultimately, though, my favorite part about spring is that it's the season of possibility, of

potential, of anticipating what may lie ahead in another of those glorious UP summers.

In many ways, and forgive me for waxing poetic here, it feels like our co-op is in that same position, like a runner in the starting blocks. 2016 was a phenomenal year, due in no small part to the amazing work of the staff and Matt's steady hand at the tiller. Recovery from expansion is no easy task, especially in the tempestuous grocery industry, but thanks to the tireless efforts of those who work there, and the continued support of those who shop and invest there, all of the metrics the board keeps our eyes on are moving in a healthy direction. 2016 really felt like the year our co-op hit its stride, and now 2017 and onward is swelling with opportunity.

As a cooperative, we the board represent you, the members, by setting policies that get interpreted and implemented in the store. The “holy grail” of these policies is our Global End, which states that “**The actions of the Marquette Food Co-op provide access to local, organic, and wholesome products, and the benefits of a healthy, diverse, educated, and sustainable community.**” This gets defined further in sub-ends policies and so on, but I wanted to shine a light on this one because this is what makes us, us. We are all in this boat together because we've all decided that food, good food, is important, and when good food is at the heart of a community, all are lifted higher.

Here's to the coming year! May we continue to find time to come together, share a meal, share in the good food of fellowship, and celebrate this cooperative store and movement we are all a part of.

Phil Britton | Board President

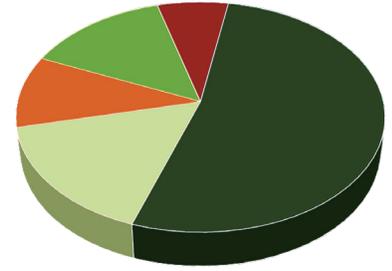
BALANCE SHEET

	2016	2015
CURRENT ASSETS:		
Cash & Equivalents	\$129,477	\$91,920
Accounts Receivable	5,922	2,292
Inventory	328,147	342,245
Other Current Assets	–	5,889
Total Current Assets	463,546	442,346
Fixed Assets	3,015,134	3,221,785
Other Assets	98,376	33,836
Total Assets	\$3,577,057	\$3,697,967
LIABILITIES:		
Accounts Payable	292,605	288,808
Other Current Liabilities	179,274	102,415
Total Current Liabilities	471,879	391,223
Long Term Liabilities	2,796,286	2,984,445
Total Liabilities	\$3,268,165	\$3,375,668
EQUITY:		
Member Shares (expansion)	473,000	382,000
Capital Stock-Members	530,093	495,428
Retained Earnings	(551,191)	(148,904)
Net Income	(143,011)	(406,226)
Total Equity	\$308,891	\$322,298
Total Liabilities & Equity	\$3,577,057	\$3,697,967

INCOME STATEMENT

	2016	2015
INCOME:		
Gross Sales	8,513,080	7,998,003
Cost of Goods Sold	(5,523,879)	(5,176,557)
Gross Profit Margin	\$2,989,201	\$2,821,446
EXPENSES:		
Personnel Expense	2,081,760	2,028,722
Occupancy	229,848	251,732
Depreciation	258,500	322,060
Operating Expense	418,112	394,806
Administrative	233,016	226,826
Governance	11,750	16,623
Promotional	53,436	89,709
Total Operating Expense	\$3,286,421	\$3,330,478
Other Income / Expense	154,209	102,809
Taxes	0	0
Net Income	(\$143,011)	(\$406,223)

Percentage of Total Store Sales by Department



821

Customers Per Day

296,397

Total Transactions

Average Basket Size



\$28.91



BOARD OF DIRECTORS

Phil Britton PRESIDENT

Cori Ann Noordyk VICE PRESIDENT

Barbara Krause TREASURER

Emily Wright SECRETARY

Glenn Sarka

Michelle Augustyn

Mike Potts

Brad Jackson

Richard Kochis

Matt Gougeon GENERAL MANAGER

Emily Weddle BOARD RECORDER

GRANT FUNDS FREE MFC CLASSES



Through grant funding offered by the US Department of Agriculture (USDA) and administered by the Michigan Department of Agriculture & Rural Development (MDARD), the Marquette Food Co-op was able to offer a series of free educational events centered around healthy eating throughout 2016. The USDA Specialty Crop Block Grant was awarded to enhance the competitiveness of specialty crops (defined by USDA as: fruits,

vegetables, tree nuts, dried fruits, horticulture and nursery crops) through education on the availability and preparation of a variety of specialty crops, including cabbage, garlic, onions, fresh herbs, potatoes, and more.

MFC Outreach Director Sarah Monte was responsible for planning and coordinating this extensive project, and her programming extended from the local Downtown Marquette Farmers Market for tasting demonstrations, to two free cooking class series, one specifically for students enrolled in the Lake Superior Youth Village YMCA summer program, and the other offered to the general public.

The classes entailed over 50 hours of instruction and reached upwards of 400 participants between the Market Demonstrations and the two classes held in the MFC teaching kitchen. "We want everyone to learn to cook, and enjoy good food made with high quality ingredients," said Sarah. "People don't always want to commit to paying for the classes when they don't know what they will get for their money. Others simply don't feel that they can afford it. And still others simply can never get into our classes because they fill up so fast! The free classes gave people a chance to see what our classes are like, brought more educational opportunities about healthy, local food to Marquette, and allowed others to attend without worrying about the expense."

To learn more about educational classes at the Marquette Food Co-op visit marquettefood.coop/classes.

SOCIAL MEDIA PRESENCE



FACEBOOK

7,147 Followers

4.7 / 5 Average Rating | 227 Reviews



TWITTER

1,004 Followers



INSTAGRAM

757 Followers



TRIP ADVISOR

4.5 / 5 Average Rating | 31 Reviews

Ranked 21 of 113 Places to Eat in Marquette, MI



GOOGLE

4.7 / 5 Average Rating | 44 Reviews

DONATIONS



Community Fund

\$1,228

United Way

\$2,503

General Donations

\$3,671

Total Donations

\$7,402

U.P. Food Exchange / Farm to School Fundraising

As part of the UPFE mission, we support local businesses and efforts to increase access to healthy foods for all ages. The UPFE Farm to School Fundraiser program began as a pilot in 2015 and was expanded in 2016. The program helps to coordinate fundraising for local schools and youth groups by arranging locally grown and produced, fresh and value-added products to be offered up as fundraiser sale items. In 2016, three schools and one youth athletic organization participated in the program and raised over \$9,400 for their activities. Local products for sale included maple syrup, honey, hot sauce, beeswax candles, kale chips, jams, soaps, and root veggies from 8 local producers resulting in \$8,405 of direct revenue. If you are interested in participating or learning more about the Farm to School Fundraiser Program, contact Program Coordinator Courtney Dalman at 906.225.0671 x726.

\$9,439

Funds Raised
for Organizations

\$8,405

Revenue Raised
for Local Producers

**U.P. FOOD
EXCHANGE**
growing local food systems

www.upfoodexchange.com