

Durham Coop Market

Everyone Welcome

Annual Report

July, 2015 to June, 2016



From the Board President

Dear Fellow Owners,

It's been an exciting year at our co-op. 2016 was our first full year in operation, and the co-op has grown revenues beyond our most ambitious projections. At the same time, we have shown that we can be a good neighbor, an ethical employer, and a business that seeks to benefit multiple stakeholders. In 2016, DCM also became the first food cooperative to be certified a B-Corporation.

Just as the store has been transitioning from startup to growth phase, so too has the board. We brought on four new board members, including two worker owner representatives, over the last year. We're working on ways to support our incredible management and staff as they grow our co-op. And as always, we keep our eyes on the prize by making sure we represent the general membership in the best way possible.

As we enter our second full year, we are more excited than ever about growing the co-op's business and presence in the community. We know we can do more to serve the needs of our members and the local economy.

The Durham Co-op Market is something that we own together. It is fast becoming a model for how to operate a successful business that trades in values as well as food. It is not an easy process and requires ongoing vigilance and effort.

We board members are grateful for your continued membership, patronage, and support.

Sincerely,

Frank Stasio
Durham Co-op Market Board President



Good. Local. Food.



Everyone Welcome

We are your neighborhood grocery store. Make yourself at home.

Great Food

We love delicious, healthy, organic, and farm-fresh food. We believe it should be accessible to everyone.

Local Economy

We support local farms, businesses, and service providers.

Diversity & Equity

We seek to empower people and nourish an equitable community.

Dignity of Work & Workers

We strive to provide a healthy, fair, and considerate workplace based on respect, communication, and adequate compensation.

Environmental Sustainability

We work to be a model, a catalyst, and an advocate for environmental stewardship.

It's Good to Be an Owner!

CONSUMER OWNERSHIP

Without our owners, there is no co-op. It's really that simple. Our owners make it possible to run a values driven business that is concerned with community impact, not just profit. We added just over 800 new owners this year, bringing our total to just under 3000 by June 30, 2016. (We have around 3200 now!) And we gave back over \$60,000 in owners' discounts through our monthly owner deals!

FOOD FOR ALL OWNERS

At the co-op, we believe everyone deserves access to healthy food and co-op ownership. We want this store to serve and represent the whole community regardless of income level. That's why we offer Food for All. Anyone who qualifies for SNAP benefits can purchase a co-op ownership share for \$15 up front and receive a 10% discount on all our products (excluding alcohol) every day. FFA Owners are full voting members of our co-op.

703

new owners

2,958

total owners as of June 30

2,955

FFA transactions this year

154

FFA owners



EMPLOYEE OWNERSHIP



You may remember this time last year we were in the thick of a conversation about implementing employee ownership at the Co-op. We are happy to report that his goal has been accomplished!

It took a lot of time, research, and conversation to come up with a structure that met the needs of all parties, but in May our first members of staff bought their

ownership shares, and in June two worker-owners joined the Board of Directors.

After last year's Annual Meeting, a group of board members and staff held a series of meetings, led by facilitator Andrew Sachs.

Both board and staff members reached out to other cooperatives around the country to determine the challenges and rewards of different systems and to hear about lessons learned.

The Board also held several listening sessions with consumer owners where owners expressed thoughtful comments on worker participation and share pricing.

Ultimately, the group agreed on a structure consistent with our Articles of Incorporation. The Board approved the package at its April meeting.

Workers have access to a separate class of shares after six months of employment. These shares are priced at \$500 and have a 5 year vesting period. DCM staff can pay for the share over 5 years through payroll deductions, but are considered to have full ownership at the signing of the ownership agreement. Worker-owners elect two members of the Board of Directors.

At this time, 78% of eligible employees are worker owners, with more employees waiting in the wings.

In a letter to the worker ownership working group, Board President Frank Stasio summarized the experience. "The agreement itself is a testament to the good results that can be achieved when we embrace the values of cooperation, consensus and community."

