

# SHERWOOD CO-OPERATIVE ASSOCIATION LIMITED

## GENERAL MANAGER REPORT

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On behalf of the entire staff and management team, it is my pleasure as your Interim General Manager, to present this report on the progress and operational results of Sherwood Co-op for the year ending January 31, 2010.

For more than a decade now, our top priority has been to improve the operating results in all departments, and to strengthen the financial position of Sherwood Co-op.

Thanks to the continued support of our member-customers and the dedicated efforts of our board of directors, management and staff, Sherwood Co-op has enjoyed another year of successful operations.

For 2009, total sales were \$125,601,428 compared to \$124,700,244 last year. This represents a sale increase of \$901,184 or .7%. The majority of the sales increase can be attributed to the \$3,629,430 sales growth in our Food Division. While our Petroleum Division experienced an overall sales decline of \$2,638,020 primarily due to a decrease in the selling price, our total petroleum volume actually increased by 8.3 million litres or 12.7%.

Over the past five years, Sherwood Co-op sales have grown from \$76.3 million in 2004 to \$125.6 million in 2009. That's a very significant increase of \$49.3 million or 64.6% in spite of the ever-increasing level of competition.

As a result of continued improvements in our financial position during the past ten years, your board and management team have been able to allocate sufficient funds for the continued re-building of Sherwood Co-op by investing in the upgrading or replacement of facilities and equipment, the repayment of debt, the repayment of equity to members and the building of reserves to help protect your Co-op for the future.

While Sherwood Co-op has enjoyed several years of strong sales growth and a significant increase in net savings, we must continue to manage our operations to compete effectively in a highly competitive, and sometimes volatile marketplace. Our challenge for the future is to celebrate our success without becoming complacent. We must continue to monitor and adjust our operations quickly when change is necessary.

### **2009 OPERATIONAL HIGHLIGHTS**

#### **FOOD DIVISION**

Total food sales for both The Marketplace on Quance and The Marketplace @ Rochdale Crossing (formerly known as the Sherwood Mall Food Market) increased \$3.629 million to \$36,590,251 compared to \$32,960,821 last year which represents an increase of 11.0%.

Since 2007, our total Food Division sales have increased by more than \$6.954 million or 23.5%.

While the Regina food market continues to be very competitive, Sherwood Co-op food stores have increased sales in all areas due to the support of our new and existing members.

The Marketplace @ Rochdale Crossing is currently undergoing a major renovation and should be completed sometime in June. We apologize for any inconvenience these renovations may have caused. Our staff have been working to minimize any disruption of service but when the renovations are complete, we feel confident that our member-customers will enjoy shopping in the newly renovated store. The renovation will transform our old Sherwood Mall food store into

an exciting new Marketplace concept store similar to our Quance store. One thing members should watch for is the expansion and increased selection of our fresh departments.

The new mall owners have changed the name of the mall to Rochdale Crossing and have been busy upgrading the exterior and renovating the interior of the old mall in order to add more stores and services.

As a result of the name change to the mall and our own major renovations, we are re-branding the food store and changing the name to The Marketplace @ Rochdale Crossing. Our advertising and promotional material will now reflect the new name change. We will no longer refer to this location as the Sherwood Mall Food Store.

In 2009, The Marketplace on Quance expanded their dairy selection to accommodate the increased sales of yogurt, string cheese and the juice sections. We now have one of the largest yogurt sections at 28 feet. The introduction of a new salad bar program, which provides our customers the ability to build their own take home, ready made salads, has been well received with sales continuing to grow.

The "10 for \$10 Sale" promotion which was launched in 2008 and runs on the weeks following the warehouse sales, which occurs four times throughout the year, has proven to be very popular with our members.

In our Deli department we expanded our lunch menu in the hot deli case and have implemented a supper menu every night which is starting to take off. We expanded our Deli frozen food selection by adding a new upright freezer which allowed us to add a variety of new frozen food products. We expanded our selection of Value-Added meat products such as marinated meats and in-store made sausages. We also expanded our Bakery selection and display area by adding additional display racks which allows us to increase our product display space to accommodate the increase in demand for our fresh in-store baked goods.

## **PETROLEUM DIVISION**

For 2009, total petroleum sales were \$73,326,581 down \$2,638,020 or 3.5% compared to 2008. This sales decrease is primarily due to a decrease in the selling price. However, the good news is that our total petroleum volume actually increased by 8.3 million litres or 12.7%. Our total litres in the pump gas market increased 7.4 million litres primarily due to significant volume increases at our Prince of Wales and Albert and Avonhurst gas bar locations. All but one gas bar location showed significant growth in pump volume.

In 2009, Sherwood Co-op purchased the Prince of Wales Gas Bar/C-Store from FCL. Based on our actual pump volume for 2009, our Prince of Wales gas bar is now the second largest gas bar by pump volume in Regina.

