

2014 ANNUAL REPORT



people's
FOOD CO-OP



Mt. Hood Organic Farms is an long-time leader in the Organic movement and supplies the Co-op with our favorite apples and pears during the fall. Mount Hood Organic Farms also provides the fruit for the School Aid program which donated 90% of every dollar to local schools in 2014.

OUR ENDS STATEMENT

A PASSIONATE COMMUNITY
WORKING TOGETHER
FOR SUSTAINABILITY, PROGRESSIVE LAND
AND ANIMAL STEWARDSHIP, HUMAN
RIGHTS, SOCIAL AND ECONOMIC JUSTICE.
THRIVING COOPERATIVE AND LOCAL ECONOMIES
A SAFE, WELCOMING COMMUNITY WHERE ALL ARE VALUED
DEMOCRATIC WORKPLACE WHERE ALL WORKERS' VOICES ARE VALUED
ACCESS TO HEALTHFUL FOODS OUR CUSTOMERS CAN TRUST

People's Ends Statement, adopted by the Board of Directors in 2008, guides the goals and values of the day to day operations of People's Food Co-op.

A LETTER FROM YOUR BOARD OF DIRECTORS



Board of Directors' President Joel Brock

Let's put it all out on the table from the get-go,

2014 is the first year since the cooperative adopted a Patronage Dividend system that we have not posted a profit for the year. 2014 marks the end to a nearly 10-year stretch in which our cooperative built unprecedented shared wealth. People's past 10 years were profitable year after year, sales growth was in double-digits, and we saved enough to provide our cooperative with something we never had before: a safety net. The recent flattening sales are not a surprise to those of us on the Board and Collective Management who study the financial health of the Co-op closely. We mentioned many of these trends at last year's Annual Meeting, and the management has been busily sharpening and fine-tuning the operations of the store to adjust to our current situation.

The changing landscape of natural food stores

Our trajectory leading up to 2014 mirrors a broader trend in the national grocery industry: an emerging consumer interest in natural and organic foods. You know, the stuff we've been peddling better than anyone since 1970. Now conventional retailers like Safeway, Kroger (Freddy's), and Wal-Mart have been expanding their natural foods offerings to meet the growing demand of increasingly health-conscious shoppers. Costco now does more sales of organics than Whole Foods Market. Wal-Mart did \$400 million in sales of local produce. And did you know?! 7-11 now sells seven times more bananas than they sell Snickers candy bars. Those are just the conventional grocers. In the natural foods marketplace Green Zebra is poised to expand into Southeast Portland, privately-owned, Boulder-based Natural Grocers will be opening up shop in the city and New Seasons just purchased a small chain of natural foods stores in northern California.

The Co-op Difference

In light of the booming interest in products like ours, and the widening array of options for places to buy our products, we have to ask ourselves, "What makes People's unique?" The answer, for me, is obvious and powerful. **We Own It.** This is our store. The economy we create in our own little corner of SE Portland is vibrant, inclusive, and alive. The power of that economy is that it feeds back into itself. We don't have a check to write that goes off to Corporate HQ or faraway investors. We ARE the investors. People's is a truly local engine for creating thriving community.

As the marketplace gets more competitive, and sales growth remains slow, how can People's continue to create the impact that we want in our community? The living-wage jobs, sustaining small, family-run farms and cottage industries, providing a safe place for community to gather, promoting anti-oppression awareness, democracy, and equity, creating access not just to "natural" and "organic" but truly health-promoting foods. These and others are all activities we should be proud of, and want to continue to be able to grow. Without the profit generated by our Co-op, these impacts disappear.

We, your Board of Directors and the Collective Management, want to hear from you, and will be pounding pavement, shaking hands, and asking tough questions as we gather input and craft a long-term plan for the Co-op and ourselves. Together we hope to be able to write the next chapter in People's Co-op's story.

To the future and beyond,

A handwritten signature in black ink that reads 'Joel Brock'.

WELCOME TO THE 2014 ANNUAL REPORT

Last year was a time of continued successes for People's paired with some hard-won realizations. The continued dedication of People's staff, Member-Owners like you, and our wider communities enabled a year of learning, changing, and preparing for our future.

