



Our Hilltown Community Market

General Manager's Report Annual Meeting 2020

Normally the annual member- owner meeting is held in the Spring and includes a review of the previous year's operations and finance activities. With annual meeting occurring 6 months later in the Fall due to the coronavirus pandemic, this report will focus primarily on the last 12 months.

By the Fall of 2019, the Creamery was overleveraged and undercapitalized, and had been in a period of sales contraction for almost a year. Staff and member morale was low, community support was waning, and leadership changes at the board and GM level were underway. It was in this context the Creamery began a month-long community engagement process led by board members and Columinate consultant Luke Schell whose aim was to bring stakeholders together to listen, learn and repair relationships, as well as gain insight to inform future changes. I attended the final meeting where I was introduced and met with community members. With a warm welcome from the community I began my work at the Creamery a week later, embarking on a month's long process to draft a budget and short to medium term plan to stabilize operations, and chart the course for a longer term turnaround.

The plan was focused on growing revenue gradually and sustainably by better meeting the community's needs and improving service, coupled with a decrease in total personnel costs both in the short and long term through reorganization and systems creation. Also part of the plan was careful expense management, and continued debt restructuring and repayment. During the planning process I worked to build relationships with staff and member-owners, and dug deeper to better understand the Creamery's business history and trajectory. We strengthened our relationship with key community members, and invited them to survey the store and provide valuable feedback. We partnered with the Hilltown CDC to target technical and financial support to the Creamery, and to develop a financial operations manual among other key needs. I also began to build cash forecasting, operating metrics, and labor budgeting tools to help manage and continually analyze finance and operations with an eye for savings, improvement, and long term sustainability. We also knew that some retail changes couldn't wait so we lowered the price of several staple goods, fulfilled numerous new item requests, improved the cafe seating area, placed to-go coffee cups adjacent to the self-serve coffee, and began monthly \$6 community dinners.

Due to a resurgence in member-owner support spurred by the community engagement process, an influx of working capital from member-owners created the short term cash runway to continue to operate at a loss while our plans were developed, the budget was built, and the organization restructured to lower costs. The first

round of restructuring included laying off one staff member, eliminating the hot bar program, and reducing scheduled labor hours as well as store operating hours. Additional labor savings were created when our grocery manager gave notice and I absorbed the majority of those responsibilities including purchasing, pricing and merchandising. The savings generated were still insufficient to cover the sales contraction however, and the working capital was used to cover the losses. Fiscal Year 2019 ended with a decline in sales of 10%, an operating loss of -\$99,694 (less depreciation), and a net loss of -\$40,969 due to forgiveness of long term debt, donation/other income, and interest expense in the amounts of \$68,591, \$44,298, and -\$30,404 respectively. As losses were offset by proceeds from \$132,500 in new member-owner loans, there was a net positive cash movement of \$8,562, leaving the Creamery with an end of year cash position of \$27,203.

Entering into the New Year, efforts to stabilize operations continued. We eliminated the Prepared Foods Manager position and further reorganized our personnel structure to reduce costs. While end of year trends indicated an end to the double digit sales decline, sales in the New Year remained down relative to Winter 2019, lower than the flat sales we had anticipated. More working capital was needed, and the board engaged in a community donation campaign in partnership with the Hilltown CDC. Successfully raising \$40,000 through this effort, the Creamery was able to sustain operations through Winter, raise wages as mandated by the state, and prepare for a major store reset in the Spring.

Knowing that our community and member engagement work needed to continue, we hosted an "Ends Gathering" where board, management and member owners did a deep dive into the Creamery's mission and desired operating results - in other words its guiding values and desired impact. This work would help the board develop a revised set of "Ends Policies" helping guide our continually developing business planning to ensure values alignment. Our \$6 community dinners continued and were well attended and enthusiastically received.

In late February the first stage of the reset was completed. The goal was to better meet the unique demand in the Hilltown market by improving merchandising and pricing, and optimizing category space allocation towards increased convenience, all while preserving the full service orientation and commitment to quality of the Creamery's business model. The category reset would pave the way for gradual introduction of new items as slower sellers were eliminated. The final stage of the major store reset was planned for the end of March which would have most of the bulk department move between the two produce refrigerated cases, and wine move into the aisles freeing up space for dry produce in the front of the store.

Meanwhile we had been working on improving our prepared foods operations by defining and documenting our vision, goals and systems for the department. Core to the vision was a return to our roots by defining ingredient standards and bringing back several Creamery classics - black bean burgers, homemade quiche crusts, and focaccia for our deli sandwiches. There was even talk of the Spicy Maddow making a return. We invested in food safety and got four staff members Serv-Safe certified. We created cost tracking systems to optimize pricing and maintain margin. Absent a department manager, we rehired several former kitchen employees part time, and promoted several long time staff members to leadership positions in the department reporting to the General Manager. Next up was defining service standards and training for all staff members, particularly deli and cashier employees.

