Retail Operations Survey 2002 Report

Invest in Success

BY PATRICIA CUMBIE AND THE DATA ANALYSIS TEAM*

If you don't think a grocery co-op could be synonymous with "cash cow," you may need to adjust your reading glasses before going any further. The financial data from 2002 indicate that cooperatives' position is viable and improving despite rigorous competition and marginal status in the grocery industry. But the news this year is even better than that: **co-ops are at a juncture that presents unique opportunities for growth and investment, and they have the resources to make it happen.**

The bottom line from 2002 is that co-ops made money and retained a significant amount of it in cash. In addition to a positive net from store operations, the sale of Blooming Prairie and merger of Northeast Cooperatives warehouses is providing a significant influx of cash that will affect 2003 balance sheets as well. Co-ops have the capacity to invest the cash and, combined, could leverage it for more investment in co-ops.

Further, grocery co-ops are collaborating at unprecedented levels regionally and nationally. But they have yet to succeed in capturing new markets or building many stores in communities that need and want co-ops. At the same time, natural food co-ops struggle with communicating their relevance to consumers as their product lines become more common in the greater marketplace.

Opportunities and challenges

This year's report attempts to interpret the data within a context of trends in growth and development among co-ops. To summarize, the following opportunities and challenges may make the current period a turning point in food co-op development:

- Stronger income statements, with increases in gross margin and net income;
- Strong cash position, with significant cash increase from net income and return warehouse sales;
- Growing regional and national cooperative infrastructure;
- Lack of new store development;
- Need to invest in fixed assets;
- Need to do better at reaching the emerging natural food consumer.

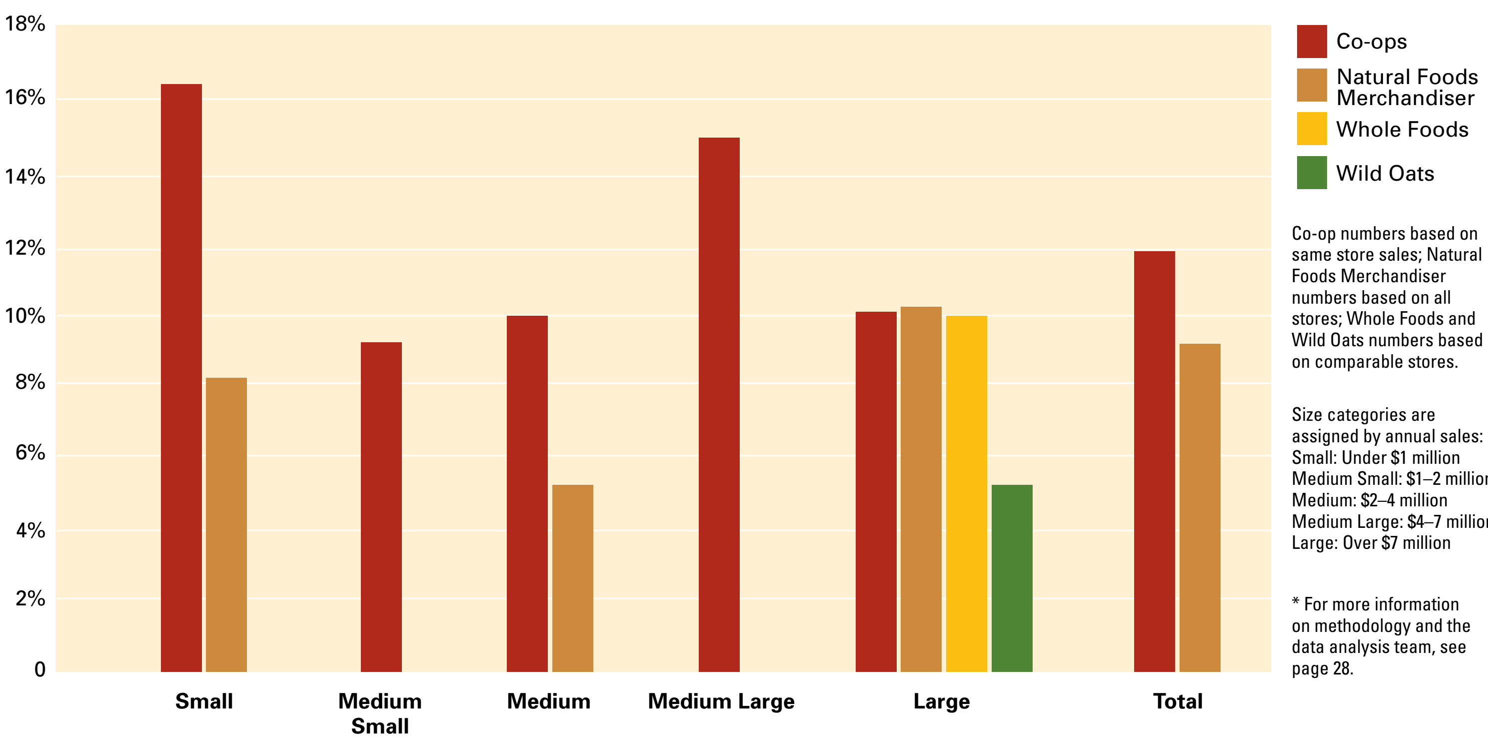
Stronger income statements

Co-op sales growth has been consistently strong, recording double-digit sales increases for four consecutive years. Same store sales growth was 11.9% among co-ops for 2002, comparing favorably with same store sales growth by competing chains Whole Foods (10%) and Wild Oats (5.2%). According to *Natural Foods Merchandiser (NFM)* natural product retailers averaged 9.2% sales growth in 2002.