Our core Member-Ownership remained dedicated to People's, and our Co-op is still well-known for its unique product offerings, iconic building, and dedication to strong values, in Portland and beyond.

At the same time, increasing competition and capacity issues continued to increase their effect on our income, and 2014 will be the first year for which we won't offer a patronage dividend since People's implemented the system in 2007.

In 2014, our Collective Management spent time considering how to manage a store that's successful economically while staying true to, and even deepening, our commitment to our Ends (see inside cover.) We believe our values are what will give us the niche and the sustenance to stay viable as a living and evolving business.

This report will detail for you some of the ways that People's values were expressed in 2014.

We hope that you find this report interesting and informative! Thank you for taking the time to read it, and for your continued care and attention to the well-being of your Co-op.

INGREDIENTS:

3 / **Our Passionate Community**

First we talk about you! Our Member-Owners are at the core of everything that People's is and stands for. This section looks at trends in new Member-Owners joining the Co-op and your investment in the Co-op.

5 / **Supporting Our Local Economies**

Here we review the ways in which the Co-op continued to work to support local food producers and farmers along with other members of our communities in 2014.

7 / **Democratic Management**

In 2014 People's continued to strive to make the Co-op an equitable workplace where all voices are valued as we worked to deepen our commitment to social and economic justice.

8 / **Our Competitive Landscape**

A break-down of the competition facing People's and other co-ops.

9 / **The Numbers**

A close look at the financial numbers for 2014 and trends in sales at People's.

12 / **Planting Seeds for the Future**

We look ahead and ask: what's next for People's?



OUR PASSIONATE COMMUNITY



Our wonderful Member-Owners all have their own unique reasons for supporting People's!



Member-Owners talked about the values of the Co-op at the Annual Meeting.



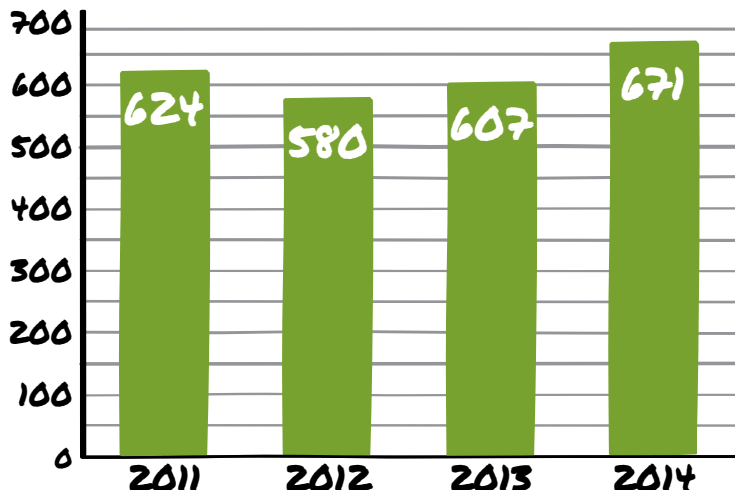
Member-Owners, with members of Portland's other co-ops, learning about our local food systems during Farm Tour.



Playing a game of cornhole at the 2014 Harvest Festival.

One of the core values of our Co-op and one that sets us apart from other businesses is that we are owned directly by our community of neighbors, farmers, and local food producers. Members of our community invest in People's because they support the work we do, and want to be a part of it. We strive to create a business that our Member-Owners are passionate about and invested in.

NET NEW MEMBER-OWNERS

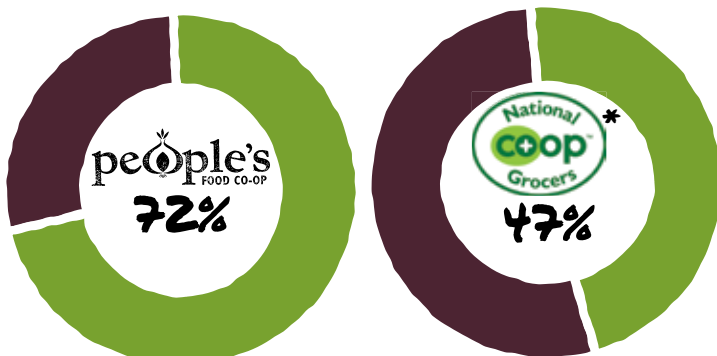


In 2014, we surpassed our goal of net new Member-Owners by 56, signed up our 10,000th Member-Owner, and had the best ever "Co-op Month" equity drive in October.