In the Store

CO+OP BASICS low prices for everyone every day

Co+op Basics is a list of organic and natural staple items that are listed at great prices every day for every customer.

We have added dozens of new products to the Basics list this year, and reduced the prices on dozens more.

We heard your cries for more affordable, high-quality paper goods, baby food, ketchup, and tuna. We noticed how much you love Clif Bars (and how much more you like them when they are 4/\$5!) We love this program because we can help you buy products we can all be proud — organic, healthy, environmentally friendly, and affordable.

304

items on Co+op Basics

164%

Increase over last year

coop™ basics



organic
beans **99¢**
6,442
cans sold

local organic
sweet potatoes **\$1.49/lb**

4,620
pounds sold



Some of our **NEW**

Basics Items

(Lot's of NEW LOWER PRICES)

Earth's Best baby food jars	89¢
Field Day dish detergent	\$2.99
Field Day sparkling water	99¢
Organic Valley milk ½ gal	\$3.99
Clif & Luna Bars	4/\$5
Field Day organic broth	\$1.99
Field Day org. apple sauce	\$2.99
Woodstock org. tomatoes	\$1.69
Equal Exchange org. coffee	\$8.99/lb
Field Day org. peanut butter	\$3.99
Field Day org. fruit spread	\$3.49
Silk soy milk ½ gal.	\$3.99
Field Day organic salsa	\$2.99
Woodstock organic mustard	\$1.99
Natural Sea tuna	\$1.99

LOCAL FOOD

Our commitment to local food and the local economy involves more than just purchasing product — although that's a big part of it. We also strive to be a great partner to our vendors and create a strong and long-term local food system.

\$1,437,937

in purchases of locally produced products

Some local items we added this year:



Red Hawk Farms Boxed Greens

Red Hawk Farm (formerly Piedmont Bio-farms) has increased their focus on year-round production of lettuce and greens. Their beautiful baby salad greens are raised without pesticides, and delivered fresh every week. We also featured their heirloom tomatoes, eggplant, and peppers all summer.



Carolina Farmhouse Yogurt

North Carolina's first local yogurt maker! This family-owned farm raises Jersey cows and uses their delicious milk to make six flavors of yogurt, plus two flavors of kefir. Durham Co-op promised to sell the products even before they were being produced, which helped secure their final financing and get the business open.



Locals Seafood

We are proud to be able to sell gorgeous, responsibly caught, incredibly fresh seafood. Locals has built a business around these values, and has put a spotlight on the pressing challenges around jobs and environmental sustainability in North Carolina fisheries.



JCC Challah

DCM is the only retail outlet for this ridiculously good challah. Made fresh in time for Shabat every week, it has proven popular with all kinds of customers.



John stocking Locals Seafood in the new ice bins.

TESTIMONIAL

FROM JENNIFER CURTIS, CO-CEO FIRSTHAND FOODS

Durham Co-op Market's decision to exclusively partner with Firsthand Foods for its pork, beef and lamb supply has had an extremely important impact on our business — financially, strategically, and personally.

Financially — It is not a coincidence that the first month we began selling meats to DCM, we hit our break even point and became a profitable business. DCM is now our second largest customer in terms of revenues. Since DCM opened (March 2015), it has purchased \$212,322 worth of pasture-raised local meats, 75% of which went directly back to the farmers and processors in our supply chain, helping to support small-scale agricultural businesses across our state.

Strategically — We have successfully worked together to design a meat case that engages DCM shoppers, selling a wide variety of meat products, creatively telling our story, and providing promotional opportunities (e.g., in-store demo's, recipe cards, monthly sausage promotions). Our approach drew the attention of other co-ops, and we are pleased to now replicate aspects at other natural foods grocery stores, including Company Shops Market in Burlington, Deep Roots Market in Greensboro, and Chatham Marketplace in Pittsboro. This move to service retailers has allowed us to better balance and diversify our customer mix, which further strengthens our business model.



