Draft Minutes

True Food Co-op
Members meeting 21st January 2014, Grove Road Shop

Present:
Chris Aldridge, Myriam Allamel, Susan Arstall, Helga Bogisch-Francis, Anne Booth, Silvia Bragaglia-Pike, Janet Breeze, Brendan Caulfield James, Alan Clark, Richard Cocks, Doug Cresswell, Christyn Davies, Freya Dean, Charlie Dormer, Sunil Gandhi, Tobias Gibbons, Margaret Goddard, Rebecca Green, Shane Gunning, John Hammond, Paul Harper, Caroline Hearst, Christian Heitsch, Sian Hooley, Annette Horniblow, John Horniblow, Catherine Hughes, Peter King, Jerry Lunn, Martin Martinez, Kathryn McCann, Bianca McHale, Ciaran McHale, Hazel Murphy, Gavin Parker, Judith Petersen, Beth Scott, Rupert Shute, Martin Stone, Sylvette Thompson, Beth Timms, Helen Warren, Helen Wright,

1.0 Presentations

Rupert Shute (committee chair) started by pointing out that when a company is trading whilst insolvent (TFC is currently balance sheet insolvent, but cash flow solvent) company directors (in our case the committee) have a legal duty to show that they are acting in the best interests of the company's creditors. If they fail to do this, then they risk becoming personally liable for TFC's debts, under the offence of “wrongful trading”.

He then introduced the committee proposal for moving True Food into profitability
– Move from 3 to 1 market a week at Wycliffe Church where goods can be stored so that we no longer need to run the truck.
- Saving on staff costs
- raising prices on loose goods. The proposal is given at the end of these minutes (appendix A)

1.2 Myriam Allamel (member) talked about how she has been working with staff and the committee looking at the effects of rising prices, reducing costs by looking at better ways of working and more deals with suppliers. She also talked about increasing customers and asked all present to take leaflets and distribute them to their neighbours.

1.3 Richard Cocks (member) presented an alternative to the committee proposal. The proposal is given at the end of these minutes (appendix B). He said that the most important gains in the committee proposal come from increasing the prices and Richard presented figures showing that keeping all three markets helped to cover overheads and would result in a larger profit than closing two.

2.0 Contributions from the floor

2.1 Beth Timms asked if people would be put off shopping if prices went up. Rupert replied that this was an unknown we would need to increase footfall to counteract this risk.

2.2 Paul Harper asked why we don't just put up prices and leave the markets. If this increase would make an extra £50,000 as indicated in the proposal that would wipe out the

deficit. Rupert said that the £50,000 figure is unsure and in the past we haven't been able to meet target margins. If we are operating more tightly we will have time to look at buying cheaper or direct from wholesalers.

2.3 Jerry Lunn asked if Richard's figures included the cost of keeping the truck. Richard confirmed they did.

2.4 Sunil Gandhi asked if we would still get our discount from our main supplier if we reduced the amount we were buying after closing two markets. Rupert replied that we would as we had had the same discount when the amount we were buying was much lower than it is now.

2.5 John Hammond pointed out that if ex-market customers came to the shop we would need more help at the shop to handle the extra work. Rupert agreed but said that we can handle customers more efficiently at the shop as we don't have the extra work of getting the goods to market.

2.6 Robin Smith asked how much a new truck would cost if we were still running markets and needed to replace the old one. Rupert replied that when this was looked at previously a budget of £30,000 was used although it might be possible to find a cheaper second hand one. Leasing was not a viable option because of our low usage.

2.7 Ciaran McHale said that the benefit of Richard's proposal was the additional £5,400 in profit. The benefit of the committee proposal was that it eliminated the risk of the truck. If some helpers from the markets transferred to the shop there would be a chance to increase the efficiency of the shop.

2.8 Paul Harper said that apportioning 50% of overheads to the shop and 50% to markets as the committee proposal does when looking at relative efficiency does not make sense. Possibly apportioning them by the proportion of takings would be fairer. The shop doesn't make as much per staff hour as Unicorn Grocery and this figure would be worse if more overheads were allocated to the shop.

2.9 Gavin Parker pointed out that the shop is also our warehouse. The rental cost of the old warehouse was similar to our rent now. He also said that part of the committee proposal is looking at shrinking back before growing later.