With our short term plan moving towards completion and with many changes implemented, we needed more information in order to create a long term plan for the business. With a grant commitment from the Hilltown CDC, we put an RFP out in early March to help the Creamery develop a marketing plan to guide future business planning, and scheduled a Capital Needs Assessment to identify immediate and future capital improvement needs. With a new direction in our sights, it appeared that the stage was set for a successful spring and summer where several profitable months can make the difference for the year. However, in

mid-March the Coronavirus emerged as a very real and present threat, resulting in massive societal shutdowns in an effort to halt the spread of the virus. While the Creamery was deemed an essential business and allowed to operate, the impact to the business was significant in numerous ways.

Across many key metrics, the business experienced an almost immediate contraction and expansion dynamic common for grocery stores post-Covid. With stay at home orders in place, schools closed, and entire sectors shut down, transaction count was down 1,000 transactions a week or -43% from the same period prior year. In contrast, average spend was up \$10.69 or 75% from the same period prior year. The increased spending was occurring in the center store departments (grocery, produce, refrigerated grocery, bulk, HBC, beer, wine, liquor, and tobacco) with total sales up 28% from April through June compared to the same period prior year. Produce sales alone were up 72% in that period. Absent tourism and drive-by traffic, the Creamery largely served the local population as a safe grocery store option close to home, making clear how integral the Creamery is to quality of life in the Hilltowns. In contrast prepared foods sales (kitchen, deli, and bakery) were down 50% largely due to the severe decrease in customer traffic. In addition, the sales mix in the store changed from a 60/40 ratio of Center Store to Prepared Foods sales to an 80/20 ratio, putting downward pressure on gross margins and overall profitability.

To protect the health and well being of employees and customers, and respond creatively to this increased demand, we immediately rolled out a rudimentary curbside order program. This program drove sales while providing customers a safe way to shop. There were approximately \$60,000 in curbside sales in that three month period, almost 1/6th of total store sales. As nationwide food demand increased and we entered a period of flour and toilet paper scarcity, major supply interruptions occurred resulting in massive out of stocks affecting many more staple items. In some instances entire deliveries were held until the vendor had the staff and the supply to meet the demand. As scarcity became a very real concern we bought in on many staple items and promoted our pre-order program, encouraging folks to stock up. Unfortunately, our pre-order program was temporarily suspended when demand eclipsed supply and staff hours available to run the program. As things leveled out the program was brought back on line in late May.

Taking guidance from federal, state, and local health officials we implemented a number of additional measures intended to reduce risk, and protect the health and safety of staff and customers. These included increased cleaning and sanitation protocols, closure of our dining area, relocation of self-serve soup and coffee to full counter service, and removal of scoop bulk bins to be repacked and sold in individual packages. We marked off floors to aid in social distancing, implemented mask wearing for all staff, and installed protective screens at the registers and deli area. As masks were initially in short supply, we were incredibly grateful to community members for donating the first round of hand made cloth masks with the black and white cow print. These masks became a symbol of solidarity amongst staff and were completely on brand for the Creamery.

With schools shut down several staff members could no longer work. In addition, we were hypervigilant in monitoring staff symptoms or potential contact with individuals showing symptoms. As a result several staff members were asked to quarantine for two weeks. The Creamery ensured affected staff members received income during this period through the payment of earned and unearned leave. As this became unsustainable, several staff members were put on temporary layoff or furlough. The loss of available staff to keep the store operating at normal hours forced a reduction in store hours and a temporary closure on Sundays. To recognize and reward remaining staff for continuing to work in the midst of a pandemic, we paid every staff member a Staff Hero Bonus Pay of \$2.00/hour effective March 15th, increasing to \$3.00/hour four weeks later. For a two month period the Creamery maintained sustainable operations in this "new normal", as total personnel costs were down due to furloughs while center store sales remained up. Through it all staff put themselves and their families at risk by continuing to show up, do good work, and support one another in an heroic effort to keep the Creamery open for the community. In mid-May the Creamery received a \$115,000 forgivable payroll protection

loan from the Small Business Administration's Payroll Protection Program (PPP), allowing the Creamery to bring back furloughed staff, maintain staff wages, and continue the bonus pay. The bonus pay was replaced with a \$15.00/hour minimum wage in July, an increase of \$2.00/ hour for all staff.

The pandemic also brought to the surface community food access, security and affordability concerns. As part of our staple food buy-in we included conventional staples, increasing our selection of these items in an effort to provide more affordable food to the community. We began to explore the possibility of a needs based discount program at the Creamery that would provide a discount on most food items for eligible community members. As resources were scarce and staff hours stretched thin, this was put on hold in favor of the Hilltown Food Bucks program run by the Hilltown CDC. Funded by state grant money, this program provides 50% off coupons to folks in need to be used at several Hilltown businesses including the Creamery. And thanks to the generous support of our member-owners we put on a free community dinner, providing 200 meals to over 50 families in the Hilltowns.

