

Meeting Minutes for Weaver Street Market's Board of Directors

August 13 Meeting

Monthly Board Meeting, Carrboro Century Center, Carrboro, NC, on August 13, 2014, 6:15 pm to 9:30 pm

Directors present: Ruffin Slater (general manager), Curt Brinkmeyer (chair), David Bright (secretary), Lisa Best (treasurer), Michael Marotta, Jon McDonald, and Linda Stier.

Others attending: Andy Sachs (facilitator), Brenda Camp (notes), Tim Macri (consumer owner), and Charlie Hileman (consumer owner).

Information Session about Product Selection

Ruffin Slater, General Manager, continued the email discussion about product selection that occurred around the decision whether or not to remove Eden Foods products from the stores. The GM identified three main intents that the co-op tries to accomplish through product selection:

1. **Be more relevant.** (As industry changes, it's important to identify which products are important to owners and become more discriminating as we consolidate products.)
2. **Transform our product lines to live up to our aspirations.** (To achieve WSM's 2020 goals, it's important to make product selections that make healthy eating accessible, tasty and fun, and also have buying practices that drive the growth of local and sustainable foods.)
3. **Align with what our owners care about.** (Our product selection must match what our owners are looking for, which is also reflected in the goals and Board policies, including our Ends and consumer treatment policy).

The GM stressed the importance of explaining the co-op's product selection practices to co-op owners. He identified several important aspects of communications to owners regarding the product selection process:

- Reflect our goals.
- Listen to and embrace input from owners and shoppers.
- Own responsibility for making decisions about product selection.
- Make decisions about product selection as part of an ongoing process that may present a tradeoff between a perfect and less perfect choice.
- Stay attuned to and pay particular attention to controversial issues.
- Develop and use communication tools for ongoing communications that tell the story about product choices, including the background, which provides the context.

The GM observed that if we are going to take feedback seriously and encourage owner participation, we need to take three important actions relevant to the Board Policy on Treatment of Consumers: Listen, Consider, Respond.

Listen: Recognize valuable input about what's important to owners. Also, remember that feedback needs to point to coherence to be actionable. Questions to consider include, "Does the input point to something that we already know about or is it new?" "Are we hearing from one person or multiple people?" "Are we hearing a coherent direction?"

August 13, 2014

Consider: Seek the best available choice for our owners so that the sum of individual product decisions meets owner needs. Criteria may include price, relevancy, and taste.

Respond: Respond to each owner who gives us input and find ways to communicate more broadly input that is particularly interesting to owners. Also, use owner feedback to evaluate the product selection process. Be able to explain the process and changes as they occur.

The General Manager identified several examples that highlight various aspects of the product selection process and how it has evolved with successes and some unexpected turns. A few of the examples illustrate how the best available solutions can be less than perfect.

Horizon Organic Dairy: WSM decided to carry other brands of organic milk after the dairy was criticized for its production practices. Management believes that the dairy uses factory farming processes for its organic dairy products.

Clementines: Clementines are big sellers for the co-op. This year we received customer feedback that the citrus fruit is routinely treated post-harvest with fungicide. For the rest of the season, the co-op carried only clementines it could get untreated. The supply remains limited, and the co-op is looking for another source of untreated citrus, such as a farmer in California.

Nitrates and Nitrites in Meat: Our product policy says we do not carry meats with nitrates and nitrites. A customer brought up an exception with one of the local products we carry: Giacomo's salami. Our new Pig hot dogs also have nitrates and nitrites. Conversations with the producers revealed that it's a complicated issue. Nitrates and nitrites, which are preservatives, are needed for food safety. Naturally occurring ones exist, such as celery salt, but they are not as precise and are more expensive. Important questions remain: "How do we know we really understand the issue?" "How do we make a decision?" "How do we explain the decision?"

Bananas: Providing fair trade, organic bananas has been a challenge for the co-op. The fair trade bananas we had went from green to gray without ever being the ripe yellow that owners seek. The choice was often whether to have organic yellow Dole bananas or gray fair trade bananas. Equal Exchange now has a fair trade banana company that provides products for our stores, but we still source other bananas so that we can offer ripe bananas consistently. With a new produce wholesaler, we're close to the desired outcome.

