Policy Type: Executive Limitations

Policy Title: EL10 – Expansion Policy

Last revised: August 13, 2014

The KCI will renovate or move to a larger location to facilitate operations requirements and better fulfill its ends. The Board of Directors of the KCI authorizes the general manager to ensure that the planning for and implementation of the expansion project will be guided by the following:

1. Planning and Research – Will include sufficient, professional planning and research on all aspects of the project including financial assumptions, market data and location analysis. The manager is authorized to prudently invest up to $20,000 in planning and research. Any cost overrun of more than 10% requires prior approval of the Board.
    a. Financial projections made for early analysis (before signing a lease with contingencies) will include a scenario that is aggressive and one that is more conservative.
2. Viability – Will study and be informed by market forces that could affect the success of the store. Keweenaw Co-op must be responsive to market trends and demands in product selection, pricing, and service levels to ensure sufficient levels of gross sales and net profit.
3. Communication/Monitoring – Will be guided and controlled by the general manager who will report regularly to the board concerning significant progress toward the move.
    a. Reports shall include timelines and sources and uses projections revised bi-monthly and bi-weekly general updates.
    b. The general manager shall keep appropriate documentation of the project.
    c. Public requests for information about the project will be directed to the Project Manager and/or His/Her designated staff.
4. General Timeline, Benchmarks and Project Goals
    a. A marketing Study and Financial Viability studies will be completed prior to committing any other resources to actual relocation/renovation actions.
    b. The BOD of the KCI will be satisfied that the financial diagnostics – e.g. those provided by CDS – are sound prior to actual construction/renovation.
5. Site Selection – Will give preference to a site that has the potential to attract new owners and will attract enough customers to successfully support its operations. In selecting the site, the general manager shall seek to maximize the following characteristics: 1) accessibility to the

market area, 2) retail synergy, 3) visibility, 4) ingress/egress, 5) parking, and 6) internal layout.

6. Product Mix – The expanded store may include new departments to be responsive to owner and non-owner shopping needs as determined in part by past and future marketing surveys and industry trends.
7. Size – Will include retail space expansion based on the results of Marketing Studies.
    a. The selected site must have enough space for an on site management office.
    b. The new store will include meeting/education space as is economically feasible.
8. Capacity – Will not exceed the co-op's capacity to operate the new store successfully.
    a. Management, marketing, operational systems, accounting, and organization capacity must all be analyzed and enhanced to ensure that they meet the new capacity requirements
9. Environmental implications – Will integrate the values of owners to minimize the impact of our operation on the earth.
    a. Other things being equal, when choices are made that will affect resource use, the more resource efficient choice will be preferred.
    b. When there is a cost difference, a more environmental choice is preferred if the cost difference is less than 10%.
10. Cost – Will not exceed a limit established by the Board of Directors prior to the signing of the lease.
    a. Construction contracts will be fixed price contracts only.
    b. Only insured contractors with successful track records doing similar sized and similar type projects may be used.
    c. Total project cost must be based upon a budget that includes an overrun allowance of 10%.
11. Financing – Will use owner financing, financial institution loans, vendor credit, equipment leasing and landlord financing in a combination that is most economical in the long term for owners, including considerations of cost of financing, cost of obtaining financing, and tax implications.
    a. Financing agreements shall not include any terms that give undue control or decision making to an outside party.
    b. Financing must be realistically projected and must be reviewed by an external person with experience in managing a project of this scale.

   c. The project budget and financing plan must include a contingency of at least 10% of the total project cost.

12. Profit and cash flow – Will attain an annual net profit of at least 1% of sales by the third year of operation; and be able to pay off all finance sources as contracted.
    a. Projections must be prepared for budget, income statement, balance sheet and cash flow for the 5 years following the project.
    b. An annual net profit of at least 2% of sales will be achievable (based on projections) by the 5th year of operation.
13. Timing and approval – The manager may not enter into debt to finance the project without the Board's approval.
    a. The manager may not enter into a lease/contract agreement without a commitment on financing and Board approval.
    b. The manager may not cause or allow construction or demolition to occur prior to closing of financing.
    c. The manager may not enter into a lease/contract agreement without a Board decision on the total project cost and sources and uses plan.
14. Interim priorities – Will maintain profitability in the current store operations, maintain staff morale, and build an effective and resilient management team during the planning time for the relocation project. (Internal Readiness) The General Manager will:
    a. The General Manager of the KCI will designate a Project Manager to be approved by the BOD of the KCI who will oversee all steps of the project.
    b. Allocate adequate resources for staff development, both in terms of training and overall number of staff.
    c. Encourage staff to be actively involved.
    d. Consider staff well-being and fulfillment.
15. Volunteers – Will make volunteer opportunities available as appropriate in the relocation project.
16. Owner Involvement
    a. Owner input will be received in a thoughtful way.
    b. All owners will be encouraged to be actively involved.