

# **FINANCIAL UPDATE & MEMBER SURVEY**



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# SUMMARY

## Financial Position

The Co-op made a loss of \$154,000 in the last financial year (April 2022 – March 2023). Despite a slight increase in sales in recent months, the financial sustainability of the Co-op going forward is of concern. **It is estimated that if the current levels continue the Co-op would need to close in 2-3 years.**

## Potential Move (options for shop configurations)

The current yearly rent the Co-op is paying (\$120,000) is a significant expense, and the rent of the main shop is estimated to be 40% above market rates. The landlord is unwilling to renegotiate the rent terms, and the leases are currently up for renewal. This means there is scope to reduce the rent expense by relocating.

This document contains options for potential shop configurations in different shops nearby (including the current Little Shop, and 167 Katoomba St next door to Black Cockatoo Bakery).

## Member Feedback

The Co-op is owned by and operates for its members. As such, this document has been prepared to update you on the most recent financial position, and provide some options for you to consider in terms of what will be best for the Co-op going forward.

Please contribute your feedback to us by:

1. **Reviewing the options** presented in this document
2. Filling out the **2 minute survey** (you will find the link to the survey on the last page of this document under heading Survey)
3. Considering if you or anyone you know would be willing to **join the board** as a volunteer director

## Board Update

The Board currently has 4 directors, and would like to have 7 directors to make decisions of this magnitude in this crucial time. Please consider volunteering to be on the board if you would like to help the Co-op continue providing affordable ethical food to our community.

**If you or anyone you know would be interested in joining the board, please fill out a [nomination pack found on our website](#) by 14 July 2023.**

# WHY ARE WE HAVING THIS CONVERSATION?

As you, our members, are co-owners of the Co-op, it is important to keep you up to date about important issues affecting the solvency of the organisation.

This document will discuss our current financial position, present ideas for shop re-configurations to ease the pressure of rising overheads, and ask for your feedback on those ideas.

## FINANCIAL POSITION

Despite a slight increase in sales over recent months the Co-op continues to struggle in the current economic climate reporting a loss of \$154,000 last financial year (April 2022 – March 2023 "FY23").

As explained in recent communications this loss is due to many contributing factors including:

- Increased rent and utilities costs
- Decreased sales - FY23 sales were 10% lower than pre-covid levels
- Higher cost of products being passed on by suppliers

To enable the Co-op to break even and remain viable into the future the board is considering a move to new premises.



The rent in the main shop has been increasing at a fixed rate of 4% per year since 2016. This has led to the rent currently being well above market rates after so many years of cumulative increases.

The landlord is not willing to negotiate on the rent at all, which leaves us in the position of deciding to stay and pay above market rent, or invest some of our cash reserves into moving to a new premises.

If we remain in both shops on either side of Ha'Penny Lane (a combined floorspace of 251m<sup>2</sup>) paying above market value rent on the main shop (the landlord will not negotiate on this), we will continue to battle the economic drivers courting recession and will be forced to enact our insolvency plan.

**Realistically, we have approximately three years of financial reserves to sustain our current position before the Co-op will be forced to cease trading.**

# 2022/23 FINANCIALS

Now that the Financial Year has ended (April 2022-March 2023) we have the updated financial reports to better inform decisions. The unaudited Profit and Loss Statement and Balance Sheet are below.

## Blue Mountains Food Co-op

### Profit and Loss Statement

1 April 2022 - 31 March 2023

UNAUDITED

#### Income

Sales Income	\$3,517,879.00
Cost of Sales	-\$2,546,559.00
<b>Gross Profit</b>	<b>\$971,320.00</b>

#### Expenses

Expenses	-\$383,947.00
Wages & Salaries	-\$853,441.00
<b>Total Expenses</b>	<b>-\$1,237,389.00</b>

Other Income	\$112,014.00
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<b>Net Profit/Loss</b>	<b>-\$154,057.00</b>
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### Balance Sheet

as at 31 March 2023

UNAUDITED

#### Assets

Current Assets	
Cash Assets	\$880,954.62
Inventory	\$174,748.97
Other Current Assets	\$58,510.56
<b>Total Current Assets</b>	<b>\$1,115,229.63</b>

#### Fixed Assets

Total Fixed Assets	\$74,842.92
<b>Total Assets</b>	<b>\$1,190,072.55</b>

#### Liabilities

<b>Total Liabilities</b>	<b>\$221,182.76</b>
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#### Equity

<b>Total Equity</b>	<b>\$968,889.79</b>
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# POTENTIAL SHOP CONFIGURATIONS

## A note on the office

We currently rent an office above Hominy Bakery. The yearly rent is \$32,000, and we sublet part of it for \$20,000. Therefore the office costs \$12,000 per year. This would remain the same in each scenario and so has not been included in any of the rent amounts following.

