

To Our Silver City Food Cooperative Members and Staff:

On 2/4/21, The Silver City Food Co-op Board of Directors authorized management to seek financing for the expansion/remodel and relocation to the Co-op owned building at 907 Pope Street. Taking this important step was based on the board's confidence in the updated planning, pro-forma and design work presented to the board. We expect the resulting store to be a Silver City gem, a community hub, continuing the legacy of Silver City Food Co-op as an oasis of health, wellness, and goodwill. Never mind the most bad ass natural food store this side of the Pecos.

As most of you know expansion of the Co-op from its current location has been planned for some time. The Pope Street building was purchased over two years ago, as the "perfect" location and size for the Co-op to relocate. While over 90% of members support the move, for various reasons, progress has been sporadic. A major hurdle to progress was the absence of a professionally conducted market/demographic study. This was completed in 2020. The results of this study returned highly favorable revenue projections, compared with previous, less data driven estimates. Additionally, a competitive analysis was conducted, to estimate the size of the retail food marketplace in Silver City. Using industry standards to gauge what a successfully executed project of this size would generate in market share, the numbers backed up the market study.

The next key step was to enlist the expertise of store designers specializing in grocery, to ensure our store design would capture the needed revenue for payback. We also wanted a design team that understood co-ops, and the desire to keep our community store's heart and soul intact. We partnered with Sevenroots Design, to build on the previous planning work for the building. Sevenroots have a strong history of cooperative food store design and they are a co-op themselves. All aspects of their design, from placement of equipment to department merchandise programming, are intentional decisions, tied to sales projections, operational considerations, and labor needs. Additionally, further due diligence on the financials, reviewed by industry and financial pros, cemented the decision to move forward.

The reasons for relocation are numerous and well known. The current space has served the co-op well, but has no flexibility to grow into the best version of the Silver City Food Co-op. To simply stay in the current building means a progressively worse customer experience; due to insufficient parking, crowded aisles, limited product selection, aging infrastructure, and the "frankensteined" use of space. This situation is inadequate for the expectations of our customers, and the employees. Even if we planned to maintain the status quo, a \$200,000+ complete replacement of all of our in line refrigerated fixtures and equipment will have to happen soon. On January 1st of this year, the Environmental

Protection Agency implemented the long planned ban on the manufacture or import of R-22 refrigerant, because of its impact on the ozone layer. Our current system will not run on the new, greener refrigerants. It will require complete system replacement, and in the meantime, servicing our current system is going to get prohibitively expensive, as the available supply of R-22 dwindles.

Remodeling the current space is frankly an irresponsible use of the Co-op member/owners capital. No matter how well executed the plan, there is no way to improve the site's biggest deficiencies, which are inadequate square feet and parking. Return on investment without improvements in those deficiencies would be difficult. Any remodel at Bullard would also be very expensive in lost business during the process. Finally, putting money into the Bullard street location would likely just delay the inevitable, eventual relocation. We own the best place to relocate to right now.

The competitive environment for the Silver City Food Co-op is relatively benign. We cannot expect that to continue indefinitely. At this time, we have the ability to strengthen our operation to the point it may be the difference between another competitor locating here or not. The difference in protecting market share from an antiquated, overstuffed 2100 square foot Bullard vs. the spacious, open, vibrant and alive space that will be Pope street is substantial. Other Co-ops have waited until direct competition arrived and revenues were declining before remodeling. It is a losing proposition.

It is more meaningful to focus on the incredible enhancements that will be a part of the relocation project. A massively increased prepared foods offering, including take and bake pizza, kombucha on tap, hot foods and soups, made to order sandwiches, breakfast, and vast amounts of grab and go food . Indoor and outdoor seating. Large increase in grocery product selection, including a broader variety of locally produced foods. Expanded produce department. Expanded bulk foods, dairy, frozen, wellness. Additional check stands for quick check out. Facilities for employees that are designed for them to do their job. A break room! A community meeting space! A facility with growth that includes progressively improving employee compensation and benefits. A convenient location with parking on site. Expansion will allow us to increase the diversity of the Co-op, and better market to some under- served demographics. Strengthening and enhancing the legacy of the Silver City Food Co-op. Below are some "draft" drawings that illustrate the current state of planning for the Pope Street store. Stay tuned for more information about the project as it continues, including member meetings.

Thank you,

Kevin Waters: General Manager, Silver City Food Co-op

