



ANNUAL REPORT 2016

A YEAR IN REVIEW Cindee Lolik - General Manager

In 2016 and carrying over to 2017, Co-op staff at First Alternative and around the country continue to deal with what we have semi-affectionately dubbed “the new normal.” Competition in the grocery industry is continuing to grow at exponential rates. Not only are there new brick and mortar chains developing across the country—Natural Grocers opened 23 stores in 2016 and plans on 15-20 new stores in 2017, while Thyme Market opened 20 new stores with plans to open 20 more in 2017, to name only two—grocers from across the pond are also opening new stores in the US. This year alone Lidl, a German company, has plans to open 100 stores in the US. Trader Joe’s, another German-owned company, opened 35 stores in 2016. Conventional grocery stores aren’t sitting back and watching the action, either: Kroger, the parent company of Fred Meyer, acquired more than 400 stores between 2014 and 2016. And opportunities for consumers to shop online for their food are rapidly growing (not to mention the recent announcement that Amazon—already in the online grocery business—is planning to acquire Whole Foods Market to increase their grocery sales both online and in over 400 brick and mortar locations.)

Here at First Alternative we have been learning how to adapt to the new normal while remaining true to our mission in the community and providing a great place to shop and work. We’re working hard to create new efficiencies in labor. For example, we are currently working on moving toward a perpetual inventory for the stores in order to streamline ordering and give us accurate monthly profit and loss statements without having to do a physical inventory that takes time and resources. We are also cross training staff to enable them to work multiple departments and support each other with fewer staff. These efficiencies are necessary, not just because of increased competition for shopper’s food dollars, but also from the rising minimum wage. Oregon is currently at \$10.25/hr: with another rate increase to \$10.75/hr: in mid-2018 (at the Co-op we pride ourselves on starting new staff at slightly above the minimum wage.) A tight labor marketplace with low unemployment rates also means there are fewer qualified candidates to work in our stores. 2016 saw us make progress in all these areas.

We also have been making inroads on efficiencies regarding our physical plant at both stores. In 2016, trickling into 2017, we replaced all light bulbs with LED lighting. It not only brightens up the stores but is resulting in savings on our electrical bills. While refrig-

eration is the top draw for electricity at our stores, the amount of lighting in the interior; exterior; and in coolers is also significant. That savings, coupled with the fact that we are able to collect most of our investment from Energy Trust of Oregon incentives made this an easy choice. We signed on to Co+Efficient this year to help us monitor our progress toward more sustainable practices that will generally also allow us to cut our operating costs. Co+Efficient is a program run by the National Cooperative Grocers (NCG) that provides us with an online tool to monitor our energy, water, and waste levels, setting benchmarks for improvement and tracking it all easily and accurately.

First Alternative continued to further develop our brand in 2016. My favorite definition of a brand is, “your brand is what people say about you when you’re not in the room.” At your Co-op we want our customers and Owners to think “fresh • local • organic” and “happy • fun • positive” when they think of First Alternative or see our message in the community...on the back of a city bus; at the Corvallis Knights games; at Fall Fest; at the Sage Garden concert; as one of the sponsors of Pedal Corvallis; on our recycling center at the South Store; on our new website and our social media pages; at the Sustainability Coalition Town Hall and many more. In order to further that brand in the community, we spent time and funds last year to do some more sprucing up. We completely remodeled the South Deli, bringing in more efficient and functional equipment and we reset the downstairs level at the North store to make the seating area more inviting and open. We also completed the interior painting at both stores to show off how bright and clean our stores are. So, while the Co-op did not show a large profit at the end of the year, we were able to make significant upgrades to the stores and maintain our cash levels at a reasonable level into 2017. So far in 2017 we have been dialing-in our expenses and labor and seeing modest profits through the first two quarters. Our adjustment to the new normal continues, but we are confident we are becoming stronger and more resilient in order to keep the Co-op working hard for our Owners and customers for the next 47 years. A big round of appreciation goes out to our wonderful staff, our dedicated Board of Directors, our vendors, and especially to our Owners and customers for making First Alternative Cooperative a true force for health and prosperity in our community.