## OPTION 1: STAY

Stay with the current two shops in the same premises. A combined floor space of 251m<sup>2</sup>. Combined total rent for both shops \$121,000.

### PROS

- No cost to move
- We retain our familiar laneway location
- Keep both shops as is

### CONS

- Continue to pay above market rent for the main shop, rent is currently \$73,000 per year when market rent for that space should be approximately \$40K - \$50,000.
- We need to do some well overdue repairs and maintenance to the shop which are estimated to cost over \$50,000.

## OPTION 2: MOVE BOTH SHOPS TO TWO PREMISES

Move the Main Shop across the lane to where the Little Shop currently is, and move the Little Shop to 167 Katoomba Street (next door to Black Cockatoo). Total floor space 233m<sup>2</sup>. Combined total rent for both shops would be \$105,000.

### PROS

- We retain our familiar laneway location
- Main street frontage for the Little Shop should increase sales as this shop is most suited to both locals and visitors
- Garden area of 120m<sup>2</sup> potentially a community space
- Rent reduces from \$121,000 to \$105,000

### CONS

- Cost of moving is approximately \$260,000
- The rent reduction is not significant enough to warrant a move

## OPTION 3: COMBINE BOTH SHOPS INTO THE CURRENT LITTLE SHOP

Combine both shops into where the current Little Shop is in Ha'Penny Lane, knocking through the wall into our store room to create one bigger shop. A combined floor space of 119m<sup>2</sup>. Total rent \$48,000.

### PROS

- A saving of \$73,000 rent per year
- We retain our familiar laneway location
- New & improved shop layout

### CONS

- Smaller space and some lines will be deleted
- The cost to fit out the shop is estimated to be \$160,000
- Less room for bulk items (as these take up the most floor area per product)
- Both shops will be closed for a period of time while fitting out the new space resulting in a loss of income, and inconvenience to members

## OPTION 4: COMBINE BOTH SHOPS INTO NEW PREMISES AT 167 KATOOMBA STREET

Combine the Main and Little Shops into one space at 167 Katoomba Street (next door to Black Cockatoo bakery) extending into the old garden centre at rear of building. A combined floor space of 132m<sup>2</sup> (inside) and 120m<sup>2</sup> (outside). Total rent \$57,000.

### PROS

- A saving of \$70,000 rent per year
- A large outdoor space, which can be utilised for sales and storage
- Our own beautiful garden community hub
- New & improved shop layout
- Main street frontage, with dual access from the front and the back (the garden opens to Pioneer Place with access to the carpark)