Ninety percent of participating co-ops reported sales increases, compared to 79% of natural product retailers. Food co-op growth outpaced non-co-op stores overall and in every size category except large stores, where *NFM* reports a 10.4% increase compared to 10.1% for co-ops.

Co-op stores also are showing significant growth in net income due to increases in gross profits. Average gross profit margin was 36.4% while average net margin was 1.16%. This compares to 35.7% gross and .24% net for the same co-ops in 2001. Expenses remained nearly the same.

Sales Growth, 2002: Co-ops Compared to Other Natural Foods Retailers



Co-op numbers based on same store sales; Natural Foods Merchandiser numbers based on all stores; Whole Foods and Wild Oats numbers based on comparable stores.

Size categories are assigned by annual sales:
Small: Under $1 million
Medium Small: $1–2 million
Medium: $2–4 million
Medium Large: $4–7 million
Large: Over $7 million

* For more information on methodology and the data analysis team, see page 28.

Cooperative Grocer 2002 Retail

According to *NFM* there is strong downward pressure on prices, and overall gross margin in the natural food sector went down last year. Unlike their privately owned counterparts, co-ops have been able to realize increases in gross margin. While this could be a result of higher pricing combined with the strong sales growth, it is more likely a result of better buying or changing the product mix. This is the first year Whole Foods has reported a decrease in margin, while Wild Oats reported an increase in margin after two years of decline.

Operational improvements were made in margins and labor. Improvements in labor were slight, however, improving from 23.19 to 23.16 as a percent of sales, and there are wide differences among the stores. In some cases, high labor appears to be related to costs in the first year following a store expansion.

From the improvements to the income statement overall, it appears co-ops are seeing the results of strategic decisions and activities begun a few years ago that focused on operational improvements—for example, Common Cooperative Financial Statements (CoCoFiSt), the national (NCGA) and regional cooperative grocers associations (CGAs), Cooperative Grocers Information Network (CGIN), and others. These activities have helped re-engineer the direction of co-ops toward greater effectiveness and accountability.

The myth of undercapitalization

What to do with the cash and how to address the issues of relevance and development are key issues for cooperators. From 2001 to 2002, cash grew from 17.7 to 20.1% of total assets. The co-ops' debt to equity ratio is lower because equity increased by 2 percentage points as a portion of total assets. Basically, loans were paid down and cash built up. Compared to Whole Foods, Wild Oats, and other publicly traded grocery chains, co-ops are in the upper quartile for cash but in the lower quartile for investment in fixed assets. Based on industry comparisons, it appears that investing more cash in property and equipment would be justified.

"It is a myth that co-ops are undercapitalized," said John Eichholz, financial manager of Green Fields Market in Greenfield, Massachusetts. "We have capital needs and we're not utilizing our cash, so we're under-invested and under-leveraged. As we get bigger, managing the balance sheet becomes more important."

There are other implications for co-ops and balance sheet management, noted Lee Lancaster, financial manager of Food Front Cooperative Grocery in Portland, Oregon.