2.10 Gabby Watts said that she felt general members had not been kept fully informed of the situation and she didn't feel comfortable voting and asked if it would be better to go away and get more people to come forward to help. Rupert replied that communication was always a challenge but minutes are published. Helen Warren said they were sent out with the weekly emails but Gabby said she hadn't received them. Rupert said that the legal position of the company directors (committee) meant that we needed to take some creditable steps to reduce our loses.

2.11 Gabby asked if it would be possible to ask people with loan stock to take a delay in repayment. Rupert replied that this may be necessary but was not a permanent way out of our problems.

2.12 Kathryn McCann asked how cutting two markets would reduce costs wouldn't it just free up Chris as markets manager to do more work in the shop? Rupert replied that a clear part of the committee proposal is that we would be reducing staff hours (our biggest

overhead). Sunil asked if Chris currently spent any time working on shop tasks. Chris Aldridge replied that he did a few hours a week covering for shop manager breaks and also worked as transport manager and on EPOS (the till system) he felt that this work was not reflected in the proposal. Helen Warren (business manager) pointed out that shop managers look after the premises for example opening and closing and sorting out rubbish that benefits the market side of the business as well as the shop.

2.13 Margaret Cocks asked if we get rid of the lorry is there actually enough room at Wycliffe Church to store everything. Rupert said there was with a possible fall back that the truck could be converted to static storage and left in their car park. Sian Hooley said that Wycliffe have committed to a six month trial. Rupert pointed out that the proposed solution is not flawless there are problems with security for example but it is a middle ground between closing all the markets and keeping them all going.

2.14 Hazel Murphy said that members had been told at the last AGM that the situation was bad and there was an action to produce a list of solutions. Since then there had been only one set of minutes published (for the November meeting). Helen Warren said that an action plan had been produced. Problems with publishing minutes were down to their being no-one available for secretarial services for the committee.

2.15 Brendan Caulfield James said that we were missing the heart element in the discussions. He is not interested in just being a shop the community element is important, people come because their heart is in it.

2.16 A comment from the floor that the committee proposal stated that the way the business is run is important not just increasing sales.

2.17 Cathy Hughes asked if the market venue at Trinity Church could also be used to store goods between markets. Rupert said that he had asked but they don't have the storage.

2.18 Cathy asked what effect increasing prices might have. Judith Petersen (shop manager) replied that prices on loose goods are more than highly competitive. Some loose goods are 60% of the price for organic at Waitrose, in some cases they are cheaper than non-organic prices at Tescos. Helen Warren said that pricing issues are tricky. There was a reduction in meat sales following a recent price rise. Martin Martinez suggested we could offer a discount for bulk buying. Rupert said that perception of price is very important and offering selective discounts may draw people's attention to prices it might be better to put them up but advertise the fact that they are cheaper than competitors.

2.19 Beth Timms asked if we want to buy in bulk from suppliers and we need to collect from them does that mean we would still need the truck. Rupert replied that it would be possible with the transit van and trailer. She also suggested we could produce some cards to give to customers saying something along the lines of "use it or lose it"

2.20 Caroline Hearst asked what would happen if members vote against what the committee thinks is the best way forward. Rupert said that directors are legally responsible and if there was no credible plan they would have to close the business.

2.21 Charlie Dormer pointed out that everyone here tonight was physically able to get to the shop there may be others who may not be able to.

2.22 Chris Aldridge (Markets manager) said that we have lost sight of what it means to be a community enterprise. We lost this in 2013. The management committee has gone wrong and whatever business decision is made True Food will probably still end up being wound up. He suggested we dispense with the management committee. If we take away two markets we are taking about 1000 people in Reading out of True Food who won't then be able to eat our food. We would be removing a chunk of our objectives to bring affordable food to people in Reading. There was a massive change in staffing in 2012 when we lost a skilled worker who did 1.5 to 2 people's work and bought in new people with little or no retail experience and with no training budget.

Rupert agreed that Jo's departure was a big event for True Food. She was covering cracks by working long hours which was not sustainable for her or for True Food. Rupert said that skilled staff did come in and significant resources have been used in training them and they have on the job experience. We have a financial problem now and if we had dealt better with it we would be able to be more affordable.

