

Annual Business Plan For Fiscal Year 2018

Hanover Consumer Cooperative Society, Inc.

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“Nourish, Cultivate, Cooperate”



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Overview

A place you can trust, prices and products you can believe in.

Our plan for 2018 is to strengthen and build upon our investments from 2017. Internally, we will concentrate on enhancements to our operation and staff development. Externally, we will concentrate on reaching out to our member base, existing customers, and potential customers.

Our goals for 2018 are an outstanding in-store experience, revenue growth, employee capacity, and our ongoing commitment to the communities we serve.

Outlined in the 2018 Business Plan will be each Administrative and Business Unit's plan for achieving our goals in relation to the vision and core essentials of the Hanover Consumer Cooperative Society. These include:

The Overarching Vision for 2018

- Leverage the 2017 investments in technology to support a sustainable business model and build staff capacity
- Continuously enhance opportunities from the 2017 investment in our Co-op Kitchen
- Continue to strengthen member engagement: CRM platform and structure
- Maximize messaging of "trust" in product/prices, customer service, and education
- Begin renovation of the Lebanon store
- Address financial challenges outlined in appendix

The Cooperative Principles

- Voluntary and Open Membership
- Democratic Member Control Member
- Economic Participation
- Autonomy and Independence
- Education, Training, and Information
- Cooperation Among Cooperatives
- Concern for Community

The Co-op Ends

- Cooperative Commerce for the Greater Good
- Food Access and Education
- Economic Value Returned to the Community
- Cooperative Partnerships
- Environmental Stewardship
- Employment and Job Quality

- ❖ Leverage the 2017 investments in technology to support a sustainable business model and build staff capacity

The investment in the ECR system will come to full fruition in FY2018 as the system will yield foundational changes throughout the organization. These include, but are not limited to, Member Services, Merchandising and Inventory Control/Management. In FY2017 we captured the first level of saving by identifying our organizational opportunities in department and store wide functions resulting in over \$150,000 in savings on staffing. In FY2018 savings are planned/budgeted on a conservative level of \$371,000.00.

- ❖ Continuously enhance opportunities from the 2017 investment in our Co-op Kitchen

The management team believes that over the next year we all must maximize the payback of the investments made in 2017. Priorities include technology, training for its use, leveraging existing operational resources, and our Co-op Kitchen program. This will allow all staff to devote full energy to important issues like customer service, innovation, and learning. In 2017, we made great strides in understanding our resources, aligning our talents with our challenges, and relaying and imbedding information organizationally. This empowered staff to make decisions and be held accountable for those decisions, thus building capacities. *Ownership of decisions, what works, what is a challenge, and what can be done to make things better are the rights and responsibilities of not just the management, but of all employees.* This is essential as our expenses must align more strategically with sales in order to avoid the potential loss of jobs, decreases in services, and inability to make gains on the Co-op Ends.

- ❖ Continue to enhance member engagement: CRM platform and structure

A major focus again in 2018 will be on continued member engagement and the Member Services and Outreach Department. A key component of that effort in the coming year will be to launch a Customer/Member Relations Management platform (CRM) and clear messaging/marketing of our Ends and Principles and their effect on our business model. The strategic direction (as outlined in the Member Services/Community Outreach section) is to bring into our Co-op a variety of stakeholders and audiences—particularly young families—through engagement, education, and deepened involvement in our organization.

- ❖ Maximize messaging of “trust” in product/prices, customer service, and education

A further focus will be on optimizing the message of “**A PLACE YOU CAN TRUST, PRICES AND PRODUCT YOU CAN BELIEVE IN.**” The main goals are to clearly and

effectively articulate our messaging around the sources and costs of all the items in our stores.

❖ **Begin renovation of the Lebanon Store**

The Lebanon store celebrated two milestones this past year: its 20-year anniversary and the signing of a new lease that affords tenant improvement funding from the landlord. The focus of the improvements will be three-fold:

- Facilities upgrades for safety and efficiency
- Reset of the Produce and Floral areas for better presentation and selection and to highlight our strength of product
- Reset and total redesign of our Prepared Foods areas to highlight our service, product, and the in-store atmosphere of a first-class experience.

❖ **Address financial challenges outlined in appendix**

- Management & Board will collaborate on addressing the “inherited” financial conditions to further develop strategies and plans
- The Board will create a Strategic Planning Committee (already proposed by the Executive Committee). Its role will be as follows:

a) The Committee will participate at the earliest possible time in the development of strategic plans to address major Co-op issues. The Committee will be privy to the earliest consideration of such plans by management, participate in the continuing consideration of those plans, and ask for additional information on such plans.

b) The Committee will obtain from management a timetable for moving from conception to proposed strategic action.

c) The Committee will share the information from a) and b) with the entire Board as soon as possible.

The primary function of the Committee is to gather information, organize that information, and share it with the rest of the Board outside the normal Board meeting process.

Outlined in the 2018 Business Plan will be each Administrative and Business Unit’s plans and goals to achieve these results.

Summary of Financial Targets

	2017		Reforecast		2018	
Revenue	\$75,030,114	100.00%	\$72,071,937	100.00%	\$72,574,977	100.00%
Gross profit	\$24,259,281	32.33%	\$23,838,375	33.08%	\$24,531,850	33.80%
Net income	\$70,401	0.09%	\$81,323	0.11%	\$135,404	0.19%
Capital expenditures					\$568,761	
Beginning Cash					\$1,424,814	
Ending Cash					\$1,612,979	

The Present Situation

The Big Picture

The retail grocery industry is in the midst of a decades-long sea change. Since the early 1990s, independent grocers' share of the U.S. grocery market has declined from more than 50% to less than 15% today. In that time Walmart has gone from virtually zero grocery sales to 25% of total U.S. sales, and the top ten chains control more than 2/3 of the market. Certainly the news of the Whole Foods/Amazon deal caused significant disruption as the perceived opinion of the market analysts is that Amazon will become a "more frequent habit for purchases of food and food related products for consumers." Over the same time period, new formats and competition have also emerged. E-commerce is taking a larger share of the market and is expanding rapidly. However, online menu offerings, such as Blue Apron, are seeing a growth based on new market but show extremely poor renewal rates for customers. Convenience stores like 7-Eleven are expanding their offerings to include fresh, healthier options. Even drug stores (CVS, Walgreens & Rite Aid) are selling larger amounts of groceries in stores that are expanding in size.