STATISTICAL SUMMARY OF RATIOS, 2002

	Small	Medium Small	Medium	Medium Large	Large	ALL
Sales Growth						
Upper Quartile	17.31%	13.32%	16.06%	19.52%	14.47%	17.91%
Median	10.02%	11.66%	11.25%	13.75%	12.62%	11.92%
Lower Quartile	7.24%	5.76%	3.45%	6.69%	7.89%	6.25%
Sales to Total Assets						
Upper Quartile	4.19	5.72	5.90	5.12	5.42	5.40
Median	3.51	3.82	4.52	4.35	4.39	4.08
Lower Quartile	2.91	3.43	3.44	3.01	3.41	3.17
Inventory Turnover (annualized)						
Upper Quartile	10.68	11.18	17.14	16.83	20.81	16.79
Median	8.21	9.86	12.24	14.35	16.79	13.07
Lower Quartile	7.23	8.20	10.89	13.10	15.63	10.15
Accounts Payable Turns						
Upper Quartile	13.61	27.12	14.06	23.31	22.92	18.20
Median	24.44	41.22	23.80	29.48	34.56	29.48
Lower Quartile	38.27	59.62	30.73	44.93	47.77	48.20
Current Ratio						
Upper Quartile	3.92	6.10	4.02	2.67	2.33	3.73
Median	1.64	3.73	3.24	1.97	1.82	2.32
Lower Quartile	1.29	2.88	1.49	1.46	1.50	1.48
Debt to Equity						
Upper Quartile	4.23	0.82	1.11	2.53	1.62	2.03
Median	1.47	0.40	0.74	1.01	0.61	0.77
Lower Quartile	0.77	0.28	0.40	0.42	0.37	0.33
Return on Equity						
Upper Quartile	72.25%	17.68%	29.29%	28.87%	22.54%	25.47%
Median	14.96%	2.17%	13.38%	21.42%	15.81%	14.34%
Lower Quartile	-7.54%	-4.87%	1.15%	0.80%	8.81%	0.09%
Return on Assets						
Upper Quartile	10.77%	12.55%	13.89%	12.88%	14.64%	12.79%
Median	3.42%	1.33%	7.83%	8.14%	7.55%	7.19%
Lower Quartile	-6.65%	-3.22%	0.70%	-0.01%	3.37%	-0.07%
Gross Margin						
Upper Quartile	36.98%	36.80%	37.44%	38.64%	38.96%	38.04%
Median	33.85%	34.72%	36.12%	36.45%	37.41%	36.27%
Lower Quartile	32.74%	33.87%	35.10%	35.94%	35.90%	34.57%
Total Labor Expense						
Upper Quartile	22.72%	24.62%	24.92%	23.32%	25.36%	24.67%
Median	22.18%	24.18%	21.96%	22.52%	24.53%	22.91%
Lower Quartile	21.63%	23.15%	21.55%	21.13%	22.50%	21.80%
Total Operating Expenses %						
Upper Quartile	36.18%	36.58%	36.58%	35.46%	36.75%	36.51%
Median	34.55%	35.03%	35.06%	34.99%	36.21%	35.04%
Lower Quartile	31.57%	33.94%	30.92%	33.44%	32.98%	32.88%
Operating Margin						
Upper Quartile	2.10%	1.21%	4.05%	3.92%	2.81%	2.90%
Median	0.35%	0.79%	1.81%	2.37%	2.40%	1.81%
Lower Quartile	-0.65%	-0.84%	0.70%	1.05%	1.72%	0.42%
Net Margin						
Upper Quartile	2.10%	2.20%	2.98%	2.63%	2.30%	2.39%
Median	0.77%	0.42%	1.88%	1.75%	1.61%	1.43%
Lower Quartile	-2.22%	-0.54%	0.46%	-0.17%	0.93%	-0.21%
Turns X Earns						
Upper Quartile	3.47	3.97	6.37	6.03	7.47	6.04
Median	3.32	3.40	4.55	5.34	6.43	4.88
Lower Quartile	2.54	2.99	4.05	4.77	5.62	3.41
EBITDA Percent						
Upper Quartile	4.42%	3.56%	4.91%	5.15%	4.60%	4.93%
Median	2.42%	1.46%	4.26%	4.37%	3.76%	3.55%
Lower Quartile	1.27%	0.24%	2.36%	2.79%	2.56%	1.76%

Operations Survey

STATISTICAL SUMMARY OF INCOME STATEMENTS, 2002

GROSS PROFIT	Small	Medium Small	Medium	Medium Large	Large	ALL
Sales, Surcharges, and Returns	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Goods	64.71%	64.56%	63.49%	63.27%	61.96%	63.60%
Gross Profit Total	**35.29%**	**35.44%**	**36.51%**	**36.73%**	**38.04%**	**36.40%**
OPERATING EXPENSES						
Personnel	22.57%	23.92%	22.79%	21.36%	24.62%	23.05%
Occupancy	4.14%	3.97%	4.01%	4.16%	4.26%	4.11%
Depreciation and Amortization	1.93%	0.95%	1.26%	1.52%	1.44%	1.42%
Operating	2.23%	2.25%	2.29%	2.18%	2.31%	2.25%
Administration	0.98%	1.45%	1.00%	0.91%	0.67%	1.00%
Governance	0.43%	0.48%	0.47%	0.51%	0.68%	0.51%
Member Discounts	1.39%	0.87%	0.86%	1.04%	0.61%	0.95%
Marketing	1.29%	1.15%	1.32%	1.21%	1.26%	1.25%
Operating Expenses Total	**34.97%**	**35.02%**	**34.01%**	**32.91%**	**35.85%**	**34.55%**
Operating Profit	**0.32%**	**0.42%**	**2.50%**	**3.82%**	**2.19%**	**1.85%**
OTHER INCOME, EXPENSES, AND TAXES						
Other Income	0.98%	0.98%	0.52%	0.42%	0.99%	0.78%
Other Expenses						
Interest Expense	-0.57%	-0.31%	-0.37%	-0.61%	-0.41%	-0.46%
Taxes	-0.12%	-0.07%	-0.48%	-0.38%	-0.54%	-0.32%
Misc. Other Expense	-0.64%	-0.32%	-0.47%	-0.38%	-0.61%	-0.48%
Other Expenses Total	-1.33%	-0.70%	-1.32%	-1.37%	-1.55%	-1.25%
Other Income, Exp., and Taxes Total	**-0.35%**	**0.28%**	**-0.80%**	**-0.95%**	**-0.57%**	**-0.48%**
Net Income	**-0.03%**	**0.70%**	**1.70%**	**2.87%**	**1.62%**	**1.37%**
EBITDA	**2.94%**	**1.75%**	**4.61%**	**6.34%**	**4.58%**	**4.04%**

