

Weaver Street Market Board of Directors

Minutes of September 2008 board meeting

Held at the Corner Building, Carrboro 6:15 p.m. Wednesday September 17, 2008

Directors present: Jacob Myers (chair), James Morgan (secretary), Lori Washington (treasurer), Ruffin Slater (general manager), Linda Stier, Robert Short, David Rizzo.

Others attending: Karen Archia (facilitator), Emily Buehler (notes), Geoff Gilson, Eliza DuBose, Mickey Jo Sorrell, Bruno Sorentino, Dan Duffy (visiting owners), Kathy Bucher (finance department), Bruce Mayer (auditor, by speakerphone)

1. Preliminaries

a. Open session for owner input

Eliza suggested that there was a conflict in requiring the GM to grow membership in the Coop (policy 2-11, #2) while membership discounts reduced profitability and thereby inhibited achievement of Ends. Emily noted there was no mention of gainshare in the GM's report on 2-11. Eliza asked when another owner survey might be in the works. Geoff noted that there was to be no worker-owner dividend this year and suggested that the Board was failing to protect owner investment when it removed the 1% profit requirement from policy last year. He suggested that development of the Food House had left the Coop over-indebted and over-extended and that employees were paying the price. He asked the Board to take action to protect worker-owner dividend in 2009. Eliza commented on the GM's report which noted an increase in competition and added that we should not ignore other reasons for this year's reduced financial performance. Geoff suggested a future Board meeting might be held in the conference room at Southern Village.

b. Agenda

Ruffin requested space for an additional item to discuss the annual meeting. This was added into the Agenda as Item 5 c. Items 4 b. (chair's interpretation of policy 4-3) and 5 b. (governance process upgrade) were deleted for lack of time. The agenda was accepted as amended.

c. Minutes

Minutes of the August 20 meeting were approved

2. General Manager's communication and counsel to the Board

The September report from the GM indicated that early problems with Food House delivery logistics were being addressed and the customer benefit of our new local meat initiative would soon be balancing the loss of onsite butcher service in Carrboro. The Carrboro store was scheduled to be reset and generally freshened up at the beginning of October. Comprehensive staff meetings were held in all business units between August 25 and September 1 to update employees on changes in the natural foods market and our strategies to ensure future success and long-term sustainability, and to seek input from employees to identify issues and hear suggestions for improvement. Most of the employees have

now had the opportunity to tour the Food House and comment on its impact on their work. Consumer-owner tours of the facility will be held the last weekend of September. The GM reported on development proposals adjacent to the Southern Village store, updated the Board on the condition of the lawn in Carrboro which had not been sodded as usual last fall on account of the drought, and discussed the future of WCOM in the corner building. To close, the report updated the Board on support to the Elections Committee and attached the final text of the GM's Annual Report to WSM owners which was about to go the printers.

3. GM Monitoring Reports

The General Manager presented the following regularly scheduled monitoring reports to the Board:

a. 2-6 Financial Condition

WSM Board Policy 2-6 indicates the financial constraints imposed by the Board on the General Manager in respect of profitability, general revenue, equity investment and protection, debt and receivables management, and responses to changing market conditions. The report showed that the Coop had recorded an operating loss in the Financial Year ending in June 08 of just over \$400,000. This was mostly the result of one-time administrative costs in connection with the major expansion that had just been completed but was also partly an effect of the increased competition in the wholefoods & specialty grocery market. The new facilities in Hillsborough and new initiatives in local food connections were designed to return WSM to normal levels of profitability in the coming financial year. The report indicated compliance with the provisions of the policy.

Discussion: The GM responded to questions from the Board on aspects of the new competition and on the balance of high and low margin product lines.

Decision: The Board accepted the report.

b. 2-7 Asset Protection

WSM Board Policy Policy 2-7 details the constraints placed on the General Manager in relation to the protection of the Coop's physical plant, inventory, competitiveness, legal liability, financial assets, and other material and intellectual property. The report indicated compliance with the provisions of the policy.

Discussion: Bruce Mayer, the Cooperative's auditor, was invited into the discussion by speakerphone. In the audit process Bruce had identified the lack of an integrated disaster recovery plan as a gap in the Coop's protection of its assets and had communicated this concern to the Board by means of a management letter. He had also noted some minor concerns in internal financial controls such as payroll verification. Bruce answered questions on various aspects of the management letter and the draft FY 2008 audit which he had also sent to the Board.

Decision: The Board accepted the report and flagged the policy for review in light of Bruce's findings.

c. 2-11 Owner Investment and Return

WSM Board Policy Policy 2-11 requires that the General Manager's management of owner investment is sufficient to achieve the Coop's Ends, that ownership investment grows over time and allows for both financial and non-financial owner participation, that owner investment and return practices conform to accepted international standards for cooperative organizations, are fair, transparent, mutually beneficial to all owners and not prone to abuse and that they provide incentives for participating in the Cooperative. It also requires that there are no undue barriers to ownership for low-income households, that distribution of any surplus conforms to the Coop's Ends, and that risks and rewards of ownership are balanced among ownership groups.