FROM THE BOARD Jim Mitchell - Board President

Hello fellow First Alternative Owners, As I look back at 2016, I see First Alternative (FA) staying on course to strengthening our financial condition and meeting the demands of ever-increasing competition. This work is happening while we continue to provide great, wholesome food and wellness products that we feel good buying, knowing that the money is going to suppliers that share our values.

There were many changes made in both stores to enhance the shopping experience and improve store efficiencies. The Board continued to work on being more effective in representing you in planning, developing policy and providing direction and oversight to our General Manager. One of our focal points last year was improving the viability of the South Store. The Board has been reviewing alternatives being developed by the GM as a part of

the Board’s development of a strategic plan for FA. Although FA ended 2016 with a small positive net income, it was not enough to send patronage dividends to the Owners again.

As I look forward, I see continued focus and priority on strengthening our financial condition. This work will no doubt include continuing achieving efficiency improvements and cost savings in the stores, innovative marketing and sales efforts to meet and beat our competition, and finishing the development of a strategic plan for the South Store.

One of the tasks the Board has agreed to do is to review our Product Selection Guidelines. The Board has not done an in-depth review of the Product Selection Guidelines since the competitive landscape has changed with the conventional stores carrying

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EMPOWERING A POSITIVE WORKFORCE

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natural and organic products. The most recent market study done for FA indicated the likelihood/potential to increase sales at the South Store and better service that area by including some quality conventional products. As we move ahead with this review we will solicit Owner input.

I am often asked by people not familiar with FA to tell them what I think is so special about our co-op. Because there are so many things, I focus on what differentiates it from the privately- and corporately-owned grocery stores. As a business that is owned by members of the community, the community has a say in how the business operates through the democratic processes to elect

representatives on the Board and to vote on bylaw changes. All the profits go back to the community through direct donations, patronage dividends, employee wages and purchases from our local suppliers. Last year, FA generated over \$16 million dollars in sales revenue. Of this, over half was directly returned to the local area through wages and purchases from our local suppliers. Other reasons include: great food and products, wonderful staff and customer service and the "feel" of being in a welcoming and fun place to shop. I love shopping at the Co-op!

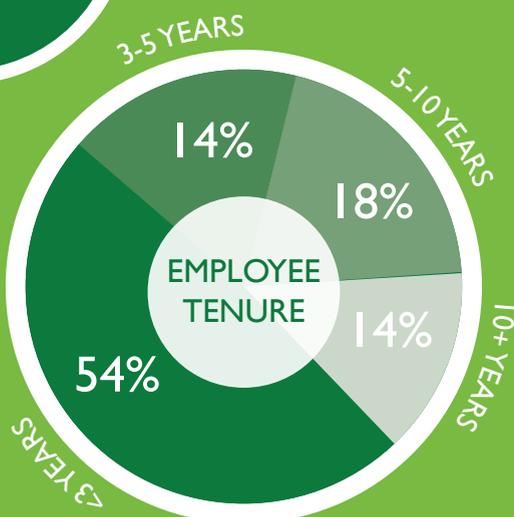
Next year will present many challenges and opportunities, and I'm confident we'll succeed.

Staff Benefits and Trainings

Our valley is saturated with talented people, and thanks to that, so is First Alternative. We simply could not exist without them. That's why we make it a priority to provide our team with trainings, livable wages, and benefit opportunities. This investment helps cultivate a fun, happy, and positive environment for our staff and shoppers alike.



1000+ Hours
Of paid time to train staff



SUPPORTING LOCAL AND ORGANIC PRODUCTS

Buy Local, Eat Well

We love our Owners because they care about what they eat, they embrace our community, and they value the hard work of our local farmers and producers. These passions are what drive us to provide a wide variety of local and organic products. Every year we seek new products to bring in, and new means of

communicating their value of to our shoppers. Our local designations make it easy to understand where our food comes from. We also have the good fortune of working with incredible people who are willing to deliver their food directly to our stores, ensuring peak quality, freshness and flavor.