STATISTICAL SUMMARY OF BALANCE SHEETS, 2002

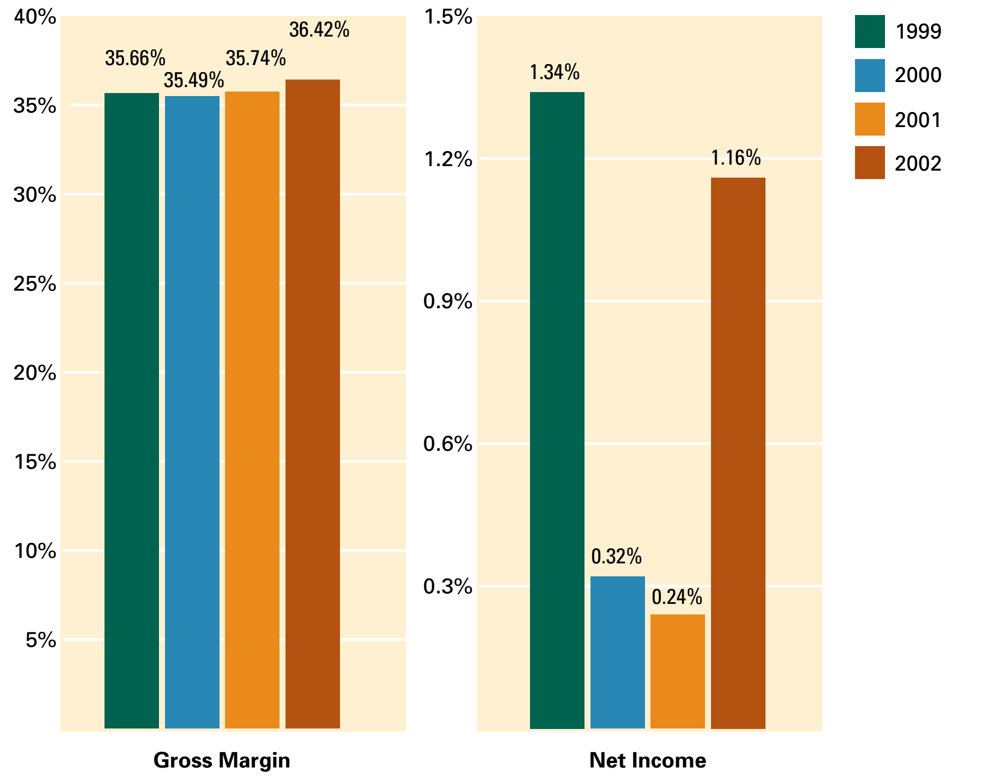
ASSETS	Small	Medium Small	Medium	Medium Large	Large	ALL
Current Assets						
Cash	9.31%	21.95%	20.31%	20.50%	15.10%	17.43%
Inventory	26.33%	25.67%	19.95%	15.92%	14.26%	20.43%
Other Current Assets	1.84%	5.39%	2.37%	3.17%	3.62%	3.28%
Current Assets Total	37.48%	53.00%	42.64%	39.58%	32.98%	41.14%
Fixed Assets	52.37%	38.26%	44.95%	56.61%	54.54%	49.35%
Other Assets	10.15%	8.73%	12.41%	3.81%	12.48%	9.52%
Assets Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
LIABILITIES AND EQUITY						
Liabilities						
Current Liabilities						
Accounts Payable	12.20%	7.21%	11.55%	8.75%	7.46%	9.43%
Other Current Liabilities	5.41%	5.01%	8.20%	10.34%	12.94%	8.38%
Current Liabilities Total	17.62%	12.22%	19.76%	19.09%	20.40%	17.82%
Long-Term Liabilities	53.18%	32.18%	24.03%	38.65%	24.16%	34.44%
Liabilities Total	**70.80%**	**44.39%**	**43.79%**	**57.74%**	**44.56%**	**52.26%**
Equity						
Paid in Member Equity	30.64%	32.20%	26.87%	19.72%	26.67%	27.22%
Retained Earnings	-1.44%	23.41%	29.34%	22.54%	28.77%	20.52%
Equity Total	**29.20%**	**55.61%**	**56.21%**	**42.26%**	**55.44%**	**47.74%**
Liabilities and Equity Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

"It's worthwhile to compare co-ops with the chains, but co-ops are smaller and independent and tend to hold onto cash because they are responsible for their own contingencies," he said. Prudent managers and boards believe having cash keeps a co-op out of trouble. Cash reserves and strong liquidity are important.

But how much cash is enough or too much? When could cash be better used to improve the co-op rather than to protect against unknown contingencies? And what about smaller, weaker, or less capitalized operations? Given strong overall net income among co-ops, an argument is gaining force for spreading out the risks required to develop more stores and helping build the movement as a whole.

Many people in the sector believe co-ops have no choice but to look at investment strategies to change co-op market position. Corinne Shindelar, executive director of the Twin Cities and Midwest retail associations, said, "We have cash and we have improved operations, but are we improving market share? Or are we just surviving?"