On the macro level, these changes are having serious impacts on co-ops nationwide. System-wide co-op growth has slowed to the low single digits and many co-ops, in all parts of the country, are seeing serious declines in market share. These trends are not only affecting sales but they are also putting pressure on the gross profit margins of co-ops nationwide, thus threatening the ability to enhance and possibly even maintain the "triple bottom line." The good news is that there are still significant opportunities for stores that differentiate the offerings, experience, customer service, and social & financial impact of a member/owner business. Of concern is our National Co-op Grocers (NCG) has been struggling to find a focus identity and message to clearly articulate and disseminate these distinctions in an impactful manner.

Price continues to be the biggest motivator of U.S. grocery consumers. In a recent national survey, of the four attributes consumers cited as reasons for shopping a particular store, price was number one, followed by high-quality fruits and vegetables, high-quality meat, and selection and variety, according to the Food Marketing Institute. Substantial growth is expected in the next 10 years for chains that devote themselves to satisfying price-conscious

consumers. Beyond the store attributes associated with personal benefit (such as value, convenience, selection, and cleanliness), shoppers also say they would be more likely to shop at stores that demonstrate concern for social, economic, and environmental issues such as environmental sustainability, employee welfare, and animal welfare. These are all areas where co-ops can compete and thrive. However, as evident in our Co-op's survey (conducted by the University of New Hampshire), and in the most recent NCG national survey of co-op shoppers, price, far above all, is the driving factor for customers. Again, as stated above, NCG has been struggling to find a focus identity and message to clearly articulate and disseminate in an impactful manner the relativity of pricing to a triple-bottom-line business.

Our Local Market

Local, fresh, and specialty products are strengths of our Co-op product offerings and account for a significant portion of our revenue, which differentiates us from other stores in the market. But we also compete seasonally in the market for local with farm stands and farmers markets. Also, the number of chain retailers (like Hannaford or Walmart) promoting local (authentic or not) continues to grow.

Simple Business Plan Goals for Administrative and Business Units

Finance and Technology

In order for the Co-op to retain our place as a valued member in our community for our staff and our member/owners, we must first be a successful business. The 2018 Business Plan, as with the 2017 Plan, seeks to address needs of the business to improve performance. Specifically the Plan identifies the proper "tools" to enhance our internal capacity to meet the needs of the organization. Although the capital investments in 2018 will be smaller than in the past few years, the investments we make will be focused on development of sales and the efficiency of operations throughout the organization. Further, in conjunction with our Human Resources department, there will be a methodical, robust, and planned strategy to support our staff in the process and resulting products.

Catapult (Perpetual Inventory System) Related

- 1) Continue roll out of Gateway vendors,
- 2) Continue roll out of purchase order capability,
- 3) Continue roll out of auto order generation,
- 4) Continue roll out of perpetual inventory,
- 5) Replace old hardware remaining for Catapult registers,
- 6) Identify gap areas that may need internal or external support for data feeds to help streamline new Catapult processes,
- 7) Identify and develop ways to leverage new Catapult system (for example, web cart ordering),
- 8) Continue writing SOPs needed to support Catapult system,
- 9) Invoice, Pricing, by EDI feed into ECRS using Data Watch.

Member Related

- 1) Develop a process to streamline calculation of Patronage Refund process.
- 2) Cooking Class app needs to be replaced as the existing platform used is no longer supported by Microsoft.
- 3) Customer relation management system (CRM).
- 4) Using the output from ECRS and our Binary software package, produce an annual statement for members showing their A and B shares, the amount of business they do with the Co-op, and the discount they receive.

Scale Related:

- 1) If permitted by budget, we should begin a staged replacement of old scales that are no longer supported by Alliance or the manufacturer, for example, the Toledo UCST model.

Analyses and Reporting Related:

- 1) Identify and develop reports needed to aid running the business, which may not be able to be generated through canned reports within existing software applications.
- 2) Data gathering processes: utilize more auto-generated reports to automate data updating (or alert when changes occur).
- 3) Additional analysis and review of Accounts and their relationships to the operational side of the business.
- 4) Provide analytical support for GM reports.
- 5) Further enhancing and streamlining of the budget process.
- 6) Implementation of purchase orders for Non-ECRS related items.
- 7) Further process improvements by ensuring adequate backup and cross training of staff within Finance and IT.
- 8) Reports to measure against defined KPIs.

Equipment Related:

- 1) Migrate systems to cloud
 - a. cost
 - b. backup
 - c. redundancy
- 2) Replace aging hardware
 - a. POS terminals
 - b. servers
 - c. scales
 - d. laptops

- e. thin clients
- 3) Repair or replace Citrix

Employee Training Related:

- 1) End-user communication: give more of a heads-up on purpose and execution when changes are upcoming.
- 2) Employee tech training: focus on ensuring all employees are brought to a minimum baseline of technological skill.
- 3) Internal organization: identify areas to re-structure for greater efficiency, such as Z drive folders.
- 4) Customer-facing items: update all interfaces that directly affect customers (such as phone menus).

Food Stores

Hanover Store

The plan from 2015 to have a remodeled Hanover Store, which focuses on a “fresh food” perimeter of the store, needs to continue in 2018. Financial recovery from displaced shoppers moved in the right direction in 2017.

Staffing levels need to reach minimum numbers by department to continue to build on our customer service niche in the market. One of our best opportunities is in late August to impress and find new customers from the incoming Dartmouth College fall start.

The key is to be able to make great first impressions with new shoppers. Minimum staffing will provide customer service at a high level with prompt service at full-service counters. Presenting our customer service model with knowledgeable staff will be familiar to shoppers who frequent Whole Foods, Trader Joe’s, and other high-service retailers. Many times it is the first trip in with parents, who discover our fresh and organic products. The opportunity also occurs when you discover new shoppers looking to find items. That is the perfect opportunity to build a relationship with a new customer.