Personally — DCM will ALWAYS hold a special place in our hearts for being the first grocery store to believe in and commit to Firsthand Foods. Yes, its incredibly important that our partnership make sound financial sense. But it also satisfies an equally compelling need to belong to and be a part of our Durham community. Thank you for making this possible 365 days a year!

MEASURING OUR IMPACT

Did you know that your co-op is a Certified Benefit Corporation? B-Corps are for-profit business that are certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.

With so many businesses claiming to be green, worker friendly and community oriented these days, the B-Corp program provides a standard to measure those qualities, tell the story with facts and work to improve performance over time.

B-Corps are different from other sustainable businesses because they have been certified by B-Labs, a nonprofit organization that has created a set of credible, comprehensive, transparent, and independent standards of social and environmental performance that allow businesses

to assess their overall impact. These standards also create impact benchmarks that allow businesses to compare their performance to other businesses and their own past performance.

To be certified, companies are asked questions in four categories and given a score for each category based on their answers.

Governance: This category measures the extent to which a company has policies in place that curate a company culture that honors social and environmental values.

Workers: This category looks at worker treatment through the lens of pay, benefits, development opportunities, worker ownership, and worker engagement.

Community: This category evaluates the content of the company's community driven mission for specific aspects like purchasing policies, diversity, and community support.

Environment: This category measures environmental policy for aspects like energy efficiency, waste handling and transparency.

Certified



Corporation™

bcorporation.net

93

Our overall
B-Corp Rating

51

Average Rating
for ordinary
businesses

Community



As a co-op we seek to serve the community that built us in many ways. Sometimes that just means showing up. This year we pitched in on dozens of community events, offering food and drinks or just providing a place for people to get together. So many people in Durham work so hard to make this community so great. We are always glad to support these efforts wherever and whenever we can.

A Partial List of Organizations We Supported Last Year:

Burch Avenue Neighborhood Association
Beaver Queen Pageant
Bull City Vegan Challenge
Carolina Farm Stewardship Association
Center for Child & Family Health
Church World Service
Durham Community Land Trustees
Dress for Success
Duke Children's Choir
EK Powe Elementary School
Girls Rock NC
Habitat for Humanity
Head Start NC
Immaculate Conception

Inside Out
JCC Lerner School
Kids Voting Durham
Lyon Park Kitchen
Mallarme Chamber Orchestra
NCCU
Pauli Murray Project
Post-Adoption Services
Student Action with Farmworkers
Scrap Exchange
Shift NC
Swing Pal
Triangle Vegetarian Society
Walltown Inspiring Youth

NEIGHBOR DAY: GRILLED CHEESES FOR EVERYONE

Neighbor Day is a chance for us to invite our neighbors and all of Durham to celebrate good food, good tunes and good times.

This year, we hosted the Cabot Creamery Gratitude Grille. They cooked up over 400 free grilled cheese sandwiches and tomato soup shooters for Neighbor Day attendees.

We booked blues great Big Ron Turner through the Musicmakers Relief Foundation, who was joined by Steve Muñoz, our \$3 Dinner resident musician.

And Ben & Jerry's turned up to hand out free ice cream and encourage folks to vote.

This was our second Neighbor Day, which means we can officially call it an annual event. We'll see what we can do to top this one next year!



Neighbors line up for free ice cream while volunteers register folks to vote and enjoy a sunny, music-filled Neighbor Day.



Cabot—also a co-op—has become a great partner in providing top quality food at enviable prices to our customers. This year, we added over a dozen of their dairy products to our Co-op Basics list, including their delicious cheeses and yogurts.



Big Ron Turner playing the blues



Steve Muñoz got a surprise duo from an enthusiastic audience member

\$3 DINNERS

Every Thursday between four and six hundred people descend on the co-op for what has quickly become a Durham institution. \$3 dinners are simple, hearty, and welcoming, and they embody everything this co-op is all about.

When we started \$3 dinners in February, we based it on a simple idea: everybody eats. Turns out we were right — \$3 dinners have brought the community together, provided a place to have fun, see friends, listen to music, and share good, delicious food.