Average Gross Margins and Net Income, 1999–2002



Co-op expansions and growth

Highlighting co-ops' current strong cash position, the data from 2002 point to a question and a possibility: how to work together to leverage assets for growth?

The survey results show that major store expansions overwhelm just about everything in co-op operations for at least a year afterward. Yet it is the stores that are expanding that make the greatest contribution to the sector's growth. "We need to figure out a better way to expand, so co-ops don't have to take a loss for six quarters to get back to profitability. We need to spread expansion risks out over a bigger base," said Walden Swanson, CoCoFiSt consultant with Cooperative Development Services. "We need to make growth through expansion routine versus non-routine, and reduce the stress on management."

Although the rate of expansions has picked up, one of the areas in which co-ops are behind is new store growth. Chain grocery competitors are capturing a bigger part of the natural/organic market, which continues to grow faster than the conventional grocery market, by opening new stores as well as expanding their natural/organic sections. Consequently, co-op's market share continues to decline despite strong same store sales growth.

There are numerous reasons for this lag among co-ops. The common model for co-op growth in this sector is for individual stores to expand or build second stores, absorbing all of the costs and risks involved. Often the manager of the co-op is doing the expansion development for the first time, so there is a continual re-invention of the process occurring around the country. And as challenging as expanding an existing store or building a second store can be, startup co-ops open with even greater challenges and less frequency.

In Northampton, Massachusetts, the River Valley Market startup (slated to open in late 2003) has been in the works for several years. General manager Rochelle Prunty said the process has evolved from discussion in the community, to forming a committee, and finally organizing the project. Contrast this with grocery competition that purchases existing stores in a trade area and also builds new ones. It's a development process that is much faster, one that doesn't involve the inherent financial credibility issues faced by independent start-ups that don't share a balance sheet, or any of the risk, with an existing group of stores.

But you can't "give" a co-op store to a community and expect to build loyalty into the organization. Prunty believes cooperators could consider having a national start-up group with a development team that helps build stores, accelerating a process already in the works. "Something that helps boost operational capacity from the beginning would be a great service," she said.

Building on work by Prunty and a group of member services directors, the 2002 and 2003 Share Our Abundant Resources (Let's SOAR) training aimed at strengthening marketing and member services personnel across the country. "It was an exciting thing to build on, and different from the idea of an individual expert — rather, creating a pool of expertise within our ranks. It made us all stronger. A new store start-up team could be a way to build capacity collectively and meet the demand for building co-op stores and services," Prunty said.

Cooperative Development Services (CDS) Executive Director Kevin Edberg echoes the need for the co-op community to be pro-active in developing new stores. CDS, in addition to substantial work with natural foods co-ops, is also working with rural communities grappling with the loss of conventional mom and pop stores that often are the only source of groceries. Edberg sees a potential for linking all of these efforts nationwide through the existing network of cooperative development centers

Cooperative collaboration

The recent expansion of Tidal Creek Natural Food Co-op in Wilmington, North Carolina (see story, page 12) provides another model for expansion that helps spread the risk and minimizes organizational stress through a regional system. The dozen retail members of Southeast Cooperative Grocers Association (SECGA) and the National Co-op Bank (NCB) created a special loan program in which SECGA members agreed to a security guarantee on the expanded Tidal Creek inventory. Because the co-ops were willing to share the risk and agree to buy back the inventory at the bank's discount rate of 50% versus 25% (freeing the bank from collateral that is difficult to liquidate), the financing for the Tidal Creek project could go through.

Tidal Creek's change has been dramatic. It went from a funky 1,400 square foot retail house to a 3,900 square foot retail store. The community is thrilled. "We went from something people viewed as a private club, no matter how much we advertised and reached out, to this new store that will attract more people because we look like a grocery store."

Peg Nolan, SECGA executive director (on contract through CDS), said the association members were excited about doing an expansion this way. "The group was enthusiastic about finding a way to work together to assist a sister store. The support and assistance has been critical to the success of this relocation effort, and the project was greatly enhanced by getting a better financing deal through the NCB loan conduit. Tidal Creek's manager got good feedback by opening up to the group process."

The process also involved the boards of the individual co-ops in a way that had not been attempted previously; they each had to approve the inventory security agreement. Nolan said, "It gave them a higher level of comfort with the process as well as the opportunity to support collaboration. Even though it's not their project today, it could be tomorrow."

"The whole connection with the CGA makes me feel calmer. I know they're all there and that makes all the difference," said Sally Cobb, Tidal Creek's general manager. "I heard all these horror stories about relocation projects, but I feel comfortable with the process, that I'm doing things correctly, not jumping into something we couldn't handle."

Margo O'Brien, general manager of St. Peter Food Co-op in St. Peter, Minnesota, agrees. She said that the Midwestern CGA she belongs to has enhanced her management skills as well as those of co-op staff and opened the store to more development possibilities. "Being a part of a CGA has made a huge difference in my store," said O'Brien.