2.23 Gabby said that she supports talk of community enterprise. We won the Food and Farming award because of the markets not the shop.

2.24 Chris suggested that if we dispensed with the management committee instead we should involve the whole membership as project workers. Not split into shop and markets but projects e.g. people to go into schools or get involved with the local groups in Reading that we all belong to. Rupert says that he has heard all this before and bought into it when he first stepped up and became chair. He now feels it is naïve to be talking about these things when the real question is whether True Food is going to exist at all.

2.25 Paul said that he sympathized with the talk about community but we are where we are and if we are not making money we need to do something about it. Both proposals are reliant and sensitive to an overall average price increase of 10%. The proposal to keep all markets gives more financial wriggle room but has the risk of the lorry. Sales to staff hours are low and this needs to be addressed. We need some professional appraisal to help pull this apart. We should make the price increases and then come back together in three months to review where we are.

2.26 Gabby said that we don't need to do more than break even. Rupert said we need to build up a reserves.

2.27 Peter King said that the model of running markets is not sustainable the best way forward is to get rid of all markets. He is concerned that the whole business will go under. He has volunteered at markets for many years and it is very hard work. Richard commented that if we do away with markets entirely we would lose money. Chris said that markets used to take three hours to set up and this was transformed when Rupert had the creative idea of the trolleys, this shows the creativity available in an active membership.

2.28 Silvia Bragaglia-Pike (membership secretary) feels that there is not much of a sense of ownership among the wider membership. We should look at the membership scheme and think about including a charter and an obligation to make a contribution.

2.29 Doug Cresswell congratulated staff, helpers and committee on increasing takings through a recession.

2.30 Caroline said that all the objectives in the committee proposal were in terms of business not our mission to provide affordable ethical food to Reading. A shop in a wealthy part of Reading is very different to our aim of providing affordable food to the people of Reading.

2.31 Annette Horniblow suggested a model where anyone could shop at the shop but you had to contribute by helping at the market to be able to shop there.

2.32 Doug said that it is very difficult to make a decision without all the information so he has decided it is best to go with the view of the people most closely involved.

2.33 Rupert asked if we should pull back to running just the shop. Paul said that this would mean serious redundancies.

2.34 Alan Clark asked if we could ask loan stock holders to transfer their loan to a donation would this help? Rupert said the loan stock had been squandered on maintaining the status quo, it should have been used to expand. A comment from the floor asked what was going to happen about the bad management. Rupert replied that ultimately members can take a vote of no confidence in the committee and replace them.

2.35 Hazel asked how the process of cutting staff hours would be carried out. Rupert said that it would be in line with best practice guidance. He would like to include some people from the wider membership in the process to ensure transparency.

2.36 Rupert suggested voting on stopping all the markets but the general feeling of the meeting was that we should stick to the proposals discussed.

3.0 Voting

3.1 We voted separately on the committee and alternative proposals

The committee proposal(keeping one market, putting up some prices) was proposed by Rupert Shute and seconded by Martin Stone
Those for committee proposal 25
Those against 8
Abstentions 9

The alternative proposal(keeping all markets but still putting up prices) was proposed by Richard Cocks and seconded by Brendan Caulfield James
Those for the alternative proposal 17
Those against 14
Abstentions 13

3.2 As this meant both motions were passed we then had a vote directly for each proposal

Those for committee proposal 23
Those for alternative proposal 18
Abstentions 5

The committee proposal was therefore agreed.

Appendix A

Proposal to Members

Provided in advance of members meeting to be held 21st January 2014

1. Authors

In producing this proposal, input was sought from a wide array of individuals to ensure that a balanced view could be taken on genuinely viable ways forward. These individuals ranged from original founder members of True Food Co-op (TFC), current committee, staff and Helpers all the way to very new members and non-members.
On 7th January 2014, the following core group met with the aim to distil the information gathered into a viable proposal to take to the members' meeting on 21st January 2014:
Myriam Allamel: Relatively new member, with extensive retail strategy experience
Rebecca Green: TFC buyer and long standing member
Jerry Lunn: Long standing Committee member
Prof. Gavin Parker: Long standing Committee member
Judith Petersen: TFC shop manager and newer member
Rupert Shute: Long standing Committee member and Chairman
Helen Warren: TFC business manager and long standing member
Sarah Weeks: TFC finance manager, new to the role and relatively new member
Helen Wright: TFC Shop manager and long standing member
Contributors not present at the meeting:
Freya Dean: Long standing member, relatively new Committee member
Kumari Samarasinghe: Committee member and Treasurer