The increase in new Member-Owners is likely due in part to the 10% monthly Member-Owner discount benefit that we implemented for 2014. This benefit was changed to a quarterly 10% discount in 2015, and we hope that our newest Member-Owners have discovered the numerous other reasons to continue to shop here and invest in our Co-op.

Additionally, while you don't have to be a Member-Owner to shop here, our sales to Member-Owners greatly surpasses the national average, indicating that our community is invested and keeps coming back to shop here.

% OF SALES TO MEMBER-OWNERS

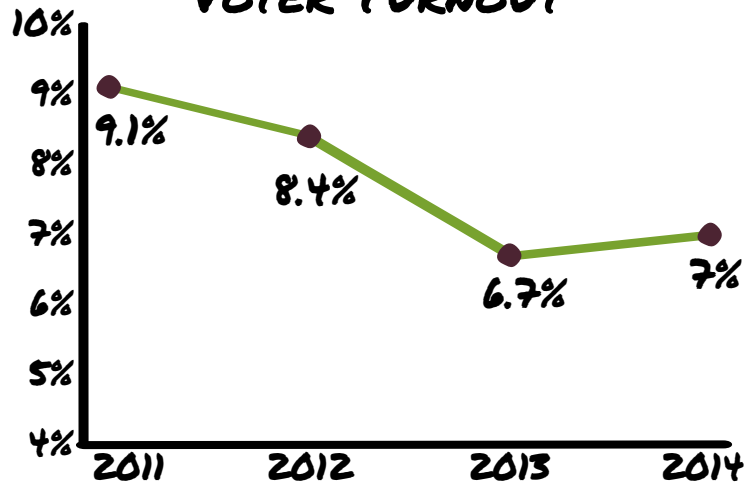


* Average for all National Co-op Grocers member co-ops

Your Votes – Your Election - Your Board of Directors

Being a cooperative means we are democratically controlled by our Member-Owners. Our Member-Owners have the ability to run and vote for the Board of Directors each year. We have seen voter turnout decline steadily over the past few years, but 2014 might be a shift in the tide! Voter turnout increased marginally, but could be a sign of increased interest of our Member-Owners to have a more direct impact on the Co-op's future.

MEMBER-OWNER VOTER TURNOUT



SUPPORTING OUR LOCAL ECONOMIES

We do all that we can to make sure that a lot of the money you spend at People's goes directly back into our local economy. Our buyers do their best to source products locally and farm direct whenever possible. People's supports new small scale businesses and the Co-op is often the first store that carries their products. We give donations to local organizations to strengthen our communities. Most importantly, by being a cooperatively owned business, People's keeps the common wealth we create close to home. We own it!

OUR BOUNTIFUL FOODSHED

Instead of using the term "local" People's uses the idea of a foodshed to understand the place of the Co-op in our food system. Like a watershed, our foodshed provides our community with a resource, food, and allows us to have a more direct connection to where that resource is coming from.



THE GREEN FOODSHED MARK:

indicates products with ingredients grown in Oregon or Washington and prepared in Oregon or Washington



THE YELLOW FOODSHED MARK:

indicates products prepared in Oregon or Washington.

17%

OF OUR PRODUCTS ARE GROWN AND PREPARED IN OUR FOODSHED!

+

28%

OF OUR PRODUCTS ARE PRODUCED IN OUR FOODSHED!

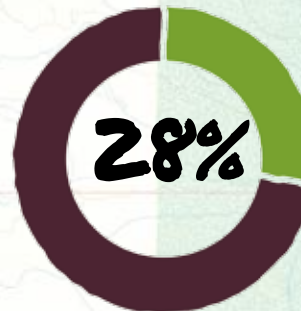
= 45%

OF ALL THE PRODUCTS AT PEOPLE'S DIRECTLY SUPPORT OUR LOCAL FOOD ECONOMIES AND REDUCE THE ECOLOGICAL IMPACT OF WHAT WE EAT!