GMO: Finding a solution to the issue of GMO products is a tradeoff. GMO products do not have to be labeled, and we do not know whether some of our products have GMO ingredients. Efforts to require GMO labeling failed in California and Washington. We are supporting local producers who make non-GMO products, such as Ran-Lew Dairy Milk Company. The milk is not organic, but it is not GMO.

Organic Wine: The co-op has successfully sourced organic wine directly from France through a wholesaler that imports the wine for us. We are able to offer organic wines at a reduced price. The co-op will be expanding its organic wines to include South American wines.

Eden Foods: Recently management heard from numerous customers objecting to us selling Eden Foods products. Management listened to feedback, assessed the relationships with the consumers and the producer, and weighed all the factors for the owners. Management communicated with owners and the Board throughout the process and created valuable feedback that led to the decision to remove the products.

The GM also identified plans to communicate the co-op's general approach to feedback, to provide FAQs for questions and issues we can anticipate, and to have a product blog that addresses new issues

August 13, 2014

as they come up. With this level of communications, owners will become more knowledgeable about how the process works, which contributes to the goal of building shared knowledge.

In the ensuing discussion, Board Directors made the following observations:

- The clementine example points to a need to inform consumers what a product does not have as well as what it has, so shoppers can make informed decisions. For example, knowing that the clementines are fungus free would encourage shoppers to try them.
- It's important to tell shoppers about issues with product selection. For example, the banana story illustrates how our product selection is a process that continually seeks ways to provide the best quality available.
- In addition to telling shoppers we offer good deals, which we succeed at, also tell them about what is exciting and tastes best. For example, with more artistic freedom our Food House chef (from the Magnolia Grill) could develop really exciting products that might go undeveloped if the focus is solely on consumer preferences.
- Sometimes being afraid can drive what we do in product selection. There needs to be enough trust to discontinue a product and to acknowledge when there's a gap between the possible and the existing.
- It's important to share with consumers the information and examples in this presentation. Doing so would create shared knowledge and encourage more feedback from consumers about what's important to them.
- The move to remove the Eden Foods products was bold. Communicating with Eden Foods about the decision was an important part of the process.
- The question was raised whether from a Board perspective there are any parameters that need to be in place around social issues and whether it is possible for decisions to reflect the full base of owner values.
- The co-op is a social organization. It cannot fail to make decisions out of fear of making the wrong choice. Being engaged is important.
- Strategically this is a way that we distinguish ourselves; we have these conversations openly. If we build the story, then a mistake is just a piece of it. We learn and move forward.
- There is an impression among worker owners that there is not enough listening in the product selection process.

1. Preliminaries

Owner Input: Charlie Hileman, consumer owner and volunteer at the Carrboro store, raised the issue of some substandard or cheap equipment being used at the Carrboro store and of repairs not happening in a timely manner. He also reported that there was a disconnect between employees and management. He noted that some employees have a point of view he characterized as "fatalism"; that is, they see no point in bringing it up issues that they felt would not be addressed.

Agenda: There were no changes to agenda.

Minutes: Minutes from the June meeting were approved.

New Owners: There were no exceptions to the owner lists for May and June 2014: 203 new consumer owner shares, 1 new worker owner share, and 61 refunded shares.