2. Context

In recent years many adjustments and efficiencies have been implemented. However, TFC has been consistently struggling to find a model that breaks out from the cycle of increasing income incurring costs which match or outweigh those income gains. This proposal represents a concerted effort to address this issue that has only been sustained because of TFC successfully winning grant monies. Clearly this cannot continue.
As such the proposal set out below has been the product of significant reflection about how to ensure the survival of TFC and involves achieving four objectives.

3. Objectives

1. To reduce the human effort (staff and Helpers) required to operate TFC
2. To reduce the fixed costs of running TFC
3. To increase the amount TFC makes on sales (gross profit)
4. To maintain the current turnover of £500,000

If all these objectives can be achieved TFC will be in a position to do the following:
1. Continue to exist in the short and medium term and prosper in the long term
2. To reward staff and active members for the part they have played in achieving this
3. To consider opening a shop South of the River Thames to complement the current shop in Emmer Green

4. The Proposal

NB. All calculations are based on 2013 accounts to November, with December figures taken as the average for the year.

Meeting Objective 1 – Reducing human effort

i) Helpers. Are we making the best use of their time? We have a lot of avid Helpers who give their time to TFC. Are we making the best use of this low cost labour? Helpers and the Markets currently (each week): - We ask for 43 hours of Helpers (this includes people helping prepare for the markets at the shop) - With this we are able to trade for 9 hours per week - This means that every hour of trade needs 4.8 hours of Helpers - Each Helper hour generates £80.00 in sales (takings/Helper hours) Helpers and the Shop currently (each week) - We ask for 67.5 hours of Helpers* - With this we are able to trade for 41 hours per week - This means that every hour of trade needs 1.6 hours of Helpers - Each Helper hour generates £95.00 of sales (takings/Helper hours)

***In practice the Shop manages to operate with significantly fewer Helper hours than requested.**

ii) Staff are our biggest fixed overhead. Are we making the best use of their time?
To run our current 3 markets also takes 33 hours of paid staff time. This includes preparing for the markets when Helpers are not available.
For these calculations, the roles of finance manager (20 hours), business manager (20 hours) and buyer (40 hours) are shared 50:50 between the shop and the markets as they each depend on these roles in a roughly equal amount. Even though the takings between each vary considerably, the tasks take a similar amount of time, regardless of the quantities being handled. For example collating and placing orders, producing month-end accounts and managing staff recruitment, are tasks that all take a similar amount of effort were they to be done just for the shop, just for the markets or for both.
Staff and the Markets currently (each week): - 13 hours are spent preparing for the markets
- 18 hours are spent running the markets
- 40 hours, share of buyer, finance and business manager
- Total 71 hours
- With this we are able to trade for 9 hours per week - This means that every hour of trade needs 7.9 hours of staff - Each Staff hour generates £48.00 sales (takings/staff hours) Staff and the Shop currently (Each week): - 50 hours running the shop
- 40 hours, share of buyer, finance and business manager
- Total 90 hours
- With this we are able to trade for 41 hours per week - This means that every hour of trade needs 2.2 hours of staff - Each staff hour generates £71.00 of sales (takings/staff hours)

iii) Combining the staff and Helper hours to form a full picture of the business in two halves (markets and shop):

The Markets (each week):
- 114 person hours
- 12.7 person hours per hour of trade
- £30.00 of sales per person hour

The Shop (each week):
- 157 person hours
- 3.8 person hours per hour of trade
- £40.00 of sales per person hour

For comparison, the Unicorn Grocery Co-op in Manchester aims for £49-£51 of sales/person hour. In their own words "an efficient operation without overworking staff". (www.unicorn-grocery.co.uk)

From these figures we can see that neither the shop nor the markets are making efficient use of time (staff and Helpers combined) when compared to Unicorn Grocery. That said, the shop is significantly better, generating 33% more sales/person hour and requiring 28% of the person hours for each trading hour.