RELATIONSHIPS MATTER: BUYING FARM DIRECT

People's Food Co-op is committed to buying direct from local farmers and food producers whenever possible. What's so good about farm direct? Farmers and food producers get the best prices when they sell directly to the Co-op, it is the most financially beneficial for them, and it ensures the freshest produce in town. When you shop at People's you are not only supporting your Co-op, you are also helping us support our local food system and helping maintain our thriving local economy.

In addition to supporting our local food producers, People's maintains a healthy donations program. In 2014, People's donated to 57 organizations, 50 of which were in our Foodshed of Oregon or Washington.



OF PRODUCE SALES WERE FARM DIRECT IN 2014

IN 2014 PEOPLE'S BOUGHT FARM DIRECT FROM **44** DIFFERENT FARMS

(5 MORE THAN IN 2013)



People's produce team met with Farmer Dave Brown & toured Mustard Seed Farms in 2014. The Co-op has maintained a strong relationship with Mustard Seed Farms for years. We are the farm's biggest client outside of large produce distributors and the Co-op buys more farm-direct produce from Mustard Seed than any other farm.

Giving to Our Community

Due to low sales and anticipating negative net income throughout the year, our donations program significantly decreased in 2014. Even though we gave out less donations overall, People's remains committed to sharing our abundance and access to great food with our local community. We receive multiple donation requests a day and are starting to choose our donation recipients more intentionally, focusing on local organizations that are values driven and do work that complements our Ends.



2014 FOODSHED & NATIONAL DONATION RECIPIENTS

VITAL COMPASS CO-OP • CENTER FOR INTERCULTURAL ORGANIZING • NW VEG • STUDENT ALLIANCE FOR INTEGRATIVE MEDICINE • MULTNOMAH PLAYSCHOOL • MONTAVILLA FOOD CO-OP • ROGUE FARM CORPS • THE REAL FOOD CHALLENGE • PROJECT ACCESS NOW • BIKE BACK THE NIGHT • BACKLINE • PSU QUEER STUDENTS OF COLOR • PORTLAND TAIKO • MOTHER + CHILD EDUCATION CENTER • NW WORKERS' JUSTICE PROJECT • LEARNING GARDENS LABORATORY • LIVING YOGA • KBOO • XERCES SOCIETY • CATHOLIC CHARITIES • ADELANTE MUJERES • SOCIAL WELFARE ACTION ALLIANCE • FARM WORKER JUSTICE • VILLAGE BUILDING CONVERGANCE • CREATIVE SCIENCE SCHOOL • SEXUAL ASSAULT • FRIENDS OF FAMILY FARMERS • PORTLAND FRUIT TREE PROJECT • STREET YOGA • ECUMENICAL MINISTRIES OF OREGON • RAPHAEL HOUSE OF PORTLAND • DAVID'S HARP • FAMILY FORWARD OREGON • ZENGER FARM • JUST SEEDS ARTISTS COLLECTIVE • DEFUNKT THEATRE • BEGINNING URBAN FARM APPRENTICESHIP • SPREADING RUMORS • COLONEL SUMMERS COMMUNITY GARDEN • NW ENVIRONMENTAL DEFENSE CENTER • OREGON WILD • WOODSTOCK PTA • CIRCUS PROJECT • OREGON FOOD BANK • PARTNERS IN HEALTH • CRANKSGIVING • COMMUNITY TO COMMUNITY DEVELOPMENT • YES ON 92 • KITCHEN COMMONS • BLOOMING GARDEN PRESCHOOL • DUMPLING FESTIVAL • MAITRIPA SCHOOL • FARMERS' MARKET FUND • VILLAGE GARDENS • PORTLAND EARTH ART AND AGRICULTURE PROJECT

DEMOCRATIC MANAGEMENT

People's continues to be one of less than ten collectively managed food co-ops in the nation. Our non-hierarchical democratic work structure strives to empower all workers to be leaders in their departments, and requires us to work closely together to run our store. Through our work as a worker-managed collective, community hub and food Co-op, we face many different issues daily.