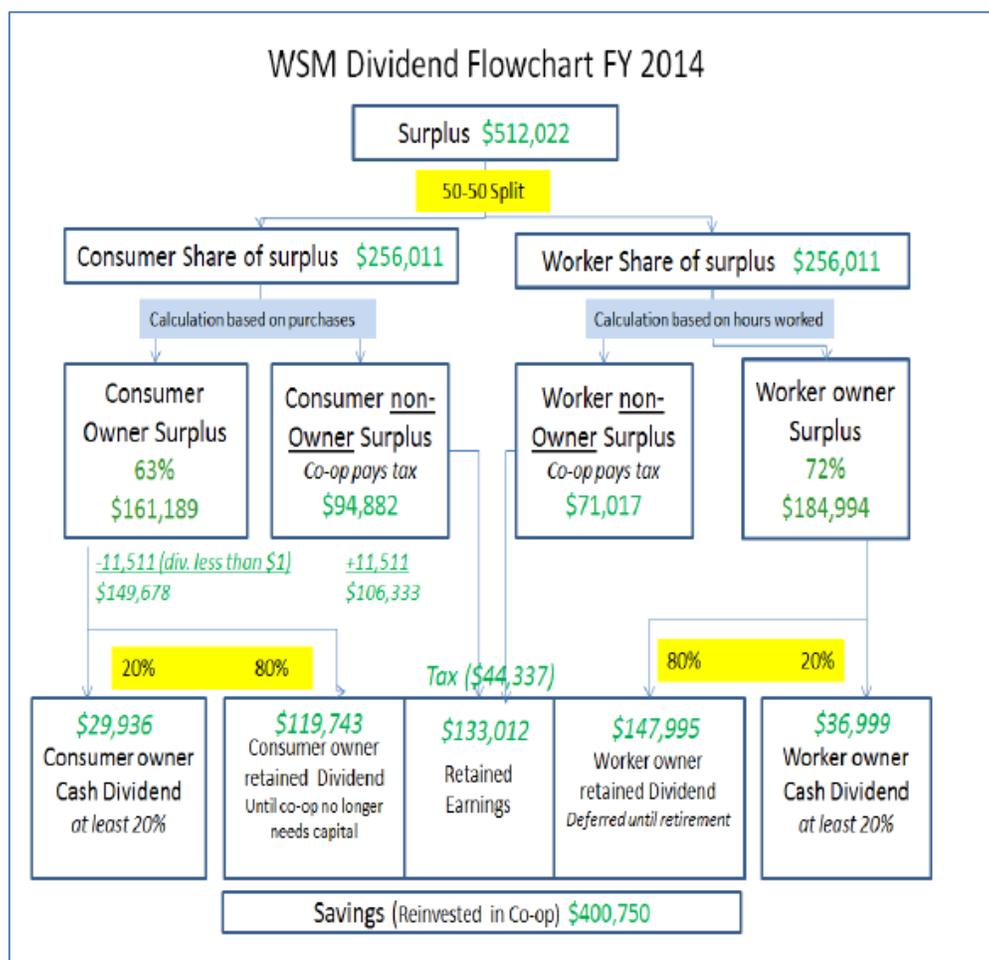
August 13, 2014

Decision: The Board approved the June minutes.

Decision: The Board made no exceptions to new consumer and worker owners.

2. FY 2014 Patronage Decision

The Board discussed the patronage dividend for FY 2014. The Board decided to use the same rubric as in the last three dividend decisions: The surplus of \$512,002 is to be split 50%/50% among consumer owners and worker owners. This method allows the maximum savings for the co-op: \$400,000 goes directly to savings. The GM reported that this method of distribution over the last few years has significantly helped the equity portion of the balance sheet, and it maximizes the financial health of the co-op. The GM noted that the lower surplus was expected with losses related to closing Panzanella and the Carrboro store being closed for remodeling.



With a minimum distribution of \$1, 6,857 owners will receive a dividend and the 15,646 owners who shopped in FY2014 will receive a percent-off coupon again this year, which makes the meager dividend more palatable.