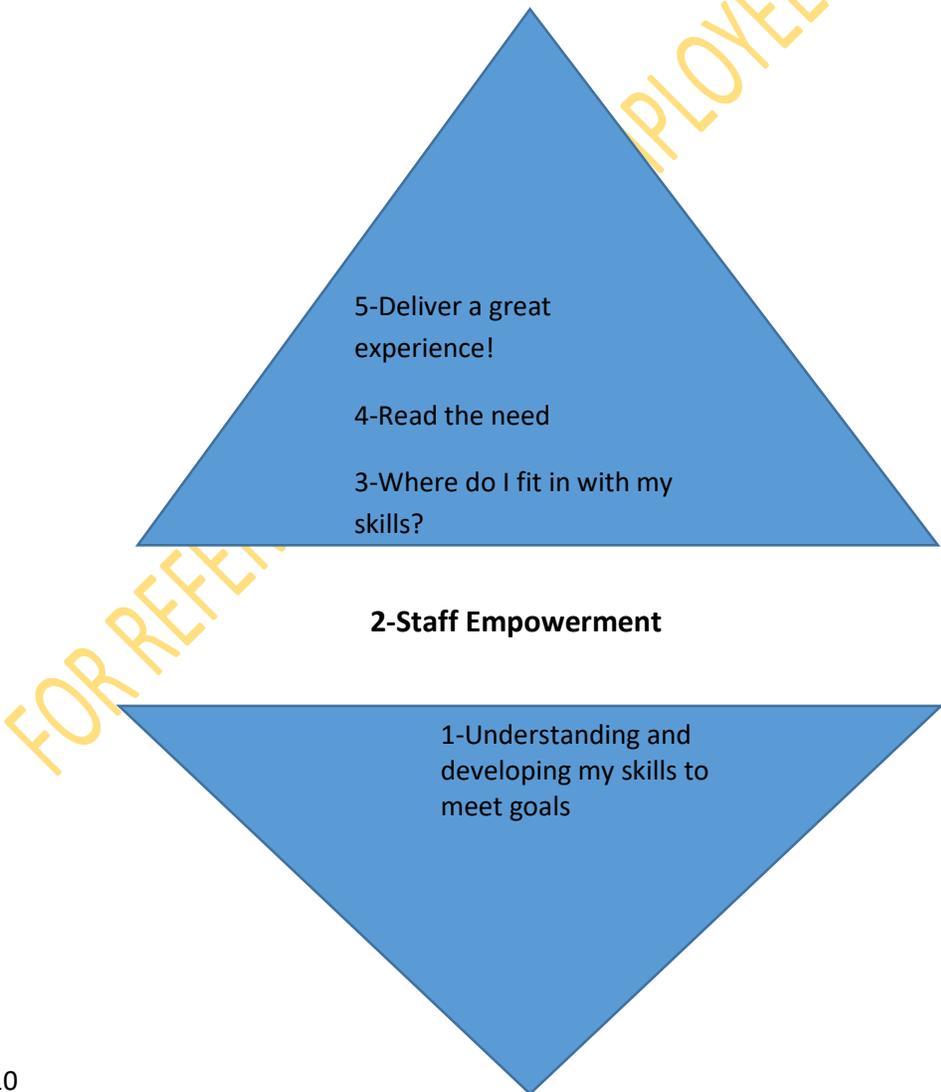
- We will move cross-training to a cultural initiative. I want to use the “Culture of Appreciation” model we have in place to add “Familiar Faces in Different Places” to our daily work environment.
- We will continue cross-training staff and adding more product knowledge in secondary departments. This will have to be deliberate and planned. It will happen over time but we will need to find ways to accelerate the process.

As skill levels rise it will be easier to move staff to accommodate training. When cross-department work is periodically scheduled the learning curve is longer. The goal would be to move staff on a scheduled basis, not as a crisis fill-in. The expected results would be that the staff member is comfortable answering customer questions. The customer will also get the service they expect from more seasoned department staff.

- We will continue to utilize staff in various roles and departments to keep store running against budget goals. Continuing to cross-train staff will be our only viable way of operating at minimum levels.
- Store experience will need to continue as a visual and staff-generated product. The new design of the Hanover Store has a visual impact on shoppers as they enter the inside doors. Full vibrant displays greet the shopper with a deliberant effect of seeing a great buy in the first few steps into the store. We will continue to set a price-conscience value to lead a shopper to find more throughout the store.

Ramping up our staff ability to deliver the highest standard of customer service will be of high priority. We will continue to implement “staff empowerment” to satisfy all customers in every interaction. We want to continue to define our customer service and create ongoing training and awareness for all staff.

Next Level Customer Service (Developed/Lead by Hanover with all stores input for implementation Co-op wide)



Leadership support:

- Customer service training
- Assessment of customer service skills of self and others
- Screening and hiring for customer service success
- Monitoring individuals for participation in Co-op culture

1-Understanding and developing my skills to meet Co-op goals

- Training to improve my customer service skills
- Have an understanding that I have to participate, and figure out what my best role is for great customer service

2-Staff empowerment

- One of the most important steps!
- Sharing the stories of great customer service
- The possibilities of empowerment and what that means for everyone

3-Where do I fit in with my skills?

- Have a plan of where I will apply my customer service skills

4-Read the need of the customer

- Training for best practice skills
- Share the stories and examples

5-Deliver a great experience!

- See the big picture and make it happen!
- Our core values that deliver the great Co-op customer experience:
 - Be excited about your work, serving our membership, and operating their stores!
 - Have fun building a positive team and a family spirit!
 - While working at the Co-op, always remember you are part of the community. We support our local economy and work to make decisions that will have a positive effect on the environment.
 - Always feel empowered to do the best and right thing to satisfy our customers!

- With the implementation of ECRS our staff will be able to spend more time on gaining product knowledge and understanding what our customers buy and might be willing to buy. Sampling and enthusiasm with our product offerings will translate to increased sales and customer connection with the Hanover Store.

- We need to understand our customers in greater detail than an average basket size of \$42.50. We know there are power shoppers. They spend \$300-\$400 in their basket. We know we have many “market” shoppers that spend our average basket several times a week. We hope to discover more insights about who our shoppers are and how they spend at the Hanover Store.