In 2014, People's Collective Management dove into work involving issues of anti-oppression and social justice. From economic disparity and food insecurity, to racism, sexism, and classism, working at People's Food Co-op is a symphony of complex relationships that mirror the outside world. In 2014 these issues that underlie all of society were brought into sharp focus. We started to deepen our understanding of their impact on our employees, our food, our culture, and our communities.

We are working towards more transparency, honesty, and focus in how our work in these areas can lead to social change in our community. We are bringing our anti-oppression lens and commitment to social justice with us as we enter into long-term planning.

In 2014, while People's continued to pay good wages, provide benefits for all staff, and added a retirement plan for Collective Managers, the Co-op saw increased turnover. The Collective Management is changing and we are responding to our changing environment. In response to low sales growth and tightening

AVERAGE WAGES



labor budgets, we are deepening our focus on sales, harnessing the power of all our experienced voices, and creating a long term plan. Openings have been filled by people who are invested in working on the Collective and are motivated by People's values and Ends. We continue to work towards our End of a democratic workplace where all workers voices are valued.



Co-Managers Ashley Todd and Jenna Chen celebrating Earth Day at the Farmers' Market.



Co-Manager Karna Conyers addressing Member-Owners at 2014's Annual Meeting.



Ryan running through the Farmers' Market.



Some of our buyers are so knowledgeable about their products that they have started their own businesses.

OUR COMPETITIVE LANDSCAPE

The natural foods market across the country is rapidly expanding, due largely to the long hard work of food co-ops. Co-ops used to be some of the only places that sold organic produce, bulk foods, and natural body care products. Pioneering food co-ops worked hard to share the importance of local, sustainable and ethical food systems with their communities. They succeeded, and as a result other businesses have started to capitalize on the positive trends created by the co-op movement. The natural foods movement is gaining momentum, becoming more mainstream and more competitive. As a result, some small, community oriented co-ops are struggling to keep up.

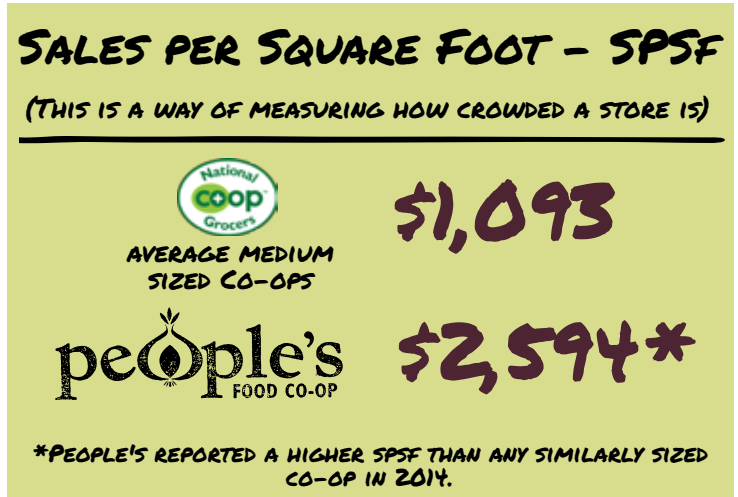
The natural foods movement is particularly strong in Portland. Many people who live here seek out high quality, local, organic, ethically grown, minimally packaged and healthful food to eat. Many more people who share these values are moving to the city. Portland is growing and changing rapidly, our neighborhood especially. This means that the competition here is especially stiff.

Despite these external challenges People's is doing relatively well compared to many other co-ops—although increased

competition has certainly had an effect. Even as our city and neighborhood are changing, people like you still understand the differences between places like People's and our competitors. We had more new Member-Owners join the Co-op in 2014 than in any of the previous 4 years, and our vibrant community still goes out of their way to support us.

One of the greatest limitations of our Co-op is the small size of our store. People's Sales Per Square Foot is more than twice the average for co-ops of our size. Our space is crowded. We aren't able to offer all of the products we'd like to and more importantly, we don't have the space to grow.

In order to keep up with our expanding competitive landscape, we must prepare for the future. As a Collective, a community, and a food co-op we must ask ourselves how we can keep our business thriving.