Note the above calculations need to be qualified with:

1. This is the level of help we request, not the level we get. The shop certainly is not dependent on the level of human resources it requests, so is actually more efficient than these numbers indicate (although it would operate much better if it did fill its rotas).
2. The comparison with Unicorn Grocery is to illustrate the point that Unicorn have skilled staff covering core activities and fill gaps with casual labour (who are not members of their co-op). TFC has skilled staff and we fill gaps with Helpers, who are much lower cost than Unicorn's casual labour. So we should be doing at least as well as Unicorn in terms of efficiency.
3. The general point being made is that low cost labour used inefficiently becomes high cost labour; we are very much in this situation. Our Helpers are our biggest asset, consuming their time with operations that are inherently inefficient squanders this unique asset. It also prevents the business from rewarding its Active members with higher discounts. The more efficiently TFC operates, the more it can offer its members in the way of discounts.

It is, however, very much recognised that the markets provide a service to those living South of the River Thames that the shop does not. Therefore the proposal prepared to meet Objective 1 is:

Meeting objective 1 cont. – Operate a single market located at Wycliffe Church, Cemetery Junction

- Permanent storage at the venue will be utilised to house unsold stock in the rollcages
- Only top-up stock (including perishables) will be transported to the market each week in the TFC transit van and trailer. This will be done in a single trip, and if top-up stock requirements are low, the trailer need not be used
- Perishables and loose foods containers (only those needing restocking) will be returned to the shop
- The shop has an entire week in which to utilise quiet periods to prepare for the following week's market

This innovation:
Requires 29 hours/wk less of Helpers
Requires 28 hours/wk less of staff hours as a cost saving (see below)
Total saved: 57 people hours/wk

5. Meeting objective 2 – Reducing fixed costs

- There will no longer be a need to transport large quantities of unsold stock in the truck
- This will enable the truck to be sold, saving £7,500/pa operating costs
- Only one venue hire fee, this produces a saving of £4,800/pa
- The running costs of the transit van including fuel will be no greater than £1,500/pa

Saving £10,800/pa

- Reduce paid staffing by 28 hours/wk

Saving £14,000/pa

Total saving £24,800/pa

There may be some small capital expenditures required to ensure efficient and safe loading/unloading of the transit van and trailer, as well as the need to install a tow bar on the van. It is envisaged that this expenditure will be met by the revenue generated from the sale (or scrap value) of the truck.

Note on risk mitigation:

Cost savings aside, the continued operation of TFC's truck presents a significant risk to the business. A sudden mechanical failure, accident or unavailability of a qualified driver would render TFC unable to run any markets, immediately. It is highly unlikely that the business would be able survive a sudden shock of this magnitude. Therefore it makes good business sense to manage this risk out of TFC in a controlled manner.

In addition to this, the truck needs to have a registered commercial parking space, it cannot be parked anywhere we choose. Currently TFC has usage of a parking space free of charge, but this will soon be coming to an end. It is likely we will have to rent a parking space (cost unknown), thus further increasing operating costs associated with the markets.

Driving a truck commercially requires a C1 category driving licence and continuous driver refresh training, both of which present a significant ongoing expense. Training a new driver (which TFC has had to do) costs in the region of £2,000. We reduce the cost of the continued training by piggybacking on the commercial driver training courses used by Infinity Foods (www.infinityfoods.co.uk), but this may not always be available.

Conversely, operating a transit van and trailer widens the pool of potential drivers, presents low cost leasing opportunities if the TFC van becomes unavailable for any reason and does not require a registered HGV parking space.

6. Meeting objective 3 – Increase gross profit margin

TFC staff and key Helpers have identified significant pricing issues regarding the Loose Goods range. There are some products that TFC is significantly undercharging on and there are others that need to be priced a little lower to remain competitive.

At the time of writing this proposal, the detailed analysis of TFC's sales data is being conducted and will continue in January. A conservative estimate suggests that being 'smarter' about how TFC's prices are compared and adjusted against the major supermarkets is likely to bring an additional £50,000 of gross profit into TFC. The detailed analysis will be presented at the members meeting.