In 2009, we hired Tom Larose as our new Petroleum Standards Manager. This new position was created to: optimize car wash operations; oversee propane training; ensure due diligence on matters of environmental compliance; improve the image of our sites; and assist with the upgrading of existing gas bar/c-stores and the development of new ones.

In July 2009, we implemented a formal Mystery Shopper program with Spot Check Services. This program is intended to provide feedback on our service levels in order to provide a more consistent level of customer service. The program has been well received by our staff and managers.

We will continue to place increased emphasis on the execution of friendly customer service, maintaining clean facilities as well as excellent in-store merchandising, together with the promotion of Co-op Membership Benefits.

The CCRL refinery expansion allowed us the opportunity to pick up many new accounts for both bulk delivered fuel and cardlock.

A Letter of Understanding was signed with an independent operator to open a new TEMPO account at Regina Beach. Construction is planned for 2010/2011.

Both the Home Centre C-Store and Prince of Wales completed interior renovations in 2009. In 2010, these two locations are slated for exterior renovations which will include new underground storage tanks to increase our on-site storage capacity due to increased volume, new canopy fascia, new LED exterior lighting, a new metal roof and pylon signage modifications.

In May 2010, we plan to begin construction of a new Convenience Store/Gas Bar facility including a touchless tunnel carwash in the Grasslands area, which is part of the new Harbour Landing subdivision. The new facility will be similar to the location at Albert Street and Avonhurst Drive, featuring a 3,000 square foot convenience store, gas bar and touchless tunnel carwash. We expect to open this new facility later this year.

## **HOME CENTRE**

In 2009, our Home Centre sales increased by \$125,234 to \$13,999,763 which is .9% over last year. However, in 2009 the decision to close our garden centre's at both our Quance and Rochdale food store locations resulted in a loss of \$406,976 in sales to the Home Centre. After allowing for the loss of the garden centre sales, the Home Centre had an actual sales increase of \$532,210 or 3.9%.

With new government programs such as the Home Renovation Tax Credit, we anticipated that 2009 was going to be a very busy year and with that in mind additional employees were hired to accommodate the increased demand. The new program helped increase sales even though housing starts were down. Our employees were kept busy providing estimates, ordering products for home renovations and delivering product to job sites in and around Regina.

In 2009, our Home Décor department added a number of new product lines and had an excellent year resulting in a sales increase of \$134,369 or 17.1%.

We are looking forward to another busy year in 2010. Housing starts are on the rise, and we have experienced a very nice increase in sales from the refinery expansion project.

## **INDIAN HEAD**

Indian Head achieved sales of \$1,684,833 down \$215,460 or 11.3% from the previous year. The sales decline was primarily due to a decrease of \$22,000 in propane sales and \$167,000 in pump gas sales. Our pump gas volume was down 5,100 litres. The good news is that after 9 weeks, our total dollar sales are up 25% and our pump gas litres are up 14%.

In late 2009, an interior renovation was started and completed in early January 2010. This was a major under-taking for our staff. Discontinued and obsolete inventory was cleared out, the store was painted and received some minor renovations, new fixtures were installed and the store was completely re-merchandised. Experiencing a renovation and interior upgrade of this nature was exciting and became the talk of the town. Customers were very happy to hear what was happening to the store. The talk around town is now very positive and everyone is a lot happier shopping in the store, and our staff enjoy working in their new surroundings.

In 2009 a new Point of Sale system was installed that now provides customers a product descriptive invoice and the ability for employees to scan products at the time of purchase. A special thank you to all our staff in Indian Head for assisting in the renovations of store.

## **LOCAL SAVINGS**

In 2009, Sherwood Co-op achieved a local savings of \$460,956 or .3% of sales compared to \$1,841 in 2008, and \$544,636 in 2007.

It has been the goal of your board and management team to improve local earnings annually by continuously evaluating department operations and implementing solutions which will enhance our financial position and help to increase equity and cash back for all members.

## **EQUITY AND CASH BACK**

Over the past two years, Sherwood Co-op has paid out \$3.9 million cash to local members. Your Board of Directors recently approved a total cash re-payment of equity to local members totaling \$1.2 million. Once members receive this cash re-payment of equity by the end of May, Sherwood Co-op will have paid out more than \$5.0 million cash to local member over the past three years.

In 2009, retail Co-op's paid out \$220 million cash to members across western Canada. WOW!!! That's a lot of CASH!!!!

This is one of the major differences we have over our competitors. But this major difference, or perhaps a competitive advantage, is based on our ability to generate strong local earnings as well as strong patronage refunds and cash back from FCL.

Our goal is to return a CASH re-payment of equity to local members annually. Our slogan "Moving Forward by Giving Back" is one way "We're Different and It Shows".

With the continued support of member-customers, Sherwood Co-op is capable of delivering enormous membership benefits including Equity and Cash Back to all members.

