

Work on the expansion project continues to progress. As stated previously, a lot of good work has been done to get the Co-op close to a final decision to seek financing for a remodel of 907 Pope Street. The purchase of a building in the range of square feet that makes sense, with adequate parking, in a strategic location, at a very good price set the stage for the work that has continued. Initial design and testing work took place, and the community was engaged and highly in favor of the project.

One of the last boxes that needed to be ticked took place in early March, in the form of a market study that returned a highly favorable result. A market study by G2G research projected first year sales at the highest initial increase from 2019 sales that has ever been considered for this project, followed by projections of maintaining nearly double digit increases in the ensuing three years. These projections confirmed the general premise of the relocation releasing unrealized demand for the Co-op's goods and services. Prior to updating the pro-forma and business plan, and taking this study to financial organizations to seek funding, there were still some unanswered questions. As the largest project in the Co-op's history, it is important to go into it with the highest possible level of detail in projecting possible cost/revenue scenarios. Information that would help improve this detail:

- Department level financials for the store. Labor costs for departments have not historically been measured at SCFC. This information is important whether the Co-op moves or not, for the purpose of properly allocating resources in the store. For the case of relocation, to accurately model different scenarios in terms of department sales and contribution margin, this information is critical.
- A more detailed analysis of the competitive marketplace. While the G2G study accurately described a "weak" competitive marketplace, the level of detailed analysis of both grocery stores, and restaurants (prepared foods) was not present in the study. Regardless of the absence of a like to like competitor, it is important to understand the size of the competitive pie, and then extrapolate out what share of that pie the Co-op can possibly garner after a largescale project. Every trip to Albertson's and Wal Mart confirms that there is significant organic food business going to those stores in Silver City.
- More detailed estimates of project costs with up to date real world data.

- Detailed menu of potential “upgrades” to the basic project design, and a cost benefit analysis of what those upgrades would generate in revenue.

All of the above bullet points are in the process of being assembled into the updated business plan and pro-forma, which are very close to presentation. All of the background work is done, the research is done, and the numbers are being crunched and different scenarios are being modeled. I can address generally the takeaways from what has been gleaned so far.

That is, this project pencils out. Making broad assumptions about project costs and potential revenue increases from the remodeled facility, even a somewhat conservative scenario still results in operating profit that is able to cover cost of financing. Taking the G2G projection for sales in the first year of operation, reducing it slightly, at a historic average margin, a reasonable labor figure for an expanded store, and reasonable operational cost, this still results in net operating profit that covers the cost of financing for most scenarios. There is a high likelihood that labor and margin improvements would be part of an expanded store, and that these are conservative estimates.

The different measures for calculating these financing scenarios for cost of financing the project are a cost per square foot that is on the low end for moderate retail with average finishes and normalized construction costs, up to a high end for moderate/complex retail with custom/specialty equipment and finishes with normalized construction costs and allowances for unforeseen site issues.

Further modeling with small business loan terms and payback time frames, we have a low end to a high end for monthly financing costs for different versions of the project. As stated above, for an overall analysis of this project, a conservative case scenario still sees a net profit that is able to cover the payback.

The estimates for the sales gains for the project, based on the secondary market study analyzing the competition, actually project higher than the gain for the first year that the G2G study does. That's a starting point, some of the additional components that will be presented for consideration, in addition to the baseline increases from expansion:

- a dramatically expanded prepared foods presentation that may represent 25% of store sales

- adding additional revenue streams not currently part of the merchandise mix (i.e. organic/natural large animal feed and garden supplies)

- designing a prepared food department that would have dual use as small business Incubator kitchen and education space, resulting in a significant cost decrease for prepared foods expansion, one of the biggest cost drivers.

The takeaway right now at this point before the presentation of the full pro forma and business plan, are that all signs point to the Pope Street expansion project being a fully viable and sensible project.