Generating £50,000/pa (provisional figure)**

**It must be borne in mind that this figure, though conservative, is based upon takings generated by all the current outlets, i.e. a £500,000 turnover.

7. Meeting objective 4 – Maintaining current turnover

Closing operations at two markets and retaining a significant (but realistic) portion of the customer base is key to this proposal working. It is what will tip the ratio between our income and costs such that they balance. It is an objective that is entirely achievable if each of our members play their part and continue to shop with TFC. If they can bring one or two new customers to the business then so much the better. It really is a case of people power making this happen.

8. How will TFC look if this proposal works?

- Total sales for 2014 £500,000 (same as 2013)
- Gross profit (assume 23.5% margin, same as 2013) £117,500

Costs:

Total overheads 2013: £164,000
Total savings: £24,800
Total overheads 2014: £139,200
Income:
Total from sales (not adjusted): £117,500
Total from price adjustments: £50,000
Total Gross Profit 2014: £167,500
Net profit 2014: £28,300
Hours (Shop and single market):
133 staff hours
81 Helpers hours
214 person hours in total
Business efficiency
44 hours of trade (41 at shop, 3 at market)
4.8 person hours per hour of trade
£46.00 of sales per person hour
As can be seen, this is a very significant improvement on past and current performance. It will bring TFC's operational efficiency much closer to that of Unicorn Grocery, whilst still maintaining TFC's presence South of the River Thames.

9. What if TFC fails to maintain a £500,000 turnover?

A change of this magnitude will have the potential to significantly impact the takings of the business as a whole. For the purpose of assessing the viability of this proposal the following assumptions were made:
- 10% of trade from the Trinity Church will be retained = £3,500 sales/pa
- 30% of trade from the Wesley Church will be retained = £18,000 sales/pa
- The Wycliffe Market's base trade will remain the same = £62,000 sales/pa
- The shop's base trade will remain the same = £320,000 sales/pa
- Total sales for 2014 = £403,500
- Gross profit (assume 23.5% margin, same as 2013) = £95,000

Costs:
Total overheads 2013: £164,000
Total savings: £24,800
Total overheads 2014: £139,200
Income:
Total from sales (not adjusted): £95,000
Total from price adjustments: £45,000
Total Gross Profit 2014: £140,000
Net profit 2014: £800
Hours (Shop and single market):
133 staff hours
81 Helpers hours
214 person hours in total
Business efficiency
44 hours of trade (41 at shop, 3 at market)
4.8 person hours per hour of trade
£38.00 of sales per person hour

This shows that there is some tolerance for loss of sales in the process of closing two markets, however it demonstrates clearly that TFC needs to concentrate very hard on migrating the trade from the two closed markets to the one remaining venue and the shop (naturally this would include continuing to seek new customers and members as well).

10. What would success enable TFC to do?

- To survive and prosper
- Reward its Active Members with increased discounts
- Reward its staff with performance bonuses
- To consider opening a shop South of the River Thames. The Cemetery Junction market sits in a location with a high probability of a suitable retail unit being available; if this is a direction members wish to take TFC

11. What happens if this proposal fails?

It remains that TFC cannot continue in its current state. If maintaining a single market does not correct the situation, then following options will have to be enacted:

- Retreat to the Grove Road shop only
- Close TFC completely

12. Items not proposed

Extending shop trading hours

The shop's efficiency would be improved by extended opening hours (evenings and Sundays), however this goes against Objective 1 (reducing human effort needed to run TFC), so does not form part of this proposal. If TFC reaches a stable position, then this is a logical place to start growing the business again.

Closing all markets

It was felt that we need to retain as much of the market trade as possible and to do this, we need to maintain one venue South of the River Thames.

13. Longer term

There will be the need to rework our business plan and consider a number of options to grow TFC once we have stabilised our performance.

The TFC business plan as it currently stands is available upon request. It provides a wealth of background information that provides insight into the history leading to this proposal.

APPENDIX B

Truefood – The Proposal and an Alternative

Table 1 on the next page presents a summary of TrueFood's P&L accounts for the last two years (2013 is extrapolated from 11 months), together with calculations of the estimated changes arising from a number of measures to try to achieve viability. The latter is best indicated by the "net operating profit" on line 12.