2,465

LOCAL OREGON
PRODUCTS



791

LOCAL SIX
PRODUCTS



1,276

LOCAL DIRECT
PRODUCTS



113,324
kilowat hours saved in 2016



Light Power Use

Grocery stores are big places. Keeping them bright can take a lot of power. That is why we replaced all our light fixtures at both stores with LED bulbs. It was a massive amount of work, tracking down and replacing every bulb, but seeing just how much power we saved by making the transition proved it was

worth the effort. Technology doesn't always work in tandem with sustainability, but in this instance, they were a match made in heaven. We will continue to build a space that is both comfortable and sustainable, and look for new opportunities to implement the ingenuity of our community.

176,590 = 191,884

pounds of carbon dioxide
reduced in carbon footprint.

miles not driven by a car.

HONORING PEOPLE AND PLANET

13

TONS

OF WASTE DIVERTED
FROM LANDFILL

24

TONS

OF FOOD DONATED TO
THE GLEANERS

12

TRUCKS

OF STYROFOAM SAVED
FROM LANDFILL



Reduce, Reuse, Recycle

We live in a packaged world. Handling all the boxes, cans, and containers can sometimes feel overwhelming. Luckily, we also live in a part of the world that values recycling. Through local partnerships and on-site recycling facilities we have been able to carve a sustainable path in this commingled landscape. All of our efforts are a start, but it is the participation of our Owners, shoppers, and friends that really make a difference.

Recycling is good, reusing is even better. With the help of Gleaners, we can find purposes for even perishable products. Beyond keeping food from going to waste, our partnership with this program helps provide individuals in need with healthy, good for you, food. Everyone is entitled to eating well, and our community respects this fact. We look forward to continuing this partnership along with all of the others that build on an already happy, and healthy environment.

500+ HOURS



Co-op staff time invested
in the public recycling area

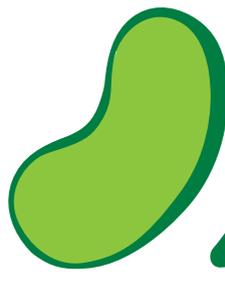
Growing Together Through Education

We are fortunate to be part of a community that values education. Whether it's by traditional means, or unorthodox, we believe that learning enhances our lives, and the lives of those around us. That is why we do our best to provide resources for those in our community and around the world. From our meeting room, to our local educational partnerships, and even the way we label our products, we hope to give our community every opportunity to learn, grow, and have fun along the way.



With the help of our supportive community, we were able to generate our largest donation of school supplies to date. The supplies were sent to Togo West Africa where they will help shape childrens futures.

102 PAPER PACKS 117 PENCIL PACKS 112 PROTRACTORS 102 PEN PACKS 38 MISC

 **BEANS
4 BAGS**

\$92,000

Given from Beans for Bags to date

Giving Back to the Community

Our Owners give us so much, it is only fair that we reflect their actions by giving back. Fortunately, we didn't have to look far to find several amazing local organizations that are especially skilled at putting dollars to work for the community. Beyond simply donating to these different groups, we try to find ways we can work side by side with them and actively participate. It's these experiences that we are inspired by those around us, and reminded of why we do what we do. Meaningful change does not happen overnight, nor does it often happen alone. Each one of us has something special we can offer to our community, and at our core, we hope to be a conduit for seeing these skills shine through, and show a tangible impact on those around us. In 2016, we continued building on existing relationships, as well as initiated new adventures with community members and local organizations.



OUR COOPERATIVE MISSION

First Alternative is the only community-owned market that provides fresh, local, and organic food in the Heart of the Willamette Valley. We celebrate local producers, sustainable products, a healthy work/life balance, and active lifestyles. We recognize that organic labeling isn't enough. We support local and organic products straight from the producer.

We curate our product selection with socially responsible practices. We focus on supporting local producers and food sustainability. We want our shoppers to feel good about the food and products they purchase and our overall brand emphasizes our service, dedication, and support. We strive to be a welcoming and friendly environment to all.

We are producers, farmers, local supporters, and community focused consumers. With our profit, we honor people and planet. We are dedicated to keeping money in our community and bettering the planet through environmental sustainability.