As near term survival and the overall health and well being of our community was the priority, our improvement work in the prep foods department and the final stage of the store reset were put on hold. We did however continue with the development of the Creamery's marketing plan and completed the capital needs assessment. Refrigeration and building maintenance needs were ever present throughout with numerous service calls made to repair plumbing, electrical and refrigeration systems. Additional investments in IT and refrigeration were needed with the replacement of one of our sandwich stations, and the purchase of several computers, a printer, and a handheld ordering device. Due to the success of our curbside program and the need to improve service while reducing costs, we began planning an e-commerce web platform for on-line shopping. Thanks to the support of the Franklin County CDC, we received a grant from the Massachusetts Food Trust in the amount of \$10,000 to fund these efforts aimed at increasing and improving community access to fresh food. Additional member-owner donations in the amount of \$5,000 allowed the Creamery to pursue these initiatives.

Still, debt repayment and restructure needed to continue. We entered into forbearance with Florence Bank for our mortgage loan, saving approximately \$35,000 in cash over a 12 month period. We paid off our outstanding \$20,000 line of credit from Florence Bank, paid the final seller's note as part of the original purchase and sale in the amount of \$15,000, and paid \$23,000 in member owner debt for a total of \$58,000 in debt reduction. Several member-owners agreed to forbearance or forgiveness of their loans in the amount of \$30,000 and \$2,500 respectively.

Absent the normal seasonal bump the Creamery experiences during the summer months, transaction count in July and August remained down by almost 1,000 transactions a week. Average transaction however remained up over \$5.00. The increase in average spend was insufficient to increase sales over last year as sales declined in almost all departments with a store wide decrease of -17% and -14% in July and August respectively. Total year to date (YTD) sales through August were \$1,042,205, down -\$56,160 or 5.11% from the same period prior year. As staff hours and labor dollars were maintained at Pre-Covid levels per the PPP requirements, and gross margins were lower due to the shift in sales from high margin prepared foods to lower margin center store, the Creamery continued to post losses. The losses were smaller in August however with a positive net cash flow from operations. Total year to date (YTD) operating loss through August (less depreciation and interest expense) was -\$63,850. After other income (donations and grants) in the amount of \$58,099, and interest and other expense in the amount of -\$14,843, the Net Loss was -\$20,595 with a tax basis loss -\$55,187 (Net Loss plus depreciation and amortization). Cash position at the end of August was \$78,222 due to the influx of PPP funds in May and a reduction of accounts payable for the year by -\$43,390 as we brought all vendor accounts to current standing.

Early September results indicate a possible sales and profit turnaround with sales up \$20,000, or 15% fueled by a significant resurgence in many departments with Deli and Bakery posting positive sales comps for the first time all year. Margins improved as Prepared Foods comprised 30% of store sales, a gain of 10 points from the Spring. Preliminary financial reports indicate positive net income of approximately \$7,708 (less depreciation), and positive net cash flow for the month of September. Member sales increased \$43,000, or 12.50% for the six month period of April through September. We also welcomed 44 new member owners in the last 12 months, an increase of 5%.

With my departure from the Creamery on October 4th, we have put in place an interim management structure which the Board intends to keep in place until they conduct a search and hire a new general manager. Together, Sandra Segatti and Toni Reid will report to the Board of Directors as part of a dual reporting structure during this transitional period. Toni is now the Interim Store Manager, responsible for the Creamery's day-to-day retail operations and Sandra is now the Finance and Human Resources Manager (she has been our bookkeeper and HR coordinator for some time now). To support Toni, Sandra and all staff, the Board has secured the services of Brittany Baird from Columinate, the consulting firm for co-ops. Brittany is an operations and finance specialist and will support the store remotely during the interim period. She recently spent a day and a half on site, speaking with staff and Board members in order to better understand the Creamery and its needs.

Maintaining operations will be the critical priority during this period. To help with this I have trained remaining staff on the use of purchasing, labor, cash flow and weekly operations planning and reporting tools I have developed over the course of the year. Staff will need to continue building strong systems while utilizing the existing tools in order to maintain operational continuity. In addition, the implementation of the final marketing plan, rolling out the e-commerce platform, and completion of the store reset would be hugely beneficial to the Creamery and the community, helping capitalize on the positive trends in sales and net income seen in September. With the completion of the capital needs assessment, capital needs planning is essential as many of the buildings systems are in need of replacement, including HVAC and life safety. Though the budget for the remainder of 2020 has been adjusted to reflect current trends and assumptions, a revised 2021 budget will need to be completed which reflects the changing landscape in a post pandemic market, as well as provide for the repayment or restructuring of the approximately \$50,000 in member owner debt due next year.

In closing I would like to thank staff, the board, member owners, our business partners, and the entire Hilltown community for all the work they did, and the support they provided to the Creamery during what could arguably be the most challenging and difficult year in its history. I feel incredibly blessed to have had the privilege of leading the Creamery through this time, and want you all to know that you are truly some of the kindest, generous, and hardest working people I've had the honor of knowing and working with. And despite the challenges, I remain optimistic for the future of the Creamery. I feel that as long as stakeholders continue to come together in strong support of the Creamery, and store leadership continues and builds on the work we did this year, the Creamery can emerge a more resilient, relevant and sustainable business that can serve the Hilltown community for many years to come.

With gratitude and appreciation,

A handwritten signature in black ink, appearing to read "Daniel Esko". The signature is fluid and cursive, with a large initial "D" and "E".

Daniel Esko
General Manager