For many of our guests, this was their first introduction to the co-op. Dozens of people have become regular visitors, customers, and owners because of their experiences on Thursday nights.



9,587

\$3 Dinners Served

**Most Requested:
Baked Potatoes**

**Biggest Turnout:
BBQ Sandwiches**



Recently on Instagram...

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rdubaton
Durham Co-op Market Follow

224 likes 4d

rdubaton I'm gonna let y'all in on one of the best deals in Durham: \$3 Thursday night dinners at the @durhamcoopmarket. Three.dollars. Tonight was a warmA bowl of chicken chowder and cornbread washed down with local beverages @drinkmati and @bullcityciderworks (along with live music). I'm not a member of the Co-op but I fully support their commitment to local foods and supporting the community with events like these. (Photo by @jenniroja) #eatlocal #drinkthebull jlpitney @svgardner1024 we should go! dontsaysomuch@erinsobright I wanna go here #girldate abitofchi Love the DCM and the \$3 dinners. jenny_crosson @dytryden dude we're going to this bullcityciderworks Thanks for the shout out dude



Upcoming Menu:

11/10 - Loaded Baked Potatoes
11/17 - Meaty Baked Ziti or
Vegan Baked Ziti with a Side Salad

Staff & the Workplace



PAY & BENEFITS

Our staff is our biggest asset and we are proud of the diversity of talent and skills we all bring to the co-op.

As a brand new business in a changing and uncertain marketplace, we have significant challenges to face in balancing the value we place on the dedicated work of our staff and the amount of money we can afford to pay for that work. We have not yet met all our goals in this area, but we are taking strong, measurable strides towards them.

We are in conversation with the Durham Living Wage Project and are actively engaged in the National Co-op Grocers Living Wage Assessment. Ultimately, we seek to create a wage standard that provides adequate compensation for all our employees while factoring in our particular circumstances, including our benefits package, bonus program, and employee discount.

This year, better than anticipated sales enabled us to make significant progress. On our first anniversary we raised our base wage to \$10/hr. and gave a 4% cost of living adjustment to all employees.

Over the summer we added a retirement benefit and short term disability coverage which also covers maternity leave.

Over 70% of our staff is full-time (over 30 hours) and eligible for a growing package of benefits:

- 15% employee discount – 25% for Food-For- All owner employees
- Health care stipend
- Paid-time off
- Short-term disability insurance, which can serve during maternity leave
- SIMPLE IRA with 3% employer match
- Access to our partners at Community Empowerment Fund who offer financial coaching, savings through Self-Help Credit Union, and other financial goal programs

One of the benefits of being a co-op is that adequate worker compensation can be a top priority. And, as our co-op becomes more financially successful and stable, we will continue to improve pay and benefits for our staff.

\$12.42

Average Hourly Wage

Including Health Care Stipend

49

Total # of Workers (6/30/16)

70%

of Staff Full Time

OPEN BOOK MANAGEMENT

Open Book Management is a program that makes the financial data of a business available and accessible to any and all of its employees.

Every week, we hold open staff meetings where we discuss our financial successes, potential shortcomings, and growing points as a whole store. We review all of our numbers as a team and receive input from all levels of staff.

At these meetings, which we call “The Bullpen” we review sales by department, the cost of labor, and the cost of goods. We talk about trends we are seeing, customer comments, and new products. Each department opens up to feedback

from the whole staff. People pitch ideas for cross-department collaboration and marketing. We tell each other stories of how we made customers happy and ask for advice about things that didn’t go well. And we cheer each other on.

The principles of Open Book Management teach us that “the knowledge is in the room” and we do not take this lightly. By employing OBM at Durham Co-op, we are actively placing trust and confidence in our entire staff — we understand the numbers, we have the



Shawn enters weekly sales data on the big board

ability to affect them, and we have great ideas. The only way we can succeed is together.