August 13, 2014

FY 2014 Patronage Dividend Statistics				
	FY 2014	FY 2013	FY 2012	FY 2011
Net Profit	\$512,022	\$830,000	\$767,000	\$246,999
Board Decisions	FY 2014	FY 2013	FY 2012	FY 2011
Consumer Share of Profits	50%	50%	50%	50%
Worker Share of Profits	50%	50%	50%	50%
% of Allowable Dividend Declared	100%	100%	100%	100%
% of Dividend Distributed	20%	20%	20%	20%
Minimum Consumer Dividend Distribution	\$1.00	\$1.00	\$1.00	\$0.50
Consumer Owner Patronage Calculation	FY 2014	FY 2013	FY 2012	FY 2011
Sales to Consumer Owners	21,102,031	19,200,141	17,608,561	16,307,032
Total Co-op Sales	33,515,592	32,310,274	29,706,056	26,955,343
Consumer Owner Patronage %	63.0%	59.4%	59.3%	60.5%
Exclusion for Minimum Dividend	FY 2014	FY 2013	FY 2012	FY 2011
Consumer Owner Dividend prior to exclusions	161,189	246,611	\$227,323	\$74,713
(Amount Excluded by Minimum Distribution)	(11,511)	(9,731)	(11,883)	(4,845)
Consumer Owner Dividend Declared	\$149,678	\$236,879	\$215,640	\$69,868
Consumer Dividend Distribution		FY 2013	FY 2012	FY 2011
Consumer Dividend Retained	\$119,743	\$189,504	\$172,512	\$55,895
Consumer Dividend Distributed	\$29,936	\$47,376	\$43,128	\$13,974
Individual Consumer Owner Dividend Statistics	FY 2014	FY 2013	FY 2012	FY 2011
Entire Dividend as % of Purchases	0.76%	1.28%	1.29%	0.46%
Distributed Dividend as % of Purchases	0.15%	0.26%	0.26%	0.09%
No of Owners that Shopped	15,646	15,004	14,154	13,403
No of Owners Receiving a Dividend	6,857	8,040	7,283	6,322
Average Dividend Declared	\$21.83	\$29.46	\$29.61	\$11.05
Average Dividend Distributed	\$4.37	\$5.89	\$5.92	\$2.21
Largest Dividend Distributed	30.94	49.17	\$47.38	\$18.31
Smallest Dividend Distributed	\$1.00	\$1.00	\$1.00	\$0.50
Weekly Purchases Req'd to Received Dividend	12.94	\$6.84	\$8.10	\$10.39
Worker Owner Patronage Calculation	FY 2014	FY 2013	FY 2012	FY 2011
Hours Worked by Worker Owners	335,937	286,131	195,274	181,931
Total Hours Worked	464,899	456,919	429,426	408,891
% Worked by Worker Owners	72.3%	62.6%	45.5%	44.5%
Worker Dividend Distribution	FY 2014	FY 2013	FY 2012	FY 2011
Worker Dividend Retained (80%)	\$147,995	\$207,904	\$139,512	\$43,960
Worker Dividend Distributed (20%)	\$36,999	\$51,976	\$34,878	\$10,990
Total Worker Dividend Declared	\$184,994	\$259,881	\$174,390	\$54,949
Individual Worker Owner Dividend Statistics	FY 2014	FY 2013	FY 2012	FY 2011
Entire Dividend per Hour Worked	\$0.55	\$0.91	\$0.89	\$0.30
No. of Worker Owners	188	177	124	99
Average Entire Dividend	\$984	\$1,468	\$1,406	\$555
Largest Entire Dividend	\$1,145	\$1,889	\$1,858	\$628
Average Dividend Distributed	\$197	\$294	\$281	\$111
Largest Dividend Distributed	\$229	\$378	\$372	\$137
\$50 Week Consumer Owner	FY 2014	FY 2013	FY 2012	FY 2011
Purchases	2,600	2,600	2,600	2,600
Dividend %	0.76%	1.28%	1.29%	0.46%
Total Dividend	19.86	33.39	33.57	11.91
Cash Portion	3.97	6.68	6.71	2.38
Retained Portion	15.89	26.72	26.85	9.53
Full Time worker owner	FY 2014	FY 2013	FY 2012	FY 2011
Hours	2,080	2,080	2,080	2,080
Dividend per hour	0.55	0.91	0.89	0.30
Total Dividend	1,145	1,889	1,858	628
Cash Portion	229	378	372	126
Retained Portion	916	1,511	1,486	503
Interest Paid on Accumulated Worker Retained Patronage Dividend	FY 2014	FY 2013	FY 2012	FY 2011
Interest Rate	4%	4%	4%	6%
Interest Payment	\$24,883			

The Directors discussed the question: “How do we respond to the small amount of the dividend and its perception?” The following observations were made.

