



Our Hilltown Community Market

Community Meeting

Summary of Old Creamery Findings

October 3, 2019

Purpose

The Old Creamery Co-op hired Columinate Consultant Luke Schell on September 9, 2019. The Board has been actively pursuing member-owner loans to provide an influx of cash to keep the store operations working over the past seven years. Ultimately the financial and operational conditions of the store resulted in declining store sales revenues which have triggered a critical crossroads for the Co-op. The declining sales revenues and heavy debt load has created a cash flow crux. The Board, member-owners, staff and community face a serious financial condition with the possibility of losing a beloved landmark in Cummington. The Board has been engaged in exploring a variety of ideas and proposals to see if collectively they can hit the reset button and revive the Old Creamery Co-op. The questions remain: can the Co-op continue to be the heart of the Community and service its needs? Can the Co-op become a viable and sustainable business?

Pressing Issues-Debt and Declining Sales Revenues

There are several factors that have led to the present-day Old Creamery Co-op financial quandary. The original market study and business plan, including sources and uses budget and pro forma, were flawed. The assumption for the budget and pro forma were incorrect. There were construction cost overruns and delays in opening. This unfortunately is a shared fate with other Co-ops and small businesses across the nation. It was because of the strong will of community organizers and heart felt desire of hope to have a community gathering place in Cummington that the Creamery opened as a Co-op.

When a Co-op decides whether to open the business it relies heavily on accurate financial projections. A ten-year pro forma budget that includes the balance sheet, cash flow, profit and loss statements with the debt and depreciation schedules are essential in determining whether a business can manage the debt with projected sales revenues. The decision to

open was based on faulty information critical in determining if the business can produce sales revenues to cover operating expenses and service the debt.

The most pressing issue for the Co-op is operational cash flow and ability of the business to cover its debt service. Since its inception, the Co-op has been operating under a financial model that relies heavily on additional member-owner loans to cover its debt and operating budgets. This action creates a dilemma for the Co-op: not only is the business reliant on annual subsidies but it adds substantial debt. The total debt remaining is over \$750,000. It should be stated the Co-op has paid back over \$500,000 of the debt owed to member-owners and the bank over the past seven years. And the Creamery has never missed a mortgage payment. Although there are many other key indicators to determine if a business is viability, cash availability to meet operational expenses is the essential requirement.

Sales revenues increases are extremely important in maintaining a healthy business model. Every year expenses generally increase including personnel (state mandated minimum wage), maintenance, taxes and other operational expenses. The relationship between sales, cost of goods, gross margin dollars, and expenses determine if the business is profitable. Sales have been decreasing by 8-10% over the past year. Reasons for the sales decline are varied and complex. Overall member-owners and shoppers are spending less and less at the Co-op. *Noteworthy: The Co-op has followed the historical model of mixed grocery and deli. The store has relied on the seasonal sales to make up for slower times of the year. By increasing its focus toward meeting the needs of the community year-round, perhaps the Co-op can become less dependent on the seasonality of the business.*

FINDINGS

After speaking to over 60 member-owners and community members over the past 21 days, it is clear there is an overwhelming desire to keep a store here that can serve their basic needs.

From the interviews it was revealed that most felt there is a disconnect with the Co-op and the community it intended to serve, which exposed general rationales for avoiding shopping at the Coop. The vast majority of the responses can be summed up as a perception that the Coop is insufficiently fulfilling shoppers needs. This comes in the form of high prices, slow service, declining quality, product mix and value of membership. In addition, the internal changes such as reduction in product selection, declining quality, personnel controversies, layout, etc. that were made over the course of the past year and half have turned off many persons.

On the flip side, a plethora of ideas, suggestions and opinions were presented that indicates the community aspires to keep hope alive. It is encouraging to witness a community willingness and selflessness to sit down and speak from their heart on how important a store in Cummington is to this community. All interviewed would like to see immediate improvements from the Co-op. Here is an aggregate and consolidated list of ideas, opinions and opportunities generated by the interviewees:

1. Invite current member-owners and the larger community to form focus groups that walk the aisles and assist in a product mix that is both natural and organic and conventional food and non-food items.
2. There is a definite concern that quality of fresh departments, specifically, produce and deli, has declined over the past several years.
3. Apply for pourable liquor license.
4. Examine store configuration.
5. The need for everyday pricing strategy and a promotional sales program.
6. Solicit either an individual or group of individuals to purchase building and lease back to Co-op at below market rate.
7. Improve relationship with the community at large and provide a more welcoming atmosphere.
8. Ingrained work cultural- Not willing to change. Trying new ideas not always supported.
9. Ingrained shopper cultural- Change is not always welcomed.
10. Return the Co-op as it was when Alice and Amy ran the business.
11. Heal the rift of last year's personnel change controversies.
12. Improve the reasons and incentives for becoming a member.
13. Create a member volunteer program.
14. Bring back the Lottery.
15. Staff members have expressed they like working here and do not want the Co-op to close.
16. Improve communication between Board and member-owners.
17. Appeal to more community members year-round to rely less on seasonality of the current business model.
18. Address the Prepared Foods quality, customer service and efficiencies

The Prep Foods department is the heart of the Co-op. It accounts for nearly 50% of the sales. It is the primary engine that drives customers into the store. Improvements in this department are a must. This department has the potential to develop into a destination place.

(Caution: All the suggestions and ideas are valid, but any attempt to institutionalize an action plan to address these suggestion, concerns, challenges and opportunities will take time, energy, expertise and money to fulfill).

Action Plan

An accelerated detailed improvement plan was presented to the Board that prioritizes actionable steps to address the deficiencies noted in the Findings.

Here is a brief outline of the priorities:

1. Tackle debt.
2. Board of Directors - Provide leadership.
3. Hire Interim General Manager.

4. Utilize community development organizations to provide financial support and expertise - i.e., MA Trust Fund and Hilltown CDC.
5. Develop five-year budget and financial reporting systems and procedures.
6. Prepare Foods plan - Hire expert to set up procedures and systems to Improve quality, service and selection. Support the Prep Foods Manager.
7. Implement the merchandising plan - The plan will incorporate many of the suggestions that were listed above.
8. Administration - Improve HR, Accounting, Marketing and Member-Owner outreach, and Information Technology.

Note: Even with a suitable merchandising and operational plan there is no guarantee of success. It is impossible to forecast known and unknown risk factors, such as sparse population, increase in labor and operational costs, sales floor limitations, competitive pricing, increased competition, aging member-owner base, population growth trends, and acceptance of the community.

Conclusion

The question remains in the short term how long the Co-op can hold on without immediate additional subsidies. Long term, with the right leadership at the Co-op, there is a possibility that, by addressing the challenges and opportunities, and incorporating the suggestions and opinions from the community, change can take hold and bring customers back.

Ultimately the conversation circles back to the question: is the Co-op a viable and sustainable business model? The answer rests within each Board, Staff and community member's desire and heart to work together to make this a community gathering center. It must be a give-and-take on how the store operates and which products it will stock. The community must work together in order to preserve this valuable landmark.

Respectfully submitted by:

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