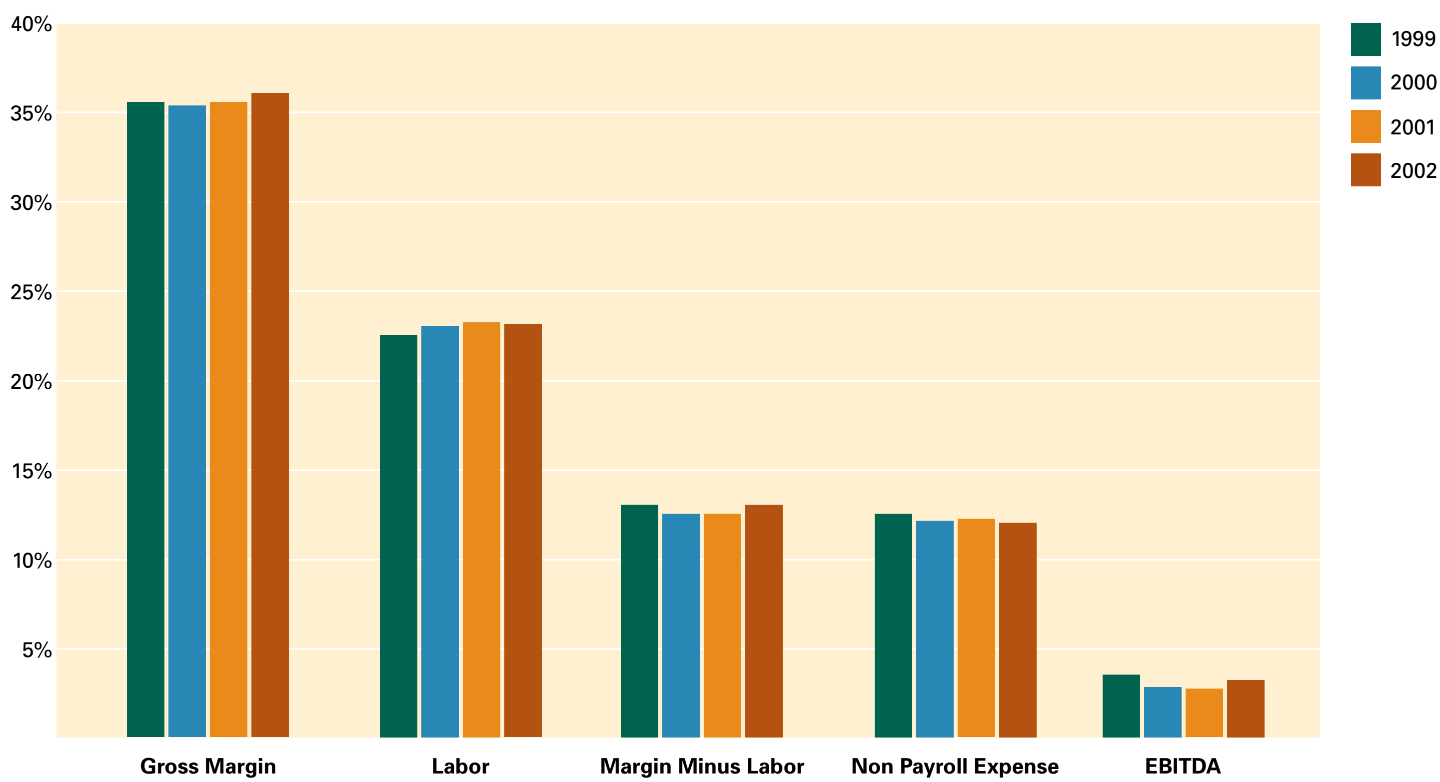
Cooperative mergers

Kris Nelson, general manager of Lakewinds Natural Foods in Minnetonka, Minnesota, believes that merging strong operations with smaller or weaker ones may also be a viable development model. Lakewinds is a $12 million operation encompassing a grocery store, natural home store, and an e-grocery venture. They're also seeking to open a second store in a nearby suburb.

Earlier this year the board of Anoka Food Co-op (located 20 miles north of Lakewinds) approached Lakewinds about a potential merger. The Anoka Co-op has been in business over 20 years but has suffered from a lack of dynamic leadership, with flat sales of $600,000 annually. Fortuitously, Nelson had recently conducted a market analysis of the entire arc of suburbs north to south surrounding Lakewinds and was aware of Anoka's potential. The Anoka Food Co-op membership vote on the merger was held June 12, 2003.

Nelson has had a vision of building smaller stores focused on perishables and targeted to communities in need—the Anoka store will be a proving ground for the idea. "It's a good

Gross Margin, Expenses, and Earnings, 1999–2002



way to offer people the good foods they want without starting big grocery operations. That way you can grow the location." She thinks that co-op development is most successful when growing small stores and making them larger.

To her, a smaller store focused on perishables is a less intimidating prospect than starting a big project. And by merging large co-ops with smaller co-ops, developing them can be a lot easier. Nelson said, "It speeds things up when we can use our balance sheets to help other existing co-ops."

When people come forward from various communities that need a co-op, the current infrastructure cannot help them very much, and their needs often go unmet. Investing in new cooperative development has been a low priority for existing co-ops. The primary way food co-ops have grown has been by expanding existing co-ops, but now cooperators ask if they can go beyond that.