Following behind the work that our Outreach Department is planning, using more of the data we have about our shoppers, we plan to fully utilize that information about shopper patterns. It’s all about meeting member and shopper needs. Understanding a better breakdown of power shoppers, market shoppers, and how much each spends will be hugely helpful in building basket size. As data builds in Catapult, Merchandising will be able to help us at the store level to merchandize products based on associated patterns in product purchasing.

- As part of our experience, the co-op model has never been more important to connect with our member-shoppers. Outreach is doing some great work with marketing our difference. We need to continue to add our working staff as promoters and champions. Promoting the benefit of our impact on the community, Pennies for Change, and our Members Discount Days, is real and huge for us.

Financials: See Appendix

Hanover Store Future

The future will have to deliver on all the “fresh food” components of our design. It will need to follow trends and serve as a source for new and interesting foods. Our food service will need to become more dynamic and should be a draw for our store pushing toward being unique in our market and region. Specialty foods will increase, and staff knowledge to spread excitement to our customers will be the common place “experience” when shopping at the Hanover Store. We will continue to source and add specialty products to Center of Store and spread product knowledge. We plan on expanding the products that are merchandised around the cheese and wine area and move more specialty products from there rather obscure placement on the center shelves to a focused specialty area. They side benefit to this is making room for more conventional products in the newly emptied areas. We will know it as more shoppers are seeking out the Hanover Co-op as a destination as well as an attraction for new potential members. These shoppers usually like to have an interaction with staff members and they self-identify

Lebanon Store

The Lebanon store continues to implement plans to increase sales and control expenses. The leadership within the store continues to build relationships with vendors to ensure opportunities are addressed. We are focusing on cross-training employees to contribute to the stores continued growth. With the signing of the lease in August, 2017 (15 years with two 10-year options), we have solidified the future of the site. The lease also allows for significant

financial commitment on the part of the landlord for upgrades and renovations, which will begin in the second quarter of 2018.

- Implement Department Teams/Groups
 - Identify leads and responsibility
 - Educate all staff on the definition of teams
 - Cross-train key staff outside of the home team

- Building sales and profit
 - Key item placement in Area 51 to include fresh and Center of Store product
 - Food sampling as well as focus items weekly
 - Extended hours of operation until 9 p.m.
 - Staff accountability
 - Continued focus on cross-merchandising and endcap jump shelves
 - Push on new items
 - ECRS implementation
 - Focus on safety throughout the store
 - Labor controls

- Staff morale
 - Staff appreciation day each second Saturday of the period
 - Continued informational huddles
 - Practicing the open-door policy

Financials: See Appendix

Lebanon Store Future

The Lebanon store has listened to surrounding businesses about hours of operation and has extended hours to benefit customer needs as well as growing sales. We will also work with local businesses to gain extra sales. With the signing of our lease, we will look to upgrade the store in reference to new and/or upgraded display units, allowing for more product to be displayed throughout the store. This also gives us a chance to look at the format of the store and change if need be, based on shopping habits of our customers. With the opening of the new hotel on route 120, we would like to see a road sign off the interstate directing customers to our location.

Community Market/Lyme Road

The Community Market has shown growth in some areas, but still falls short in others. Labor continues to be a big expense, but is necessary to provide the level of customer service that the Co-op, as a whole, takes pride in. Employees are taking a more active part in merchandising, ordering, and stocking the shelves. This brings a sense of pride and ownership to the individuals working at the store. A new store manager was hired in the late summer of 2017,

bringing extensive background in small business and retail operations. We expect this to add tremendous value to the Market and strong leadership for the already excellent team.

- Build a more solid team
 - Continue cross-training efforts with all staff
 - Delegate ordering in some areas to staff
 - Provide support to staff in new ordering endeavors
 - Talk about merchandising with the staff and involve them with the merchandising team

- Continue building Sandwich Shop and Dinner program
 - Try new specials in both the Sandwich Shop and the Dinner program
 - Plan and prep ahead of time
 - Continue to sample new items

- Create annual plan for foyer of Market
 - Take time to create a month-by-month plan for merchandising the foyer
 - Speak with merchandisers to find best fit for seasonal/sale items that can be displayed in the area

- Continued implementation of ECRS and the Co-op Kitchen

Financials: See Appendix

Community Market/Lyme Road Future

The Market is a hidden gem and has the potential to be the “go-to” place for lunch and dinner on Lyme Road. By utilizing the Co-op Kitchen, we can offer a larger selection of ready-to-eat foods as well as a larger dinner menu.

White River Junction Store

The WRJ store continues to show steady growth in sales and controlled expenses. This is a direct outcome of a strong sense of creative leadership and staff “ownership” of individual and shared responsibilities.

- Identify excess and underused capabilities
 - Consolidate staffing resources as a store team
 - Balance department labor needs
 - Continue to implement storewide work structure with “cross” department work as needed on a daily basis

- Identify and maximize the strength and expertise of employees through training and educational opportunities
- Identify and advance high functioning “key” staff members—think succession planning!
- Build a stronger shopping experience
 - Customer service training
 - Food sampling
 - Plan excitement for incremental sales through eye-catching endcaps, cross-merchandising, and strategic placement of product for ‘impulse’ buys
- Strategic use of road signage
- New ECRS perpetual inventory system now in place, creating accurate inventory measurements

Financials: See Appendix

White River Junction Future

The village of White River Junction continues its resurgence with new business and housing projects that are currently under construction. The largest is a new three-story retirement/senior living facility in the downtown area within .4 mile (two minutes) of the store. Additionally, more development is anticipated at the site of the State Office on Prospect Street (adjacent to the store), and there is a potential for occupants in the currently vacant bank building we share parking with. The store already has considerable momentum in building sales since opening seven years ago, and can only be helped by further population growth in the village. In the next three years, if additional space in the shopping center becomes available, there could be more opportunities to grow the footprint of the store via expansion or in collaboration with a service business. In that case, we could see an expanded deli and prepared foods area, additional cheese and meat offerings, café seating, and smoothie bar, to name just a few possibilities.

Service Center

The team at the Service Center is committed to making the station a fun and safe work environment and a place our customers can trust both with price and overall shopping experience. We are very excited to have recently added a new Certified Master Technician to our team, which allows us to further diagnose and repair vehicles. We bring a combined 77 years of automotive experience in the field. That’s experience and trust you can count on!