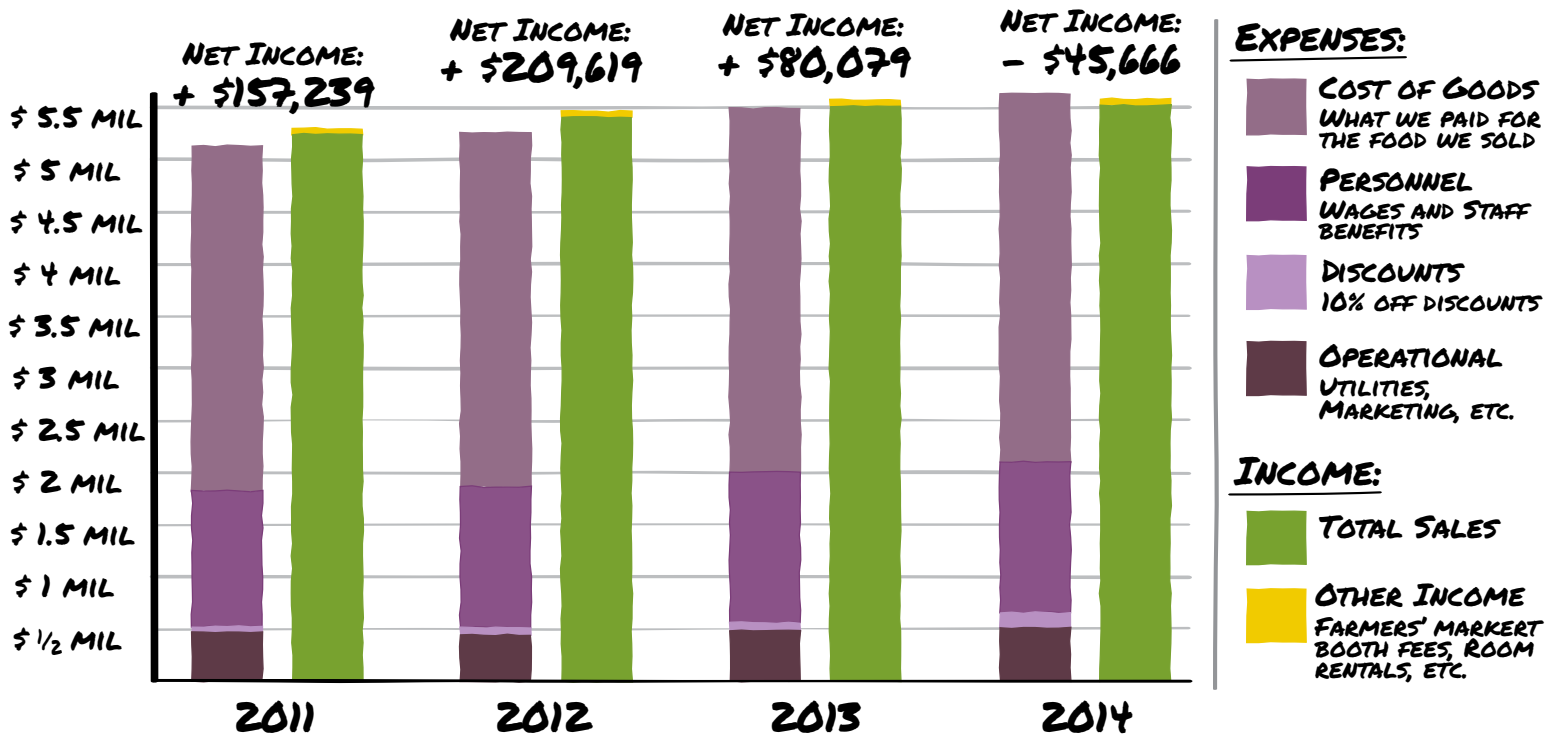
Our little Co-op is getting crowded. Because of our awesome farmers' market, Wednesdays are especially lively and busy times in the store.

THE NUMBERS

Rarely is anything just one thing. And so it is when it comes to the numbers here at People's. On one hand, many operational trends are declining – most notably, sales growth and net income. On the other hand, our overall financial position is strong – a lot of cash, no long term debt, and strong owner investment.