This document provides a commentary on the scenarios, labelled A to F for convenience.

To examine whether the markets are a viable part of the business, Table 2 separates their contribution from that of the rest of the business. Note that only their additional overheads, itemised in Table 3, are included as all other overheads would be similar whether the markets existed or not. Note that when seen in this light the markets are a valuable component of the business; without them the 2013 losses would have been some £11,000 greater (line 3). Also, of course, they increase by 50% Truefood's non-financial objective of supporting ethical and organic production.

The Proposal

A. Stop two markets

This slashes market overheads from about £30K to only £4.6K (line10). But if all sales of the two markets are lost, gross profit also drops by about £26K (line 8) and the net operating profit is slightly reduced.

B. Assume some sales transfer to the remaining market

This is the scenario used in the proposal, with sales at the Wycliffe market increasing as some customers of the old markets continue to use Truefood. The net operating profit is improved by about £5.5K but is still -£38,549.

C. Increase prices by 10%

This transforms the situation and a small operating profit is achieved. The margin[1] is now 30.3% rather than 2013's 23.3% and closer to what a small business would normally expect to require.

[1] Margin = (Sales-Purchases)/Sales.

An Alternative

D. Reduced Rent

Trinity Church have agreed to reduce the weekly hire charge from £66 to £30 per week. This results in an increase of £1,800 on the net operating profit.

E. Achieve target Mark-up

Whether due to failure to adequately adjust prices or to high wastage, the 2013 margin of 23.3% was below target, set at 26% in the Business Plan. If we had achieved the target, the net operating profit would have been about £18K higher. This factor was thus responsible

for most of the year's losses ("net profit after grants", line 14).

F. Increase prices by 10%
The 26% margin is not enough. This scenario reproduces the 30.3% margin of scenario C but with all three markets remaining. The net operating profit would be about £8K, some £5K higher than in C.

true food co-op

Table 1 Summary Profit and Loss

				The Proposal			An Alternative		
		2012	2013	Stop two markets	Assume some sales transfer	Increase prices by 10%	Reduced market rent	26% Margin	Increase prices by 10%
				A	B	C	D	E	F
	Sales								
1	Shop+Trade	311,612	326,937	326,937	326,937	359,631	326,937	338,873	359,631
2	Markets	170,115	170,725	60,000	83,500	91,850	170,725	176,958	187,798
3	Total	481,727	497,663	386,937	410,437	451,481	497,663	515,831	547,429
4	**Purchases**	360,950	381,715	296,787	314,812	314,812	381,715	381,715	381,715
5	**Gross Profit**	120,777	115,948	90,151	95,626	136,670	115,948	134,116	165,714
6	**Margin**	25.1%	23.3%	23.3%	23.3%	30.3%	23.3%	26.0%	30.3%
7	**Other income**	4,569	4,363	4,363	4,363	4,363	4,363	4,363	4,363
8	**Gross profit+other income**	125,346	120,311	94,513	99,988	141,032	120,311	138,479	170,077
	Overheads & room hire								
9	Shop & General	117,064	133,937	133,937	133,937	133,937	133,937	133,937	133,937
10	Markets	28,760	30,072	4,600	4,600	4,600	28,272	28,272	28,272
11	Total	145,824	164,009	138,537	138,537	138,537	162,209	162,209	162,209
12	**Net operating profit**	- 20,478	- 43,698	- 44,024	- 38,549	2,495	- 41,898	- 23,730	7,868
13	**Donations and grants**	33,563	19,063						
14	**Net profit after grants**	13,085	- 24,636						