- Strategic use of advertising programs we offer

- Plenty Rewards program
 - 2 yr. / 24,000-mile warranty
 - Free roadside assistance
 - Menu board pricing / services offered
 - Car care classes
- Identify excess and underused capabilities
 - Maximizing space and opportunities
 - Utilizing the strength and expertise of our team
 - Implementing a seasonal bay (April – Oct)
 - Car detailing
 - Monthly trainings to stay up-to-date with technology
 - OEM computer programing/flashing
 - Build stronger customer relationships
 - Customer service training
 - Price comparison charts

Financials: See appendix

Co-op Service Center Future

As we look into the future, we will be adding a seasonal bay next year. This will allow us to perform more work and generate additional revenue. We continue to search for other opportunities and locations for us to grow. As technology progresses in vehicles, fuel mileage gets better, oil changes become fewer, and we see more and more electric cars. What this does is make us work collaboratively and look for ways to stay ahead of the curve and offer more services, including electric charging stations, car detailing and accessory installation, on-the-road service for members, and even a warranty program. The list goes on and on. We want to be a station that can perform the majority of the work on cars and can provide members and customers with a place they can trust and prices they can believe in.

Financials: See Appendix

Co-op Kitchen

The Co-op Kitchen continues to make forward progress on the path to excellence. Improvements are being made to the facility, new equipment is arriving, and our product line is expanding. Our leadership positions have been filled and a dedicated staff is meeting challenges and changes head-on.

Work in the following areas is ongoing as we identify further ways to increase profitability in our Prepared Foods Departments:

- Economy of Scale
 - Production of items once made in-store saves labor, promotes consistency
 - Packaging of outside vendor items saves labor, allows for more variety
 - Warehousing of packaging supplies will allow for cost savings company-wide

- Product
 - Develop a product mix that is new, fresh, and convenient
 - Capitalize on the versatility of individual items (how many ways can this be used?)
 - Continue to build on a growing Catering segment
 - Increase grab-and-go items

- Movement
 - Utilize information available to react proactively to market trends

- Quality
 - Quality of products and services provided by the Kitchen will be of the highest possible caliber
 - A new “prep” team will be responsible for preparing ingredients daily, promoting consistency

- Enhanced Staff Capacity
 - Prepped ingredients will provide for increased efficiencies in production
 - Utilization of new Catering program will allow for online ordering and payment, streamlining the process
 - Capitalizing on ChefTec software capabilities (production sheets, inventory, costing tools)

Financials: See Appendix

Co-op Kitchen Future

Re-establishing the Kitchen as the primary vendor to the Prepared Foods Departments opens the door to ongoing growth and development for both staff and products. Implementation of the Co-op Kitchen plan will continue in a systematic manner over the coming year. The goal is to have at least two-thirds of all prepared foods being purchased from the Kitchen. External growth opportunities will be evaluated once our foundation is firmly in place.

Merchandising

Our expectations for 2017 centered primarily around the ECRS and Co-op Kitchen transitions and development of new staff on our team. The ECRS project has necessitated that we look more deeply into how and why we, as the Merchandising and Inventory Control teams, do what we do on a day-to-day basis. We perform our work within SOPs (Standard Operating Procedures) that are written in accordance with the software tools we have. With the implementation of ECRS software, and the departure of our current systems, our SOPs are

evolving considerably. Our goals are that the new system we put in place will allow for more efficiency and accuracy. The new members of our team are finding their positions both challenging and exciting. One of our team members unexpectedly resigned in June, and another filled the position of Prepared Foods Programs Manager, which is a role on our team that will drive the Co-op Kitchen program. Despite these staffing changes, the folks on our team have stepped up their commitment to the work that needs to get done, putting in extra hours and effort for the financial sustainability of our business. We are working to restructure our department in regards to who does what, how the work is done, and how the work is prioritized.

- Aggressively explore opportunities to lower costs of goods and supplies, such as new sources and enhanced programs
- Continue working on restructuring the Merchandising team and considering how our responsibilities are accomplished
 - Streamlining how Produce pricing is received
 - Identify and work on Floral priorities, namely SOPs
 - Develop new merchandiser for Deli and Bakery
 - Rethink our category management process in the non-perishable departments
 - Integration of store staff in Merchandising decision-making for specific departments (HABA/Kitchenware, Beer, Wine, and Beverage)
 - Redevelop and/or reemphasize our policies and procedures, especially in regards to Inventory Control
- ECRS implementation through the remainder of 2017 and into 2018, including several in-depth post-go-live tasks
 - Develop and formalize Merchandising/Inventory Control SOPs
 - Prepare Merchandising and Operations for initiation of perpetual inventory
 - Activate ECRS Loyalty Bot and begin testing/implementation of coupons and discounts
- Co-op Kitchen transition as Programs Manager moves into new role full-time
 - Significant changes for Prepared Foods departments
 - Will involve broad range of departments and/or categories, including Cheese, Produce, and Bulk Foods
- Strengthen our active demo program with vendors and, as available, Co-op staff
 - Demo Coordinator and Merchandising Director will more determinedly pursue vendors for active demos in our stores
- Working with Marketing and Operations in aligning promotions, advertising/signage, and store off-shelf displays, specifically in regards to strategic-priced items

Financials: See Appendix

Merchandising Future

The projects mentioned above, specifically ECRS and Co-op Kitchen, will continue to be top priorities in 2018. The restructuring of our department that is currently in progress will eventually see us working more efficiently, managing and analyzing more accurate data, and having a clear path to implement strategic pricing and promotions in our stores. Another important goal for the future is the development of opportunities given through our ECRS software, namely Loyalty Bot and Web Cart. Both of these programs will be very important in helping us address increasing competition from stores such as Hannaford and BJ's and online shopping availability. In that light, cultivating positive relationships with our current (and new!) local vendors and small, independent distributors will also be very important.

Member Services, Education & Marketing

What comes from this team is the following core responsibility: identify audiences and stakeholders in order to clearly, and with impact, communicate our **VISION** of *a well-nourished community cultivated through cooperation*.

Communicating the **THEME**: *A business you can trust, prices you can believe in*, permeates all departments, as well as member engagement. Our community is the critical base to be coordinated.