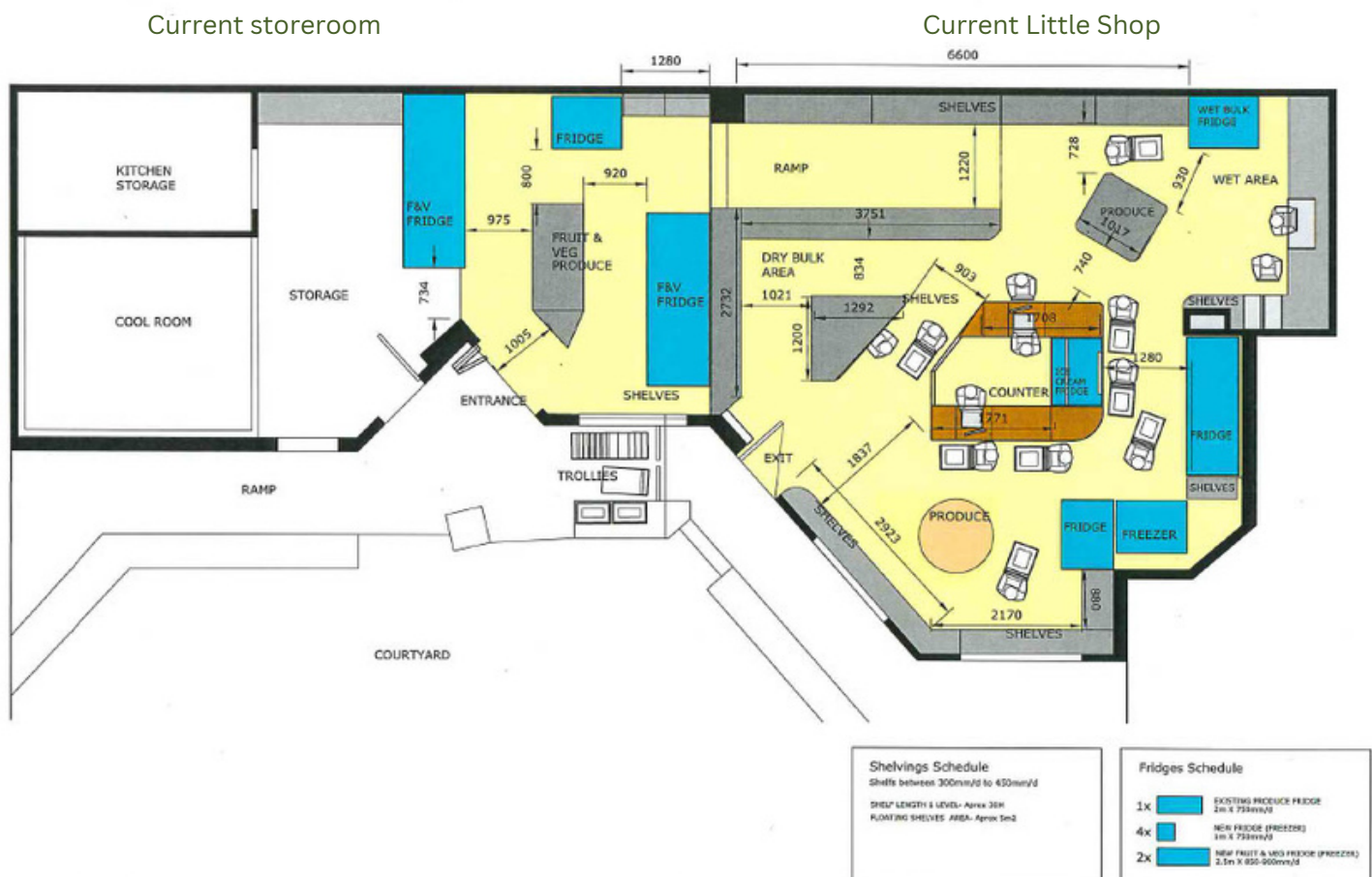
### CONS

- Smaller indoor area meaning some lines will be discontinued
- The cost to fit out is estimated to be \$158,000
- Less room for bulk items (as these take up the most floor area per product)
- Lose our familiar laneway location

# FLOORPLAN MOCKUPS

## OPTION 2 OR 3: MOVE EITHER THE MAIN SHOP OR BOTH SHOPS TO THE CURRENT LITTLE SHOP

Move the Main Shop across the lane to where the Little Shop currently is, and move the Little Shop to 167 Katoomba Street (next door to Black Cockatoo).  
Total floor space 233m<sup>2</sup>.



Sample floorplan of what the main shop might look if we moved everything across the lane to where the Little Shop is now.

Pioneer Place A

Hand-drawn floor plan of Pioneer Place A, a small shop layout. The plan shows a central aisle with shelves on both sides. At the front (top) is a counter and a "Fruit + Veg" display. To the right is a kitchen and a store room. At the back (bottom) is another "Fruit + Veg" display and a "possible awning for more fruit + veg shelves to be wheeled out" area. A "Black Cockatoo" is noted near the back. A "Footpath" and "to Katoomba Street" are indicated on the right. A "Rear of 167 Katoomba St" is noted at the bottom. A key identifies colors: yellow for Fruit + Veg, blue for Bulk Food, green for Fridges, and red for Little Shop Items. An arrow points "to front shop".