Table 2 The Role of the Markets

				The Proposal			An Alternative		
		2012	2013	Stop two markets	Assume some sales transfer	Increase prices by 10%	Reduced rent	26% Margin	Increase prices by 10%
				A	B	C	D	E	F
	Performance without markets (excl. grants)								
1	Gross profit	78,127	76,172	76,172	76,172	108,865	76,172	88,107	108,865
2	Other income	4,569	4,363	4,363	4,363	4,363	4,363	4,363	4,363
3	Overheads	117,064	133,937	133,937	133,937	133,937	133,937	133,937	133,937
4	Net operating profit	- 34,369	- 53,403	- 53,403	- 53,403	- 20,709	- 53,403	- 41,468	- 20,709
	Performance of Markets (excl. grants)								
5	Gross profit	42,651	39,776	13,979	19,454	27,804	39,776	46,009	56,849
6	Market-specific Overheads	28,760	30,072	4,600	4,600	4,600	28,272	28,272	28,272
7	Net operating profit	13,891	9,705	9,379	14,854	23,204	11,505	17,737	28,577
8	**Donations and grants**	33,563	19,063						
9	**Net profit after grants**	13,085	- 24,636						

Table 3 Calculation of Market overheads

	2012	2013	The Proposal	Retain 3 markets
Van & van hire	8,217	7,380	1,500	7,380
Staff	15,500	15,500	1,500	15,500
Rent	5,043	7,191	1,600	5,391
Total	28,760	30,072	4,600	28,272

0118 946 1188 www.truefood.coop committee@truefood.coop @truefoodcoop

True Food Community Co-operative Ltd, 61 Grove Rd, Emmer Green, Reading, Berkshire, RG4 8LJ, UK
An Industrial & Provident Society Reg No: IP29874R VAT No: 874678856
Reg Office: 61 Grove Rd, Emmer Green, Reading, Berkshire, RG4 8LJ

The Impact of the Proposal on the Truefood Profit and Loss Account

I will try to demonstrate three things:

a. Truefood's problem is not the cost of operating the markets; it is the low prices we charge. The markets actually make an important contribution.

b. The proposal to close two markets and put up prices achieves roughly break-even. But Putting up prices by the same amount while keeping all three markets open would be £5,000 a year better.

There are lots of numbers but they are quite straightforward. If you're not following them it's my fault not yours. Tell me if I'm not explaining them well enough.

Table 1 goes through the full impact of the Proposal, and the impact of the alternative that keeps all three markets open. First, though, let's look at the current value of the markets.

- Table 2 shows that if the markets were not running we would be about £10,000 worse off, see line 7. (£9,705)

- Still on Table 2, move to the next column and look at the effect of closing two markets, getting rid of the van, and keeping a lot of the stock at the remaining market location. On line 6 the overheads drop by about £25,000 but the gross profit in the line above drops by about £26,000.

- But of course some customers would transfer from Wesley and Trinity, and the sales at Wycliffe would increase. There's obviously uncertainty around how much, but the next column shows the effect of the assumptions in the Proposal: gross profit on line 5 recovers by about £5,500 to £19,454. We can see the overall benefit of moving to one market on line 7: about £5,000, as the operating profit of the market(s) increases from last year's £9,705 to 14,854.

- So moving to one market looks like a good thing to do, but isn't nearly enough to improve our situation by the £44,000 required.

We need to raise prices by about 10% to break even. It's easiest to see how this happens in Table 1.

- The sales increase is shown in the first three rows.

- Line 6 shows the margin has increased to about 30%

- Line 8 shows that the gross profit and other income is now a little bigger than overheads, line 23, for the first time.

- The difference between them is the £2,495 net operating profit in line 12.

Let's look now at what would happen if we kept all three markets open.

- To start with we can make a small improvement on last year as Trinity Church has just reduced its hire charge by £1800. The effect of this is shown in column D. The only thing that

changes from the 2013 column is the overheads and the net operating profit, in the bottom three rows.

- Now the Business Plan has a target margin of 26% and column E looks at how things would have looked if we had achieved that in 2013. Net operating profit at the bottom of the table would improve by about £18,000. Clearly still not enough.

- So column F looks at increasing prices by the same 10% as in column C. The net operating profit is over £5,000 higher than in the proposal.

- So, to summarise, if we didn't increase our prices moving to one market would help. But only a bit. The big change needed is to increase our prices. When we do this, having all three markets is better than one because the extra profit from them would then more than outweigh the higher overheads. At the same time this would retain community involvement, support 25% more ethical and organic production and retain more potential for growth.

Modified Proposal:

- Increase prices to achieve an average margin of 30%.

- Encourage members to create local publicity committees committed to increase sales in all outlets

- Provide central support for local publicity