"We're facing an opportunity to reframe our businesses. If we don't, we could fizzle out. We need to learn from the experience of our co-op warehouses, build on our interdependence, and collaborate for meaningful results," said Nolan of SECGA.

Raising the bar on marketing

The National Coooperative Grocers Association (NCGA) commissioned in-depth qualitative consumer research in 2002 and has actively shared the results at the Consumer Cooperative Management Association conference and regional CGA meetings. The research shows co-ops have done a good job meeting the needs of core shoppers and members, but for people new to natural products the co-ops inspire indifference or confusion. Co-op market position for that segment of shoppers, representing 74% of the wellness consumer, is weak.

As cooperators look for ways to invest in co-op growth, Robynn Shrader, executive director of NCGA, suggests co-ops seriously consider what the mid-level consumer is telling them. "What came out of the consumer research is that we need to reach the emerging natural foods consumer by raising the bar on our marketing ability," said Shrader. "It's very evident we need a higher level of sophistication—we need to pay attention to improving our operations so that we compare favorably to retailers with far greater resources."

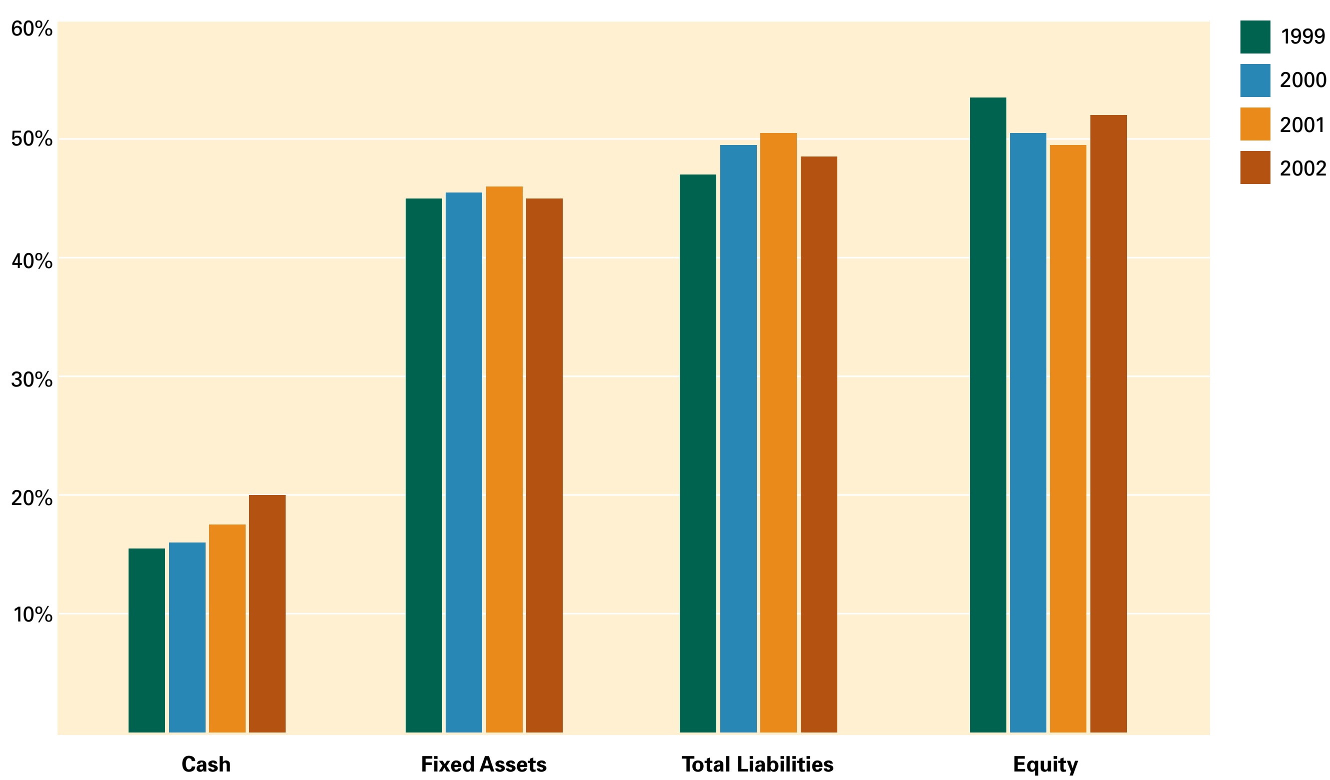
Shrader believes co-ops should invest in operations and marketing: "the whole package." She said there is a need to invest in those areas at all levels of co-op organization, because consumer expectations are "higher and higher."

The NCGA board is also studying ways the co-ops can better pool their resources nationally to gain improved store operations. The board will be looking at existing means of collaboration as well as what could be accomplished in new ways. Since the demise of the co-op warehouses, most of the co-ops are buying from one wholesaler, United Natural Foods Inc. (UNFI). Co-ops collectively represent one of UNFI's largest client bases, giving the co-ops leverage to reduce core cost of goods through a national purchasing program. "A national purchasing program is one thing that would have an immediate and significant return," Shrader said.

