Middlebury Natural Foods Cooperative
Board of Directors Meeting
December 17, 2014

Board Members Present: R.J. Adler, Ilaria Brancoli Busdraghi , Ross Conrad, Francisca Drexel, Mary Gill, Kate Gridley, Kevin Lehman, Jay Leshinsky, Sheila McGrory-Klyza, Tam Stewart, Louise Vojtisek.
Board Members Absent: None
Others present: Victoria DeWind (staff liaison), Glenn Lower (GM), Emily Millard (staff).
Board Monitor: Louise.

Call to Order: Jay called the meeting to order at 6:30 pm.

Member's Business: Francisca reported a concern expressed by a staff person about the congestion around the deli counter. Kate asked if there was any response to James Maroney's point that affordable prices should part of the mission statement. Emily said they have been included in Co-op Conversation notes.

Approval of Minutes: On a motion by Kate, seconded by Ilaria, the minutes of November 19, 2014 were approved as amended with all in favor and Kevin and RJ abstaining.

GM Report: Glenn asked the Board what format they would like for the 2015 Annual Meeting. The options are on-site, the Methodist Church or an outdoor space. Tam said he did not see much PR value or participation in discussion in a party setting. It was agreed that food is a draw for people. Louise suggested serving dessert only. Consensus was it should be indoors with a Long Range Plan follow-up or patronage dividend discussion. Glenn will see if American Flatbread is available on a week night.

A contract with Empatico for digital upgrades has been signed and work will start in January.

It was noted that the deli has the highest sales growth lately. Glenn said that it represents about 8-9% of total sales.

EL 4 Monitoring Report – Financial Condition: In spite of sales growth being below the 3% bench mark that Glenn has chosen, and thus out of compliance, the Co-op does have growth and good financial strength. The Board accepted the report as on time with reasonable interpretation of sufficient data and in compliance except for the sales growth.

Patronage Dividend discussion with Melanie Reid: Melanie facilitated a webinar discussion on the benefits and challenges of patronage dividends and the transition process. Michael Healy also listened in.

Melanie started with the "why" for this conversation. She noted input from Glenn that the goal is to have a fiscally and environmentally sustainable co-op. Guiding principles for the change include: 1) reflect the changes over 40 years from buying club to now, 2) continue to nurture the member-owner trust in the Co-op (a most valuable asset), 3) it will be a member-owner decision and 4) in the future, the Co-op will be more than just a store.

Melanie discussed compelling reasons for changing to dividends. There is the desire to prosper on a sound financial footing into the future to support community education and the local food network and provide good, stable staff wages and benefits. Patronage dividends increase the flexibility in fiscal planning which discounts do not. Discounts give away money before it is earned and cannot be used with flexibility. Dividends create a sense of ownership for member-owners of the Co-op, allows for democratic control of capital and allows them to participate in the success of the Co-op. Finances are also improved as the patronage dividend, refunded and retained, is tax free to both the Co-op and member-owners. Glenn said he has not yet determined how other discounts will be affected by the change.

Melanie discussed the refund process of patronage dividends. Allocation starts with determining each year how much income is patronage and how much is non-patronage. Glenn said currently MNFC sales are approximately 75% to member-owners. This would mean a significant tax savings. The percentages of net profit returned must be at least 20% but can be as much as 100%. The 20% level is recommended for building the most capital. Retention of dividends can support expansion, increase Co-op presence in the community and reduce borrowing from the bank with a return to profitability sooner. Retained funds belong to the member-owners and can be returned to them later if the funds are not needed.

Melanie then turned the discussion over to the Board by posing the question, “Is this the right next step for MNFC?”

Mary asked are there reasons not to use patronage dividends? While a check may feel like more, Glenn estimates that a 20% refund is about 1/3 of the total discount a member-owner receives now; 50% would be about the same. Louise suggested member-owners benefits should be reworked to make up for this to show appreciation and give the incentive to shop.

Kate saw the benefit in having to borrow less and member-owners see where their money is working in programs and store offerings. Ross liked the tax benefit and reduced debt and regrets not starting it sooner. He asked if the pro forma included estimates of the loss of sales and memberships because of the change. Melanie said other co-ops have not experienced significant losses.

RJ asked if the reduced costs to the Co-op could lower prices and could this be used as a selling point. Glenn said that lower prices are part of the Long Range Plan but he is not sure there would be a direct connection and can’t promise that. There will be lower prices on selected commonly-bought products.

Ilaria thought it best to present patronage dividend in the broader picture and as a benefit to the community. Glenn said he sees this as a long range gain versus short term benefit. It helps the community, helps the Co-op and the decreased return for member-owners would be short term. However, the economy now makes it more challenging and there have been recent declines in sales growth and customer counts. He asked is this the right time – but is it ever?

The Board made a commitment to make the change to patronage dividend with a thumb poll – all up with one sideways. The importance of retaining member-owner trust in the process and making it clear why this is a good change was agreed to by all. Glenn said his next step will be to educate staff before going to member-owners.

Tam said he thinks this decision could give a good definition to the Board work at the retreat. He sees the economics of expansion in qualitative growth instead of quantitative growth as a way to move the Co-op as a store to being the Co-op as community. The Board supported this idea.

CDS Contract: Jay reported his research into the CDS contract terms. It includes 15 hours of consulting and 8 hours for the retreat. Training sessions and the resource library do not translate into hours. Jay said the support is excellent, especially when making changes. Jay moved, seconded by Kate, to renew the CDS contract. All voted in favor.

Retreat: February 28 – It was agreed to have Michael Healy facilitate a discussion of ways to move the Co-op forward in light of patronage dividends. Kate will lead team building activities. Ross asked about the effort to separate measurement of local and organic sales. He suggested a discussion at the retreat of what the Board is looking for and how to meet this policy. Consensus was that this should be done instead with regular meeting agenda time.

Next Meeting – January 28:

GM compensation
Measuring organic sales
Set March meeting date
Annual Meeting
Empatico update

The CDS contract will be signed and Tam will work with Michael on retreat planning. Glenn will start work on patronage dividend education process.

Executive Session: On a motion by Sheila, seconded by RJ, the Board went into Executive Session for a personnel issue at 8:27pm. On a motion by RJ, seconded by Tam, the Board came out of Executive Session at 8:51pm.

Adjournment: The meeting was adjourned at 8:52pm on a motion by RJ, seconded by Francisca, with all in favor.

Respectfully submitted by Victoria DeWind