Labels on the plan:

- Garden
- Steps
- Paved courtyard
- Kitchen
- Undercover area
- Fruit + Veg
- Shelves
- Store room
- Black Cockatoo
- Footpath
- to Katoomba Street
- to front shop
- Shelves
- Counter
- possible awning for more fruit + veg shelves to be wheeled out
- KEY
- Fruit + Veg
- Bulk Food
- Fridges
- Little shop items
- awnings
- Rear of 167 Katoomba St





## OTHER CONSIDERATIONS

### Product range

Both Options 3 and 4 involve reducing product lines due to the smaller footprints of the proposed shops as well as a decrease in sales of certain lines over the past few years. This is not necessarily a bad thing. It will help the Co-op focus on what it does best – providing fresh organic and local fruit and veg and basic pantry staples to our community.

Currently, we have over 200 bulk food dispensers. With bulk food sales declining steadily over the last few years the amount of space taken up by bulk food dispensers is now costing us a lot in rent.

If we move, we will endeavour to retain as many popular bulk foods as possible. We will still be able to do special orders for some items.

### Opportunities

Relocating to stabilise our financial position will afford new opportunities for the Co-op in the future with the potential to expand member services by adding a warehouse, an online shop, or a delivery van.

# COST BREAKDOWN

The following table is a summary of all the costs of each moving option to make it easier to compare.

	Option 1	Option 2	Option 3	Option 4
	Stay in current 2 shops	Two Shops Ha'Penny and 167 Katoomba St	One shop in Ha'Penny (little shop)	One shop at 167 Katoomba St
Number of Shops	2	2	1	1
Floor Area	119m2 + 132m2	119m2 + 114m2	119m2	132m2
	<b>Total 251m2</b>	<b>Total 233m2</b>	<b>Total 119m2</b>	<b>Total 132m2</b>
Outside Area	Courtyard: 10m2 Picnic Table Area: 9m2	Courtyard: 10m2 167 Garden: 120m2	Courtyard: 10m2	167 Garden: 120m2
Rent (inc. outgoings)	Main shop: \$73k Little shop: \$48k	Little shop: \$48k 167 Katoomba St: \$57k	Little shop: \$48k	167 Katoomba St: \$57k
Total rent	<b>121,000</b>	<b>105,000</b>	<b>48,000</b>	<b>57,000</b>
All other expenses (estimate)	1,149,462	1,149,462	888,413	888,413
Total expenses of running the shop(s)	<b>1,270,462</b>	<b>1,254,462</b>	<b>936,413</b>	<b>945,413</b>
<b>Total sales required to cover these expenses to break even (current yearly sales \$3,517,000)</b>				
Yearly	4,409,118	4,349,859	3,171,900	3,205,233
Weekly	84,791	83,651	60,998	61,639
Daily	12,113	11,950	8,714	8,806
Hourly	1,346	1,328	968	978
<b>All moving costs or shop improvement costs (capital outlay)</b>				
Fit out or refurbishment costs	50,000	262,935	160,210	158,877
Current Cash at bank	880,000	880,000	880,000	880,000
Date cash reserves exhausted based on current loss trajectory	<b>March 2026</b>	<b>September 2024</b>	<b>March 2027</b>	<b>March 2027</b>

The Co-op is currently a going concern, however in recent years the organisation has started to make a loss rather than a surplus due to decreasing sales and increasing expenses. It is not sustainable for the Co-op to continue losing money, as eventually the accumulated cash will go down. There are certain estimated thresholds for how long this can continue, and the different options we've presented have different implications. It's obviously very difficult to predict future outcomes, and so all of the figures are based on current trends and are approximations.

# SURVEY

All of the information in this document has been provided to inform your response to the following two question survey\* which can be completed by following this link:

1. Should we move the Co-op to a new premises?
2. Based on your answer to question 1, which option do you prefer?

**Please click here to complete the survey and respond by COB 14th July**

Thank you for your time and support.

**\*NB: This survey is anonymous and no personal data will be collected.**

Member feedback provided in this survey will inform the board's decision on this matter, however the final decision will be made by the board due to their responsibility as directors.

# DIRECTOR RECRUITMENT

This is a huge but necessary and time-sensitive decision, one the board cannot make without the input of members and without a full board of seven directors (we currently have four directors). Please note joint staff/board members Elmira Forrest and Sarah Ladyman will not be voting on the decision of whether to move due to conflict of interest.

Interest in joining the board this year has been slow, so we are still looking for more board members. Because it is such an important decision for the future of the Co-op, the board will not make the decision unless three more members join the board, bringing the total number of directors to seven. If you are interested in becoming a director please read the requirements and benefits of this voluntary role **on our website and click here to download a nomination kit**.