Despite the current challenges, the co-op is in no immediate danger while we put our efforts into creating a sustainable long-term future. Our financial position also puts us in a great position to leverage our community wealth for future greatness. Read on for more details.

TOTAL EXPENSES + INCOME*



* The generous inheritance from deceased Member-Owner Larry Juelfs which the Co-op received in 2012 and 2013 is not included in the net income figures in this graph. The net incomes in this graph are pre-tax and pre-patronage numbers.

SALES GROWTH

In 2014, the Co-op's sales growth was low – in fact, at a mere +0.2%, we made barely more than we did in 2013 and fell short of our goal of +3%. Several additional factors had an impact:

- Monthly 10% Member-Owner Discount:** While we hoped this monthly discount would increase sales overall, this wasn't the case. We saw a trend of owners who planned around the monthly 10% discount, and did a large shopping trip once a month. The result: many of our Member-Owners bought the vast majority of their higher-cost items throughout the year using this discount. This led to 4% higher sales to owners, with a higher average purchase, but less frequently. Additionally, the elimination of 10% off days meant non-owner shoppers no longer had any discount access. The result: non-owner sales decreased by 9%, effectively negating the increase in owner sales. We hope our shift to quarterly discounts has a more positive effect on our financial bottom line.
- Competition:** This is a huge factor in our growing city and in fact, for co-ops all over the country. You can read more about this in the prior section.
- Store Crowdedness:** With annual sales of \$2,594 per square foot of retail space, we sell more than twice the amount per square foot compared to the average food co-op. Simply put...it's crowded! Our store is close to capacity and we need to create long-term solutions outside of our current space that will be able to sustain our future.

NET INCOME

Our net income, profit, or “financial bottom line” fell below zero in 2014. For the first time in several years, the Co-op lost money on operations, to the tune of approximately \$46,000 (0.8% of sales). Low sales growth was certainly a contributing factor, as were the following:

- **10% Monthly Member-Owner Discount:** As noted previously, the discount cost more than anticipated. It cost \$21,000 over budget and did not significantly increase sales.
- **Labor:** Total cost for 2014 came in slightly over budget (\$17,000 = 0.2% of sales) due to lower sales than budgeted for and increased staff turnover.
- **Gross Margin (net profit on the products we sell):** In our effort to stay competitive on price, we have been working to lower some of the prices on our products. Last year, this resulted in a lower gross margin for the Co-op. We are continually working on ways to keep prices competitive and boost our gross margin to meet our financial goals. In turn, this margin allows the Co-op to continue to move towards its Ends and values.

No profit also means no patronage dividends. 2014 is the first time we have not been able to distribute patronage since we implemented the system in 2007. In 2015, the Collective Management and Board are devoting extra time and resources to create a long-term vision to sustain the future of the Co-op. This is an exciting time in the history of People’s. The extra time and labor this work will require will likely mean that there will be no patronage dividend for 2015. With sales growth likely to remain low, and the cost of food, staff benefits, utilities and many other expenses rising due to inflation, it will remain difficult for the Co-op to show a positive net income in our current space.

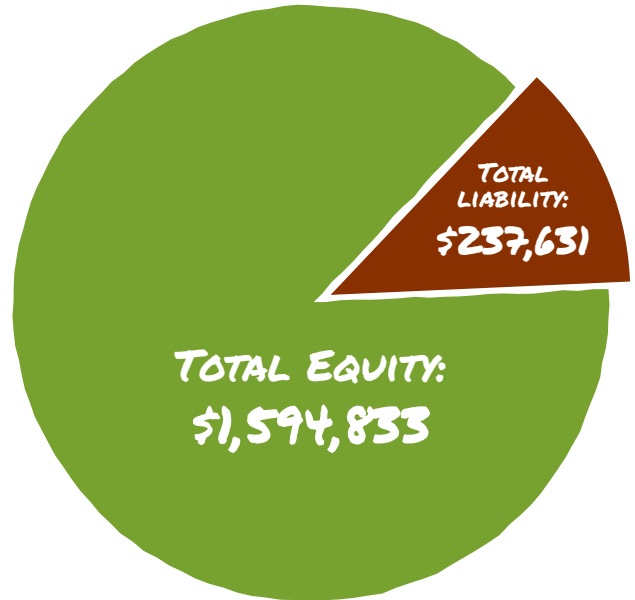
THE BALANCE SHEET

Despite the difficult reality outlined above People’s has built strong community wealth over the past 12 years.