Outreach focus for 2018

Differentiating our business through:

- Knowledgeable staff – refocus on making sure employees have resources to understand key topics such as fair trade, genetically modified organisms, grass-fed vs conventional, food safety, etc.
- Best family store—heavy focus on targeting families throughout all messaging/programming
- Integration—integrating our work with other areas of the business. Utilizing ECRS, building content for pathways, building systems with service desks, etc.

Education:

- CLC: Customer experience and rebranding
- Family-focused programming
- Community: family-targeted in community
- In store: staff educated about key topics (tie into pathways)
- Kids programming, kids club, etc.

Membership: major project 2018: MRM system design and implementation

Member loyalty and affinity is largely a result of frequent positive engagement. As members are given more information and choices, engagement is the primary channel to ensure that our Co-op is “top of mind” when a purchase, decision, and action needs to occur.

Our Co-op has an extensive member/owner base totaling more than 25,000. This membership comprises various levels of participation ranging from “shopping” to “board membership.” In order for us to understand what membership needs are and what it means to be member we need to establish a well thought out “engagement philosophy.” Our engagement philosophy will reflect what members desire to know and enable our Co-op to establish segments of criteria and levels of engagement. This should be developed through the filter of the Co-op’s Ends, Business Plan and Cooperative Principles.

Member engagement is built and rebuilt with every interaction, whether that’s making a purchase, reading a Tweet, joining a discussion, receiving an email, seeing an advertisement, reading an online review, having a conversation with a friend, or any other exposure to our Co-op.

Each of these interactions hopefully connects our Co-op with member needs and preferences. Customer engagement is built strategically through frequently creating relevant messages.

- Member Relationship Management (MRM)—design and implement an MRM system
- Measuring service better, find ways to capture/utilize member feedback
- Customer-information drives and improving data
- Research/survey targeting younger demographics (millennials and families)

Marketing:

- Leverage ECRS and MRM for inbound marketing
- Integration of platforms (MRM, social media, ECRS online shopping, etc.)
- Impact messaging throughout all locations (simple, aimed at creating trust for business)
- Redo web/blog for better Search Engine Optimization (SEO)
- Review all member communications (flier, ads, etc.)

Governance:

- Family Event/2nd annual meeting

Finally, we will develop and implement more strategic charitable-giving practices—via working in conjunction with Board committees—to establish clear guidelines for an equitable, impactful, and sustainable program.

Human Resources (Includes Learning and Development)

Communication, community service and providing a safe workplace contribute to a place you can trust ... Here is how HR can help.

Communication between management and employees is difficult at best in any organization, and we have been looking for ways to improve those channels and rebuild trust. To this end, the members of the management team who report directly to the General Manager have committed to attending the weekly managers' meetings and location huddles on a rotating basis. In 2017, we learned that discussions at the quarterly listening sessions held in each location between employees and management team were often about topics that could have been addressed earlier and most probably by the department manager or the location manager. By having a member of the management team at the huddles, we anticipate that the walls between management and employees will begin to come down.

Community service is a part of who we are as a co-op. For quite some time, our Community Service Program was run by one very dedicated employee. In 2018, our Community Service Program will be transitioning to HR so that we can embed support for our community in our work. Our goal is to be a trusted partner to those community organizations that we already support and with new organizations who we will be able to support in this way in the future.

Employers are charged with providing a workplace in which employees feel safe to come forward with matters that may be difficult to talk about. Our member/owners have been very vocal about their concerns in this area. We have listened to what they have said and as a result, have eliminated all references to at-will employment in our employee handbook and other work documents and have replaced the language with new wording that better reflects the way we treat our employees and help them to be successful in their roles. The hope is that this, coupled with an updated grievance policy, will help rebuild trust between our member/owners and our management team, which has been strained for some time.

Additionally, it is the responsibility of HR to provide a safe working environment for all staff, communicate the standards of employee behavior, and provide consistency across the board in the areas of accountability, training, compensation, benefits, and employee development. In 2016 and 2017, HR moved forward in many of these areas, achieving goals previously set with continuous-improvement efforts always underway. As a result, the focus of HR in 2018 will be to build on the work already done; however, we will be concentrating our efforts on employee learning and development, which begins with orientation and onboarding for new employees. By expending resources in these areas, HR will be supporting the overarching goal of “a place you can trust, prices you can believe in.” Managers and employees will be better able to

perform their jobs, will be happier, and will provide the level of customer service that our member/owners have come to expect and deserve.

The investment in technology, Catapult/ECRS, is expected to revolutionize the way we do business and free up our employees' time so they can be more available to our members and shoppers. The ECRS system is a significant financial investment in technology, which will be wasted if our employees are not able to successfully use it. It is the job of HR to see to it that training is available to all employees when they need it and that it is provided in a manner in which they will be able to learn. Our Employee Learning and Development team has been spearheading the training efforts. The team has devised a plan to train trainers in each location/department so that these employees may be able competently train their staff in those functions that are pertinent to their area of the business. In addition, HR's Learning and Development team, in conjunction with the HR team, will be preparing the Pathways program to be rolled out in the first quarter of 2018. The Pathways program will provide employees with development opportunities that will not only propel their careers forward, but will produce a more informed workforce that will serve our member/owners and customers well.

Another way in which HR can support the overarching goal for 2018 is by enhancing our recruiting and selection methods so our managers have better potential new hires from which to choose. We are doing this by improving our recruiting process to include more in-depth up-front interviews, thus providing our managers with information that will help them make a good hiring decision. We are also looking closely at applications as they come in for potential alternative options based on transferrable skills and/or experience listed on the application or resume provided by the applicant. For years, the managers have shied away from HR's involvement in the initial recruiting process in that all applications were to be sent to the manager looking to fill a particular position. Slowly, the managers have been asking HR to review and recommend only those applicants that may be a good fit. We have expanded this review to include a global look at potential fit across all locations and departments based on current and future needs.

One business unit that will need a lot of support is the Co-op Kitchen. As their production increases, so will the need for more staff to accommodate the increased hours and days of operation as well as the various shifts that will need to be covered. HR has been working with the manager of the Co-op Kitchen to assist in these areas and will continue to help as noted above.