The General Manager's monitoring report indicated a failure to comply with provision 11b of this policy which requires that distribution of surplus reflect long-term financial planning to achieve the Coop's Ends. He identified the consumer-owner discount which compels an owner return before any profit is made as the major factor in this noncompliance. The GM offered no clear strategy to achieve compliance, noting that a proposal a couple of years ago to switch to a patronage refund at the end of the financial year instead of a discount on purchases during its process had not been welcomed by owners. He requested assistance from the Board in clarifying the way forward.

Discussion: various ideas were offered on reformulating the owner discount to better effect. It was noted that the balance of risk and reward between consumer-owners and worker-owners was also adversely affected by the consumer-owner discount. All owners risked their investment equally but only worker-owner return was at risk from a bad year, as at present when they had got nothing in FY 2008 while consumer-owners had collectively received over \$430,000 through the discount program. This seemed especially unfair in a year which had placed a lot of additional stress on all employees because of the expansion.

Decision: the Board decided to accept the report except for the noted noncompliance to provision 11b with an agreement to schedule time at the next Board meeting for further discussion of the issues involved.

d. Ends

The General Manager's monitoring report on the achievement of the Cooperative's Ends is presented annually and in its review of that report the Board is required to assess the GM's evidence that the organization has made reasonable progress towards the fulfillment of those Ends:

Weaver Street Market's mission is a vibrant, sustainable commercial center for the community of owners and potential owners, which is

Cooperative – control and profits stay within the community

Local – maximizes local resources to meet local needs

Ecological – works in harmony with the environment

Primary – provides for basic community needs

Fair – mutually beneficial and non-exploitative

Inclusive – accessible to the whole community

Interactive – creates opportunity for community interaction

Empowering – enables fulfilling work and customer experiences

Educational – develops an informed community

And is reliant on community support – to purchase goods and services, invest in the cooperative, and participate in governance.

Discussion of the report: directors posed questions of clarification to the GM, discussed the meaning of “reasonable” progress and asked themselves if issues of significance to owners were missing from the GM’s interpretations or from the policy itself. The GM’s interpretation of empowering and fulfilling work addressed employee compensation and decision involvement but had not reported on employees being enabled and supported in doing their job well. This was an area where problems had recently come to light and the GM needed to respond to it. In the area of education a survey was cited in which owners stated they were knowledgeable about our cooperative business model but there was no evidence of how clear and well-informed they were in their understanding.

Decision: the GM was asked to resubmit his report with a wider interpretation of employee empowerment. The policy was flagged for review to consider providing more detailed guidance for the General Manager in respect of the End of “Educational - develops an informed community”, perhaps in a new executive constraint policy.

4. **Policy Review and Development**

a. **Review of Policy 2-11, Owner Investment & Return**

The Board returned to the discussion of the disparity in consumer-owner and worker-owner risks and returns which had begun in its review of the GM’s monitoring report on this policy. This year had pointed up a 100% disparity on the risk side, with a guaranteed return on investment to consumer-owners of about 37%, none to worker-owners. The system was created twenty years ago with little information or experience and was proving dysfunctional in the fulfillment of the Ends which we had set for ourselves. The connection of point-of-sale owner discount to owner values had never been clearly established. It was clear that many owners took the discount for granted and some had strongly resisted the earlier proposal for its removal. There was a common perception of POS discounts as central to the coop model, a perception reinforced by WSM in its presentation of ownership benefits, in spite of the fact that few coops outside of the particular world of North American natural foods stores have ever used such a system. Many coops like ours had moved away from standard discounts in recent years because of the same problems which we face and had mostly adopted a retrospective end-of-year distribution of surplus to owners in its place.

In addition to the inequity issue it was also noted that the routine consumer-owner discount was less effective in motivating both sales and membership growth than other types of owner benefit which could be offered, such as periodic owner specials with deeper discounts, special owner services etc. It was not the Board’s job to tell the GM how to man-

age the discount problem but to provide guidance, remove inappropriate barriers and then to ensure that the job was done and the problems rectified.

b. Interpretation of Policy 4-3

Item deferred to a future meeting

5. Board Development

a. Election Update

Linda reported that the Elections Committee was proceeding on track, five candidates had presented themselves and had been verified as eligible. The committee was now ratifying the voting process. Minutes of the committee's meetings were being posted online.

b. Governance Process Upgrade

Item deferred to a future meeting

c. Annual Meeting

We will not have a celebrity speaker this year. Board candidates will play a bigger role, they will be introduced with more information to the owners about the Board's role in our system of governance as well as the pragmatics of election procedures. Topics suggested for small/large group discussion include local food networks, distribution of surplus, ownership investment/return.

6. Closings

a. Review Decisions

The Board reviewed and confirmed its decisions

b. Review tasks

The Board reviewed and confirmed its tasks

c. Inputs into owner newsletter

Annual meeting, Board elections

d. Other owner linkage implications

Education. An informed ownership starts with us.

e. Requests for staff support

Continue with annual meeting planning

f. Meeting evaluation

Visitors were thanked for their participation. Karen was thanked for her excellent facilitation. Karen said she enjoyed the discussions and wished she could join in.

The meeting was adjourned at 9:50 p.m.