As the NCGA board looks at co-ops' collaborative system, says Shrader, "I expect we can be creative and find ways to invest equity in entities that allow greater leverage of assets. I think we're in a position to do that now. The writing is on the wall, we have to do it—yet this is also our best opportunity."

In support of co-op development, the Northcountry Cooperative Development Fund (NCDF) is asking cooperators to consider creating an equity fund that could total $5 million, with $1 million coming from the co-ops. Such a fund would attract investments that would

Balance Sheet Ratios, 1999–2002



leverage additional resources, giving co-ops access to the kind of financing usually only available through venture capital funds.

An equity fund is high-risk capital, with no guarantees. On the other hand, equity funding provides highly tailored and concentrated assistance. Equity funds can help finance rapid growth that wouldn't be possible any other way. "We hear from small co-ops or start ups that they need help, and from mature co-ops that they want to help but don't know how. An equity fund will not just pool money, but provide direct technical assistance," said Margaret Lund, executive director of NCDF. Mature stores that wouldn't need as much technical assistance could also have access to investment capital.

Lund thinks an equity fund institutionalizes long-term investment in co-ops, that it sends a strong message that co-ops do take their own development seriously

Investing and fiduciary duty

In sum, there are opportunities for co-ops to invest in long-term survival, and many of these opportunities appear to allow strong social and financial dividends.

> "Board decision-making involves investing in their home co-op as well as in cooperation and collaboration."

Boards of directors are the stewards of their co-ops' missions. It is up to them, ultimately, to determine the direction co-ops take and how to utilize assets. Fundamentally, co-op assets belong to the members. As trustees on behalf of the members, boards have a role in understanding balance sheets and making informed decisions that protect and enhance member assets.

"Board decision-making involves investing in their home co-op as well as in cooperation and collaboration," said Marilyn Scholl, board trainer with Cooperative Development Services. "At this stage, boards need to think about building an infrastructure that they can invest in wisely. As national and regional CGAs become stronger it will be clearer how pooled assets could work, how risk can be mitigated and spread out among co-ops."

Scholl noted the Tidal Creek project with SECGA's assistance as an excellent example of how boards can invest in a development structure. "It used to be co-ops did things as cheaply as possible. Now we're trying to do them as well as possible. A lesson for the board is that it is okay to invest in business. They should grow assets, and there are social and economic benefits to doing so. Investing and taking risks is part of asset protection."

Our food co-ops are collective assets that can be invested strategically on behalf of all of our members and communities. To not use a cash gain for a collective purpose will have a cumulative negative effect on the whole. By collaborating and using our gains to improve operations, presenting a better image of cooperation to our consumers, and investing in our collective future, cooperators can strengthen the primary reason for all the investment in the first place—a more fair and democratic way of conducting business. ■

Methodology

For the past several years, *Cooperative Grocer* has contracted with Cooperative Development Services (CDS) to conduct an annual grocery co-op survey, compile and analyze the data, and write a report. Financial data was taken from the Common Cooperative Financial Statements (CoCoFiSt) program for participating co-ops along with survey results from other co-ops.

This year, we have instituted a format change and only use data collected through the CoCoFiSt program. No separate survey was issued to stores, and no additional data was collected for the 2002 report. We also have reorganized the 2001 results, using only the data from the co-ops in the 2002 data set. As a result, variances between 2002 and 2001 are real and cannot be attributed to a different group of co-ops reporting as in previous years.

While these changes lower the number of stores in the survey database, the reporting and analysis of the data has been made more consistent. Note, however, that co-ops participating in CoCoFiSt, by comparison with all co-ops, may be stronger businesses as a group.

The summary data was calculated using the 83 stores and 68 co-ops in the CoCoFiSt database, grouped in the following store size categories:

SMALL	Sales under $1 million	8 co-ops
MEDIUM SMALL	Sales $1-2 million	12 co-ops
MEDIUM	Sales $2-4 million	15 co-ops
MEDIUM LARGE	Sales $4-7 million	19 co-ops (20 stores)
LARGE	Sales over $7 million	14 co-ops (28 stores)

In the centerfold statistical chart (pp. 18-19), we present composite financial statements and ratios using un-weighted averages for the income statement and balance sheet—for these averaged percentiles, large co-ops have the same weight as small co-ops. In the ratio sections, we provide median and quartile results, which are frequently more balanced measures than the mean or average. Quartile results are calculated on each variable: for example, the sales trend upper quartile contains the 25% of stores that have the highest growth rates, while the upper quartile on gross margin could represent a different set of co-ops. (Some additional data not appearing in the magazine will be found at www.cooperativegrocer.coop.)

In order to have a larger pool of data, most of the graphs use CoCoFiSt data from co-ops participating in the year reported, but not necessarily the same co-ops for all four years. We determined that trends were the same whether data was analyzed from co-ops participating in any of the four years or from those participating in all four years. However, in the sales growth graph, data from 61 stores associated with 50 co-ops was used to ensure same store comparisons.

For other sources, we used *Natural Foods Merchandiser* "Market Overview," Whole Foods Inc. and Wild Oats Inc. annual reports, and SEC filings.

Also new this year, CDS undertook the data analysis with a team of people from around the country. Many thanks to the following for their generous assistance with this project:

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