HR supports our employees with a high level of benefit offerings, many of which are at no cost to the employee. As a self-insured employer, we do run the risk of higher than anticipated health care costs. However, we have been able to include many services on our health plan that are not available under fully insured health plans. We will be looking at ways to cap our claims exposure in 2018 to a more manageable level. A healthy workforce is essential to the success of any business. To help us lower our claims costs and to better identify our workforce and anticipate the health needs of our employee population, we will be conducting a health risk assessment, which will be administered by Anthem on a totally confidential basis. Additionally,

the Director of Human Resources and the Director of Finance will be closely monitoring the claims in 2018 to see if the claims experience has been affected by these efforts.

Another way HR can help support our workforce is through an easier and more efficient timekeeping system. We implemented Paylocity, a new payroll, HR, and timekeeping system, in 2017 and have been told that the employees and managers are finding it easier to navigate and more user-friendly than our previous software. In 2018, we anticipate that our employees and managers will get more and more comfortable with the system and will utilize more of its features. We anticipate opening up the mobile punch feature next year, which will allow our employees who work in multiple locations during their day to use a smart phone to conveniently punch in and out. HR continues to provide essential support to employees and managers as they learn to navigate the system more and more effectively. HR training for managers will be ongoing throughout 2018. Classes will continue to be held quarterly to provide managers with support in areas such as performance improvement, leaves of absence, coaching, communication, and employee benefits. This training will help managers better support their employees and, in that way, should result in a happier workforce.

In total, HR will have a very busy 2018 supporting the efforts in Operations, IT, and Finance to streamline workflows and realize the savings in time and resources that the ECRS system will provide. We will continue to improve our processes and training for staff so that they can grow their careers and provide the high level of service that the Co-op has always been known to provide.

Financials: See Appendix

Public Relations

A place you can trust, prices you can believe in.

Co-op Public Relations in 2018 will help demonstrate that our Co-op is indeed “a place you can trust.” Throughout the year, we will collaborate with people and groups outside our organization to realize that goal by growing and highlighting our community impact. Members and customers will better see how their commitment to our Co-op fosters a well-nourished community cultivated through cooperation.

By drawing that connection, we help support Co-op Merchandising and Marketing in their efforts to give meaning to the phrase, “prices you can believe in.” In the long run, the objective of our public relations work is to communicate the triple-bottom-line value and distinct qualities of the cooperative business model.

In addition, we will dedicate resources to developing and being active in policy issues (local, state, regional and federal) that affect our business, staff, members, and shoppers such as (but not limited to): healthcare, affordable housing, and wage legislation.

Public Relations: Community Collaboration and Partnerships

- Supplier — *Grow relationships in an effort to move **vendors** up to Advocate and Partner positions on Engagement Pyramid*
- Community — *Establish relationships and find ways to move **community leaders** onto ladder at or above Following position on Engagement Pyramid*
- Associations — *Establish relationships and find ways to collaborate with **like-minded groups (such as B-Corps) and cooperatives** to engage at the Supporter up to Partner levels.*
- Reputation & Collaboration — *Continue to build on work of 2016 and 2017*
- Cooperative business model (triple bottom line) — *Highlight and tell story of the impact our business has in each of the parts of our bottom line. Soft-sell this message to the **partners** above.*

Financials: See Appendix

Open Book Management

Our OBM Huddles are not limited to financial information, yet encompass multiple aspects and topics that are pertinent to, but not limited to, the organization as a whole, specific stores, and our communities.

- OBM Huddles will continue to occur weekly at each retail location and at the Co-op Kitchen
- Sales, Expenses and Savings before taxes information is reviewed, i.e., Budget, Actual and Forecast
- Addition of monthly location-specific information on Safety to include reports on WC Claims, numbers of staff who have completed safety training, expenses, SBT, and customer accidents
- Huddles to also include coworker engagement statistics in community service
- Huddles will focus on “*short-term*” plans and goals for teams of departments

Succession and Restructuring

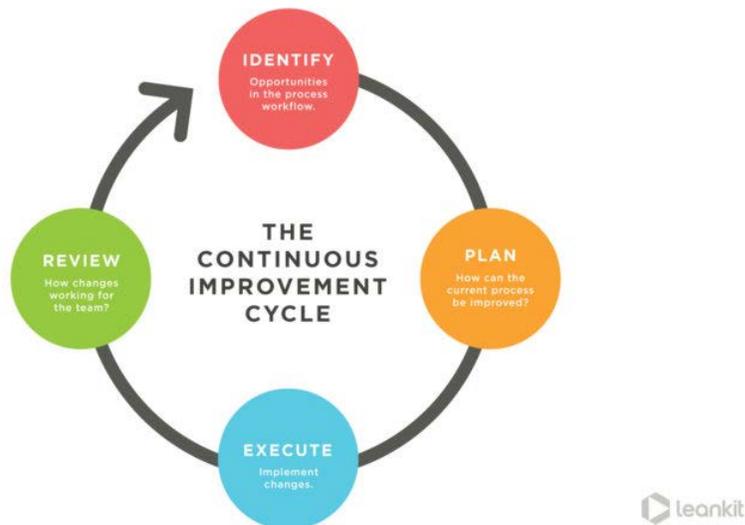
Changes in leadership

In the spring of 2016, the Director of Finance position was filled. In latter part of 2016, the General Manager and Operations Director positions were filled, and the Lebanon store manager retired. All instances presented opportunities to review the current openings created, promote internal staff, and create a clear vehicle/path for all staff patriating in our employee-development programs. In the fall of 2017, the succession plan around the Director of Finance position came to fruition, passing on responsibilities and seamlessly rounding out an excellent and highly functional senior leadership team.

Management Changes

- Lebanon Store Manager Doren Hall hired April 2017
- Co-op Kitchen—Production Manager Joi Purrell promoted August 2017
- Co-op Kitchen—Production Supervisor Chris Moonen promoted August 2017
- Community Market Store Manager hired –Caitlin Woodbury promoted August 2017
- Director of Finance transition from Paul Guidone to Mark Langlois (promotion) October 2017
- Prepared Foods Program Manager—Samantha Estes promoted August 2017

Culture Change



The ultimate goal of culture change is ongoing throughout the organization and focused on positivity and accountability. The process is continuous, characterized by more diversity in roles and staff “ownership” of decision making, implantation, follow-up, and corrective actions. Success will result in increased engagement, productivity, professionalism, and enthusiasm.