- It’s important to communicate how \$400,000 improves our conditions and allows us to adjust the percentage retained in the future.
- It’s important to communicate the whole story, including the impact of Panzanella closing and that we were able to remodel the Carrboro store.
- The amount being dispersed seems like pittance for what’s being spent, especially with the surplus being half as much as previous years.

August 13, 2014

- The interest rate on the worker-owner savings accounts (4%) is not in alignment with the loan rate (5%).
- The co-op must return at least 20%. The percent-off coupon comes out to be revenue neutral, people spend more; it's more of a perception.
- There is very little personal gain for consumer owners. The benefit is for the collective. On the other hand, worker owners get the full amount eventually.
- Other questions posed for reconsideration at the beginning of 2015: "Are we achieving what we want to with this?" "Are we losing more money with the percent-off coupon than we're saving?" "Are consumer owners looking at their shares as investments?"

Decision: The Board approved a dividend disbursement with a 50/50 split of surplus between consumer owners and worker owners, with 20% distributed and 80% retained.

3. Owner Communications

Annual Meeting Plan

The GM discussed the plans for the annual meeting. The main feature is a cooperative café in which owners will explore solutions and possibilities with reducing credit card fees through the use of co-op gift cards. The meeting will kick off an awareness campaign about the fees and gift card use.

Task: Andy will talk with Ruffin about minor adjustments in the timing.

Annual Report Update

The Owner Services Coordinator gave an update on the move to electronic communications. More than 13,000 individuals have signed up for WSM's e-newsletter, including 11,000 owners. The annual report will be emailed to all 13,000 subscribers and an additional 6,000 owners will receive postcards announcing that the annual report is available online. The postcards will also solicit emails for owner communications.

Co-op Fair Update

The Owner Services Coordinator gave an update on the Co-op Fair, which will occur on Saturday, August 30, 2014. More than 200 owners are expected to attend the event.

4. General Manager Reports

August GM Report

The General Manager answered questions on his monthly General Report.

General Report included a number of highlights for the past month:

- 7% sales growth in July met expectations and exceeded our conservative budget of 5%.

August 13, 2014

	Q3 Jan- Mar	Q4 Apr- Jun	Q1 Jul- Sep	Q2 Oct- Dec	Q3 Jan- Mar	Q4 Apr- Jun	July 2014
Co-op sales vs. budget							
Carrboro	5%	5%	-9%	2%	1%	4%	3%
So Village	7%	5%	11%	5%	6%	9%	9%
Hillsborough	13%	12%	13%	15%	10%	13%	13%
Food House	8%	12%	10%	16%	13%	13%	5%
Total Co-op	7%	7%	2%	7%	6%	7%	7%
Budget	6%	6%	2%	5%	6%	7%	5%

- The remodel of the café area in Carrboro is underway. We have relocated the prepared foods to the produce side of the store, except for the food bar and espresso drinks which are temporarily unavailable. The café area closed August 4 and is expected to open around August 15. Contractors are working day and night to minimize the down time. The vestibule part of the café remodel is postponed to fall because the Town of Carrboro decided that it needs Board of Aldermen approval.

2-6 Financial Condition Report

The General Manager presented his 2-6 Financial Condition Report. A Director asked about the discrepancies in the budgeted and actuals for the Other Expenses Income and Interest Income categories. The GM reported that the numbers were not in the correct place on the budget and that if you added all of them up, there is very little difference in the net of the budgeted and actuals. The GM noted that the profits were down in October/November/December due to the Panzanella closing but that it was highest quarter for sales.

Decision: The Board accepted the GM's 2-6 Financial Condition Report.