TRAINING BADGES PROGRAM



Did we mention that our staff is our biggest asset? We are dedicated to building a diverse and equitable work culture at the co-op, where every member of staff has a pathway to professional success available to them.

In hiring prioritize attitude and aptitude over previous experience whenever possible. If someone is eager to work here, committed to the neighborhood, and open to learning new things, we want them on staff.

This strategy has made training a top priority. Our staff’s skills are so varied that standard training methods seemed too clunky. If we created trainings to meet the needs of our least experienced staff members, we would be wasting the time

of our seasoned veterans. If we catered only to the most experienced, we would defeat our own hiring intentions.

We decided that the best way to achieve all our goals was a training program that is given in small chunks, which we call badges. Instead of sending employees to long, all-encompassing trainings, we split the essential job functions into short, achievable, and hopefully fun learning sessions.

Badges create equity. At its core, valuing equity means creating fair access to success. As a training program, badges are living example of that principle. Employees bring all different skills and experiences with them to the co-op. Badges help them build on what they already know, and help them rise above the required and excel in their development.

Badges are efficient. They concentrate resources where they need to be. By separating the essential skills, more experienced employees don’t have to spend too much time on things they already know. Conversely, employees that need extra time and attention are able to receive it.

Badges create a documented path of accomplishment. We want acquired skills to benefit our staff while they work here, and also if they choose to move on. By documenting the skills they have mastered, we offer staff portable evidence to reflect their accomplishments. This record helps ensure fair assessments when it is time to consider promotions or compensation changes, and it can help with future applications for employment.

Badges involve everyone in the process. We know that the best solutions come from the people doing the work. By putting our heads together, we can share what we learn, offer support, refine ideas and processes, identify problems, and collaborate on solutions. All staff can contribute to the process, by discussing and articulating what it takes to do their jobs with excellence. We are still new, and still have lots of building and learning to do. Badges help us take advantage of all our staff’s knowledge and perspectives as we set standards for ourselves and hold ourselves accountable to them.

Badges are fun! We get to show them off, and fool around with them, and why not?

DIVERSITY & EQUITY ON STAFF

We opened our co-op in a neighborhood that is both racially and economically diverse. We want our co-op to be as diverse as our neighborhood: customers, owners, and staff.

The previous Durham Food Co-op, which was just a block away from our current location, struggled to connect with the surrounding community, which contributed to its demise.

We have worked hard to make sure that our co-op reflects and attracts our whole community. These efforts have already paid dividends, and the store has beaten every sales and performance projection we set prior to opening our doors.

We hired a terrific staff, more than half of whom live within a mile of the store. Well over half of our staff are people of color. We represent a full spectrum of religious beliefs, gender identities, and political leanings. Our staff brings a tremendous breadth of perspective, knowledge, and community connection to our store. That said, the variety of personal histories, experiences, and communi-

cation styles found among our staff and customers have also created challenging situations, and we have worked hard to meet those challenges. And there is still plenty of room for us to grow as a community within the store.

As part of our effort to maintain and build on the strong base we have already put in place, we hired a team of consultants from Open Source Leadership, led by Gita Gulati-Partee, to devise and support a program to build a strong equitable work culture, increasing both our level of cultural competency and our ability to manage equity issues productively and positively.

We are committed to making Durham Co-op Market a place where all staff feels they are supported, respected, and encouraged to offer their best so that the jobs we have created continue to positively impact the lives of the staff and the health and success of the Co-op.

After a store-wide assessment process, involving interviews with all members of staff, Gita and her team recommended

that we focus on:

- Building up our cultural competency at the management level
- Increasing communication and engagement about store information and decision making for all levels of staff
- Building robust, equitable, and transparent systems and policies for training, evaluating, compensating, and disciplining all staff

In response to this report, we have engaged in multiple levels of culture building and training, and embarked on a process to evaluate all our staff policies, training systems, and compensation structures with an equity lens.