Strategic Considerations

How will the Co-op move forward in the years ahead? What will our Co-op look like at 100 (in 2036)? What will leaders of the Co-op need to do to keep the Co-op relevant and growing? These are questions the Board, members, and staff need to discuss. Below are some ideas to help the conversation.

Capitalization/Rebuilding the Balance Sheet

- Make selective investments in technology to increase operational efficiencies and create economies of scale, which we expect to increase free cash flow from operations.
- Pursue legislative changes to the way B share issuance is deemed a liability rather than as permanent capital.
- Explore raising capital from members to fund specific projects.
- Explore the establishment of a “Co-op endowment” for the purposes of raising permanent capital to invest in the Co-op as necessary.

Multi-stakeholder Co-op Model

The Hanover Co-op provides the livelihood for approximately 400 individuals as well as goods and services for thousands of members. Within the Co-op there are seven stakeholder groups as identified in our Governance Policies:

Hanover Consumer Cooperative Society Inc. GOVERNANCE POLICIES v.01.2016 Ends Global – The Results We Aim to Create in the World. The Hanover Consumer Cooperative Society exists to provide cooperative commerce for the greater good of our members and community. We discern seven distinct groups comprising “our members and community,” as follows: 1. Co-op members 2. Non-member customers 3. Co-op staff and their families 4. Local suppliers 5. Local community 6. Larger cooperative community 7. Past and future generations of Hanover Co-op members.

This is appropriate, in that it is members who have capitalized the Co-op and the vast majority of members are consumer/members. But it is also an unbalanced situation, in that the workers responsible for the operation of the Co-op have such a small piece in the financial outcomes of the organization (relative to their contributions). One model of cooperative organization that divides the power more equitably among groups is the multi-stakeholder model. Examples like the Mondragon Cooperative in Spain and producer cooperatives of Northern Italy show that workers who benefit directly in the success of the cooperative achieve better results, are more satisfied, and have a higher standard of living.

The study of a possible conversion of our organization into a multi-stakeholder model has some appeal for a small number of staff and members, especially those with a strong desire to encourage worker empowerment. It would require work over an extended period of time and there is no guarantee of interest on the part of the broader membership.

Growing the Co-op

We will continuously plan from a strategic and comprehensive approach for both physical and virtual growth of the business and service area. Our goal is to be prepared for opportunities that arise in order to be in a position to change strategies and react. This planning will include, but not be limited to, physical/geographical, store model, and technological “shopping” expansion.

Reduce Overhead through Shared Services

Although we have not yet identified any of the business opportunities that are in the best interest of our organization, working with groups such as NCG, NFCA, and other local/regional co-ops, we will explore opportunities to collectively share administrative and operational resources to better leverage our resources. Opportunities include combining purchasing for services and product as well as administrative functions, such as payables and receivables.

APPENDIX: Co-op Principles

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.

6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

APPENDIX: Challenges & Board Retreat



Board Retreat Info summer-fall 2017.xlsx



APPENDIX: Historical Data



Sales, Customer
Count & Basket Size



SBT Historical
review.pdf

Appendix: MRM/CRM: Program & Update



COOP
Accomplishments 20

Appendix: Business Units Budgets 2018

2017 Budget compared to 2018 Budget

Hanover

	2017		2018	
Revenue	\$ 23,585,138	100.00%	\$ 23,972,920	100.00%
Gross Profit	\$ 7,608,401	32.26%	\$ 7,835,048	32.68%
Net Income	\$ 1,761,260	7.47%	\$ 1,993,873	8.32%

Lebanon

	2017		2018	
Revenue	\$ 33,231,977	100.00%	\$ 31,840,210	100.00%
Gross Profit	\$ 10,800,858	32.50%	\$ 10,519,354	33.04%
Net Income	\$ 3,277,690	9.86%	\$ 3,489,047	10.96%

White River

	2017		2018	
Revenue	\$ 10,481,758	100.00%	\$ 10,856,495	100.00%
Gross Profit	\$ 3,302,865	31.51%	\$ 3,371,198	31.05%
Net Income	\$ 688,106	6.56%	\$ 668,416	6.16%

Lyme Road

	2017		2018	
Revenue	\$ 2,195,656	100.00%	\$ 2,149,743	100.00%
Gross Profit	\$ 778,201	35.44%	\$ 721,758	33.57%
Net Income	\$ 17,728	0.81%	\$ (63,746)	-2.97%

Park Street

	2017		2018		
Revenue	\$	3,656,000	100.00%	\$ 3,686,610	100.00%
Gross Profit	\$	538,974	14.74%	\$ 647,893	17.57%
Net Income	\$	(72,076)	-1.97%	\$ 46,646	1.27%

Commissary

	2017		2018		
Revenue	\$	1,797,073	100.00%	\$ 2,130,536	100.00%
Gross Profit	\$	1,168,097	65.00%	\$ 1,384,848	65.00%
Net Income	\$	51,145	2.85%	\$ 8,473	0.40%

CLC

	2017		2018		
Revenue	\$	82,512	100.00%	\$ 69,000	100.00%
Gross Profit	\$	61,884	75.00%	\$ 51,750	75.00%
Net Income	\$	(45,627)	-55.30%	\$ (33,894)	-49.12%

	2017		2018		
Member Services	\$	476,094	0.63%	\$ 739,837	1.02%
Administrative Expenses	\$	823,439	1.10%	\$ 890,368	1.23%
Human Resources	\$	559,426	0.75%	\$ 596,837	0.82%
Finance	\$	631,813	0.84%	\$ 610,695	0.84%
Merchandising Expenses	\$	865,759	1.15%	\$ 826,005	1.14%
Communication Expenses	\$	311,787	0.42%	\$ 138,162	0.19%
IT	\$	1,165,590	1.55%	\$ 1,228,597	1.69%
Maintenance	\$	481,005	0.64%	\$ 646,225	0.89%
Public Relations	\$	166,823	0.22%	\$ 47,345	0.07%
Total G&A Expense	\$	5,481,736	7.31%	\$ 5,724,071	7.89%