2-4 Compensation and Benefits Report

The General Manager presented his 2-4 Compensation and Benefits Report. A Director observed that the comparison of management pay rates with national labor rates was off considerably. The GM responded that the national rates are not for retail alone; they include large corporations that have high management salaries.

Decision: The Board accepted the GM's 2-4 Compensation and Benefits Report.

2-3 Treatment of Staff Report

The General Manager presented his 2-3 Treatment of Staff Report. A Director echoed the comments made by the consumer owner who spoke to the Board at the beginning of the meeting, noting that employees do not feel empowered to bring up issues to management. Another Director observed that it's important to ask employees what they need to do their jobs and then prioritize those needs.

Another Director asked if having three allegations of unfair disciplinary action was high. The GM responded that it was not high, and added that all were resolved with the employee.

Decision: The Board accepted the GM's 2-3 Treatment of Staff Report.

5. Policy Review: Executive Limitations Policies

Approval of Proposed Executive Limitations Policies except B-2: Planning & Budgeting

The Directors reviewed the revisions made at the retreat and agreed they were ready for approval with the following exceptions:

August 13, 2014

Follow-up on Treatment of Vendors

The proposed policy revision does not include a section for the Treatment of Vendors. One Director observed that vendors are a function of the finance department, and another observed that it's the staff and stores who have relationships with vendors.

Task: Curt was assigned the task of reviewing the existing policy on the Treatment of Vendors to determine whether there is anything unclear, unsafe, and not otherwise covered in global executive constraint of "prudent generally accepted practices."

Follow-up on B-2: Planning & Budgeting

The Directors reviewed the question that came up previously about the amount of control that needs to be placed in Policy B-2, specifically the difference between requiring a plan versus requiring a planning process. Highlights of the discussion included the following:

- The current policy was described as more powerful, inclusive, and consistent with everything else. The new policy was described as being instructive—The GM must have annual budgets and plans.—rather than being a constraint—The only thing you cannot do is... .
- The GM asked, "What constraint do you want to put on the manager with planning and budgeting?" He described the instructive version as protecting against a situation when the Board does not know what the plan is and therefore does not know how to hold someone accountable. He noted that the current practices included a plan and budget and that the revision could be a defensive change that may seem like a pedantic reaction to the process not working in other co-ops.

The Directors decided to keep the opening two paragraphs of the original policy instead of the two paragraphs in the proposed. The global statement will read:

"Planning, including social, environmental, and financial planning, shall not risk fiscal jeopardy, fail to be derived from a multi-year plan or fail to be consistent with achievement under Ends policies and other Executive Limitations policies.

Further, without limiting the scope of the foregoing by the following, the General

Manager shall not:"

The Directors also discussed the constraint in provision 3 of the proposed policy: "Do not address excellence in business systems and operations." This constraint is not in the existing policy. In previous discussions, the question was raised whether the Ends drive excellence, and a suggestion was made to broaden the provision to require a strategy, but not necessarily excellence in systems and operations. Highlights of the discussion included:

- The intent of business excellence is to ensure that the basic conditions of running the business are in place. In planning, the need to make all systems work together can be forgotten. For example, with owner communications we are discovering that there needs to be a robust system in place for getting that done. This policy requires the GM to show how it's getting done rather than the Board assuming it's happening.
- Fulfillment of the Ends is going to enforce excellence in systems. Interpretation is the metrics that answers, "What's gotten accomplished?"

Task: Dave and Michael will work on the wording to provision 3 for the agreed upon intent above. Also, they will

August 13, 2014

make edits so that the five provisions grammatically follow the opening paragraphs inserted from the existing policy.

6. Closings

Tasks and Decisions: The Board reviewed and confirmed its tasks and decisions.

September Agenda Items:

- Policy revisions
- Future Item: Revisit Patronage Dividend at January Retreat

Meeting Evaluation: The Board concluded with a short assessment of the meeting. Directors expressed appreciation for the “good collaboration and great discussions.” The Directors agreed that the policy discussions would be better if more homework was done prior to the meetings and if the discussions were on the agenda at the beginning of the meetings.