These efforts have taken, and will continue to take energy, openness, and dedication from all levels of staff. But the value we expect to return is far greater than the input. We are striving to become the co-op of the future, rooted in our community—built by, supported by, and supporting our neighbors.



Financial Report

At last year's annual meeting, we said that financial stability depended on getting our weekly sales above \$100K, yielding positive cash flow and EBITDA (earnings before interest, depreciation, taxes and patronage.)

We started the summer of 2015 running an average \$80,000 in sales/week and ended the fiscal year averaging \$110,000, with a high sales week of \$135,400! At \$5M in annual sales for FY 2016 (Year one), we exceeded our budget sales goal of \$4.2M, which was already 30% over our original pre-opening pro-forma.

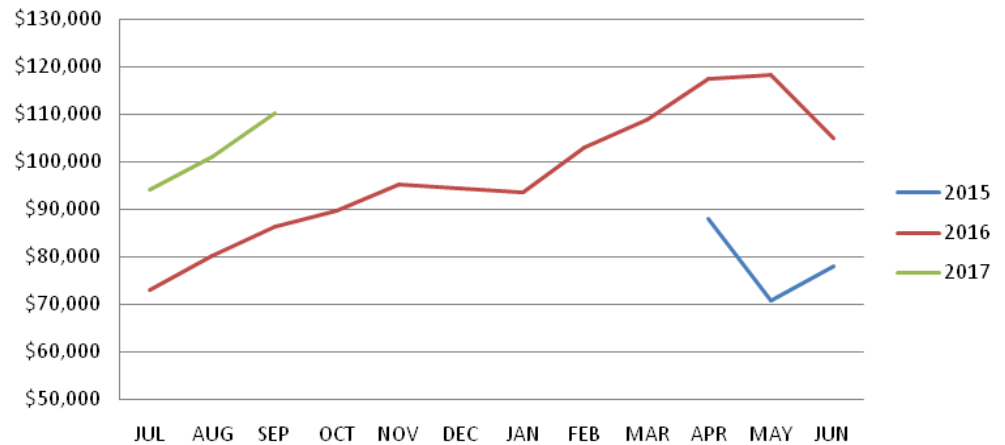
This sales volume, as well as increased ownership, created the cash flow needed to increase our base wage and pay off the community investment notes that came due over the summer. For the current year, we have again increased projections, predicting a 20% growth in sales. While ambitious for a start-up in the co-op grocery industry, this is still somewhat conservative for our current trends.

Continued growth will allow us to further increase our employee benefits and maintain and improve our physical space. Higher volume of sales help us reduce shrink, increase productivity, and lower prices. Good numbers also help to fund our investment in personnel development as outlined elsewhere in this annual report.

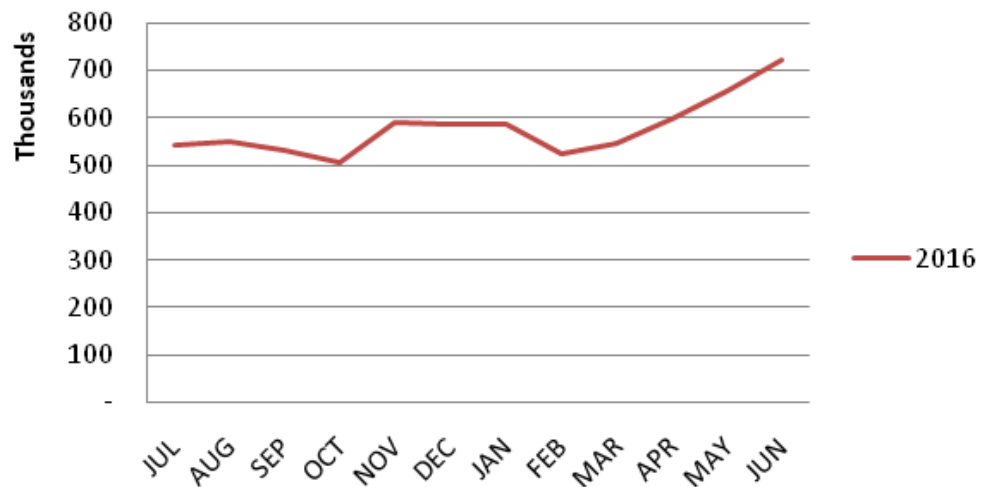
With projects like Open Book Management, exploring lower-rate financing, and an eventual conversion to perpetual inventory and more automated account processing, we are honing in on our spending and margins such that positive EBITDA (and consumer and worker dividends) are likely to be achievable much sooner than the originally projected five years.