Our balance sheet, which is a snapshot of the Co-op’s financial condition, remains stable and strong. We still have money in the bank (\$803,000, the equivalent of 53 days of operations) to hold us over in case of emergency or to use to grow the business. All other assets combined remained almost exactly the same as last year. Liabilities (debt) decreased about \$76,000 while total equity increased \$22,000 as a result of additional Member-Owner investments.

While sales and net income are struggling, the Co-op is still in a secure financial position. The community wealth that we’ve built together has a story beyond the numbers. It represents the care, passion, and potential that we can use to grow and evolve.

TOTAL ASSETS: \$1,832,464
AS OF DEC. 31ST, 2014.



ASSETS:

Everything we have.

Liabilities + Equity

Cash	\$802,730
Inventory	\$195,642
Other Current Assets	\$48,737
Equipment	\$294,384
Land & Building	\$890,051
Accumulated Depreciation	- \$450,328
Other Assets	\$51,246
TOTAL ASSETS	\$1,832,464

LIABILITY:

Externally financed assets. (What the Co-op owes others)

Accounts Payables	\$73,974
Patronage Dividends Payable	\$86,023
Other Current Liabilities	\$77,634
Long Term Liabilities	\$0
TOTAL LIABILITIES	\$237,631

EQUITY:

Internally financed assets. (What the Co-op owns)

Peopleshares (Member-Owner Equity)	\$819,473
Retained Patronage Dividends	\$478,771
Current Earnings	- \$61,512
Retained Earnings	\$358,101
TOTAL EQUITY	\$1,594,833



PLANTING SEEDS FOR THE FUTURE

Co-ops, including People's, led the modern natural food movement in the 60's and 70's. Some of the things that made co-ops special since the 1970's have caught on: retailers realized there was money to be made, and now natural foods grocery is big business. This intensely competitive landscape has affected co-ops all over the country—it undoubtedly has contributed to People's slowing sales growth.

There are lots of things that set People's apart, though.

Our Member-Owners' commitment to flavorful, healthful food and the people who produce it sets us apart.

Our democratic workplace sets us apart.

Our commitment to social and economic justice, both in how our staff operates, and how we view the world, sets us apart.

Our business' very structure, its bones - the fact that we're owned and governed by our local community - sets us apart.

Co-ops across the country are asking, "How can we scale this model? How will we increase our impact while deepening the values that are most important to us?" Answers to these questions will be integral to the continuation of the current food co-op model.

We'll be looking to you to help us answer these questions for People's. Your participation—as shoppers, and as we dream about what else we could do in Portland—is what sets us apart and what gives us strength. For this reason, in

2015, we'll be doing extensive outreach to our Member-Owners, shoppers, and even community organizations and other local co-ops, to help inform our long term plan. We understand that there are many people in our community who may feel they're on the margins, but who have an interest in helping to envision the future of the Co-op. We'll be working hard to provide easy routes to participation for all who'd like to contribute.

It's time for People's to adapt, to evolve. The Board and Collective Management are inspired to listen to the voices of the people who make this place what it is, and to engage in a rich discussion about what People's could be in the future. What are the needs of our communities? What issues are people in our communities experiencing regarding access to healthful food? What will Portland's food landscape look like in the future? What impact does People's want to make? Throughout the process, we'll keep our eye on our Ends, which will root us to our history and values.

People's is experiencing some difficult financial trends, but it's still a living, breathing, thriving business and community. Your Co-op needs your support: shop in the store, take advantage of all the great things People's has to offer, and lend your voice to the Co-op's discussion of the future.

We are poised for ground-breaking change. Now is the time to envision the future we want to create and put our plans in motion. We have enough money in the bank to get us through long-term planning and into the next phase of our community-owned Co-op – let's create this vision together.



people's
FOOD CO-OP

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