We hope you will share your positive experiences with your friends and neighbors and encourage them to **SHOP CO-OP AND SHARE IN THE PROFITS.**

## **MEMBERSHIP**

The membership of Sherwood Co-op continues to grow at a very remarkable rate. In 2009, we welcomed 3,164 new members to our Co-op compared to 3,128 new members last year. Over the past five years 11,450 new members have joined Sherwood Co-op and are now enjoying the "Benefits of Membership".

The excellent growth in our membership is primarily due to the opening of The Marketplace on Quance, Prince of Wales Gas Bar/C-Store and Albert and Avonhurst Gas Bar/C-Store together with our improved financial performance and our ability to make large cash re-payments of equity to our local members annually.

As a team, your board of directors, management and staff are committed to the growth and prosperity of Sherwood Co-op. We will continue to develop your Co-op into a great retail business which all members can be proud of. The financial strength we have built over the past decade will provide us with greater options for future growth and success.

## **COMMUNITY BUILDER**

As a co-operative organization, we believe that our commitment goes beyond meeting the needs of member-owners to include serving the needs of the community. By supporting the needs of the communities we serve, we play an important and key role in both the social and economic growth of our community, which ultimately contributes to a better quality of life for all.

In 2009, this tradition continued as Sherwood Co-op invested more than \$30,000 toward local charities, non profit groups, fund-raisers, education and various youth sports and recreational activities.

## **GROWTH AND DEVELOPMENT**

Upgrading and improving our facilities and equipment remains a high priority for Sherwood Co-op. Over the past decade, Sherwood Co-op has made significant progress toward the rebuilding of Sherwood Co-op into a strong, successful and locally owned business. Since 1999, Sherwood Co-op has invested:

- \$12.2 million on facility and equipment replacement and upgrades
- \$8.1 million on cash repayments of equity to local Regina members

Currently, we have some of the finest facilities and equipment in our community, which helps project a successful, positive image for Sherwood Co-op.

## **LOOKING AHEAD**

Sherwood Co-op's rapid growth over the past five years is primarily the result of increased petroleum volume from our Gas Bar/C-Store locations, increased food sales and our continued focus on our Membership Benefits Program. The economic benefits to our local members and the communities we serve are significant. We believe that our Membership Benefits Program is the ultimate loyalty program.

To quote the late Mr. Wayne Thompson, CEO, Federated Co-operatives Limited, "when we provide members with Co-op Equity and Cash Back along with our quality products, excellent service and our community building efforts, we have a winning combination. We believe that there is no better system of doing business in the world than the Co-op system when it works the way it was intended".

As we look to 2010 and beyond, we are excited about the possibilities for future growth and expansion of services. We must continue to aggressively market our products and services in order to increase sales which is the lifeblood of any business. As a result of ever-increasing pressure on margins due to a highly competitive marketplace, we must continue to focus our efforts on finding ways to achieve stronger margins while remaining competitive and finally, we must find new and innovative ways to control our cost of doing business.

## **2010 BUDGET**

Total sales are budgeted at \$135.1 million, an increase of \$9.5 million or 11.5% over 2009. Local saving on operations is budgeted at \$1.1 million compared to \$460, 986 in 2009. For 2010, our Capital Budget for Fixed Assets and Major Repairs is budgeted at \$9.4 million. Significant items include:

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|---|---------------|
| • Rochdale Crossing Food Store Renovation         | \$1.7 million |
| • Home Centre Renovation                          | \$ 600,000    |
| • Renovations to Rochdale Crossing C-Store        | \$ 565,000    |
| • Exterior Renovations to Home Centre C-Store     | \$ 236,000    |
| • Exterior Renovations to Prince of Wales C-Store | \$ 308,000    |
| • New Grasslands Gas Bar/C-Store/Tunnel Car Wash  | \$4.6 million |

As you can see, an organization of this size and scope of operations requires a lot of cash.

## **EMPLOYEE SERVICE AWARDS**

The success of Sherwood Co-op can be attributed to our more than 350 employees' hard work, knowledge, skill and dedication. We welcome all the new employees that have joined the Sherwood Co-op Team in 2009 and are proud to recognize our employees that have reached years of service milestones.

## **ACKNOWLEDGMENT**

In conclusion, I would like to express my thanks and appreciation to the Board of Directors for allowing me the opportunity to act as your Interim General Manager for the past several months during Mike's absence. I would personally like to welcome Mike back....it's good to see you back and gaining strength. I was honored to be entrusted to manage Sherwood Co-op while you were away.

A very special thank you to our entire staff and management team for another great effort in 2009. In my brief time working with Sherwood Co-op, I have been impressed with your staff and management team's ability to adapt to several changes in the General Managers position this past year. I am grateful for the support and co-operation I received from everyone at Sherwood Co-op.

On behalf of the Board of Directors, management and staff, I would like to thank all members who supported their Co-op during this past year. We appreciate your business and look forward to serving you for many years to come.

Respectfully Submitted,

Allen Merritt  
Interim General Manager