We probably don't have to mention that it's just more fun to be working in an environment of positive sales growth, so many heartfelt thanks to our owners and community for your patronage and support.

Weekly Sales

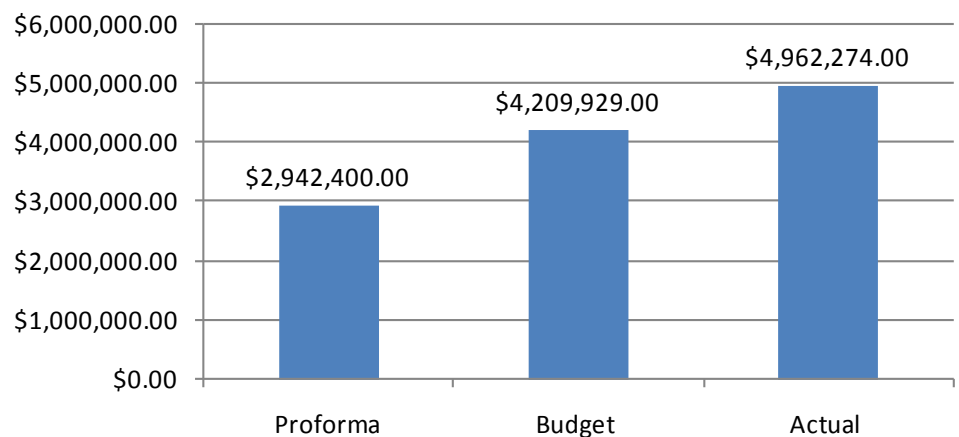


Cash Position



Sales: Fiscal Year 2016

7/1/15 - 6/30/16



Durham Co-op Market, Inc.
INCOME SUMMARY
June 28, 2015 - June 25, 2016

Total Sales	4,977,645	98.5%
Total Member and Other Discounts	72,775	1.4%
Total Income	5,054,866	100.00%
Cost of Goods Sold	3,397,139	67.2%
Gross Profit	1,657,727	32.8%
Expenses		
Personnel Expenses	1,034,356	20.5%
Other Operations Expenses	413,620	8.2%
Total Operating Expense	1,558,169	30.8%
Net Ordinary Income	99,558	2.0%
Other Income/Expense		
Depreciation Expense	110,193	2.2%
Interest Expense	80,219	1.6%
Taxes	2,582	0.1%
Net Income	(93,436)	-1.8%

Durham Co-op Market Inc.
BALANCE SHEET
June 25, 2016

ASSETS		
Current Assets		
Cash and cash equivalents	639,103	
Accounts Receivable	17,357	
Grocery Inventory	105,689	
Deli Inventory	21,158	
Produce/Meat Inventory	23,560	
Beer/Wine Inventory	20,242	
Wellness Inventory	75,729	
Other Current Assets	3,800	
Total Current Assets		906,638
Leasehold Improvements	652,666	
Furniture and Equipment	697,230	
Accumulated Depreciation	(137,130)	
Total Fixed Assets		1,212,766
Total Other Assets		112,685
TOTAL ASSETS		2,232,089
LIABILITIES & EQUITY		
Liabilities		
Total Current Liabilities		199,551
Total Long Term Liabilities		2,287,565
Total Liabilities		2,487,117
Total Equity		(255,028)
TOTAL LIABILITIES & EQUITY		2,232,089

Current Ratio = 4.54

Debt/Equity = -9.75