Treasurer’s report from Howard Kaplan
For the Karma Board meeting of Monday, 1 March 2010

1. Finance Committee renewal

I am pleased to report that Donald Altman, John Biggs, and I have officially welcomed Lisa Anderson and Quincin Chan as new members of the Finance Committee. I have notified Marilou Lawrence that these two women will now be receiving work credit for this committee work. Lisa works for the Federal government, assisting non-profit agencies with financial and governance issues, while Quincin is a data analyst in the commercial retail sector.

Donald Altman has asked me to remind you that the Board needs to keep accurate lists of committee members because of our insurance coverage. This work is part of the Committee Secretary job description that Angela has sent us.

2. Credit policies

Corey and Justin have drafted a proposal for a part of our credit policy, the part that deals with credit for shopping. I liked the general thrust of the policy but was concerned that they haven’t thought about enough of the details, so I sent Corey some comments. He has now asked the Finance Committee to review the proposal in the light of my comments and his responses, so that will happen on March 22, and it will not come back to the Board until April.

Justin has proposed a policy on prompt collection of membership fees, which is another aspect of credit policy. The Finance Committee has not had a chance to discuss it. I consider his proposal important but not urgent, so I’m arranging for it, too, to be on the Committee agenda for March 22.

3. January financial statements

The January 2010 statements are being sent along with this report. The most significant thing to note is that January sales, which ordinarily drop from December sales, dropped more than usual. The most urgent thing for the Board to do, on the financial side, is to work on increasing sales income, which could result either from increasing sales or from increasing the markup, if the latter would work. However, last spring Justin recommended markup increases which he thought were the most that members could absorb, so I don’t consider further increases appropriate at this time. (A good price survey would help us clarify our thinking on this matter.) Increasing sales at the current markup is, of course, on the agenda as followup to the Members’ Forum held on February 21.

4. Collective agreement implementation

Denise and I have been working on making adjustments and calculations in QuickBooks, so that we can pay the signing bonus promptly once the contract is actually signed. Since that will have a bigger impact on staff than will catching up with a few weeks’ wage adjustments since January 27, we’ll handle the wage adjustments afterwards.

Denise and Justin have both approved my draft form for recording staff hours, and Justin should be starting to use the final version for the payweek beginning Sunday, February 28.

We’ve discovered something confusing about how Co-operators bills us (through the Big Carrot) for our extended health care insurance, and we’re trying to figure that out. I may have something else to report by the time of the Board meeting. This was discovered in the process of looking at future union members’ insurance copayments, but it affects all insured staff.

We do not need to wait for the new cash registers before we change the union members’ staff discount to the 22.5% below working members’ prices, as specified in the collective agreement, so that will happen effective March 1. **Eventual action item:** We still need to clarify our staff discount policy for managerial staff, contract employees like Marilou and Denise, non-unionized but regular staff, and casual employees. I am not even aware of a formal statement of that policy – perhaps someone else can find one before the Board meeting.

5. Cash registers

We have still not implemented the new cash registers. For now, I'll give only a very brief report about why: Catalog editing has taken much longer than we thought it would, Atlas POS was unaware of some of the differences between our old cash registers and the new ones, Atlas did not get a clear enough statement of our needs before configuring the cash registers for our store, and the lack of such a clear statement has made it difficult for me to know exactly how to test the cash registers and then to make changes as required. Please note that it's generally more efficient for me to make changes myself, working with Atlas or with the software vendor over the phone, than for us to ask Atlas to make the changes. Atlas has a cash register like ours at their office in Etobicoke, and it's just a five-minute job for them to load a copy of our software and see our problems at their own office. Atlas can also see and operate our computer screen (but not our cash register) over the Internet, but only when we specifically turn on that feature. Nonetheless, doing it myself allows me to understand document how changes are made, for future use.

Also, because Atlas didn't conduct a thorough assessment of our needs, it withdrew its original suggestion that we include a $395 keyboard editor module as part of our software configuration. In the short run, I can work without it, but I think we'll eventually want it. It fits within the budget that the previous Board authorized, so no new authorization is required from this Board. I will work with Justin to order it.

6. Budget planning

a. Membership budget

Several items that used to be charged to the membership budget are no longer included in it. These items include the cost of the Member Labour Coordinator (who schedules member labour work shifts) and about ⅓ of the Chronicle cost (since it's now printing 4 issues per year, not 6). This gives us the opportunity to make some changes, including these: to reduce the membership fee a bit if it's seen as a barrier to membership, to slightly relieve the operations side of the budget by allocating some money to members' room expenses, or to invest more in making membership services (including the Board itself) run better. (For example, some of Ken's time may be spent training the Board, not the staff.) The decision among these is essentially political, rather than financial, so this question is coming to the Board for a decision before it goes to the Finance Committee for number crunching.

Regardless of which decision the Board makes, there is still the question of what kind of detail the membership budget should include. I can ask the various committees for their expenses (and their wish lists), and that will form part of the budget, but trying to plan the whole year in advance doesn't make sense. This year, for example, the Food Issues Committee learned about an important conference many months after the budget year started, and fortunately for them the conference happened to fit within the pre-approved budget. However, the committee could reasonably have decided to spend that budget on something else important last fall, and it would have been silly to deny them the conference when we actually have a large surplus in the membership account this year. In my opinion, which the Finance Committee shares, we should give most committees limited budgets for predictable expenses, and we should have an opportunity fund for things we learn about during the year. Of course, if we have such a fund, we need a good way to monitor it and to decide who gets to tap into it. I suggest that we set a limit such as $500 and authorize a Board officer, such as the Committee Secretary, to allocate money for expenses up to that amount. Anything larger should be decided by the Board, though I don't want to tie up a lot of Board time for such relatively small items.

Board decisions required:

Should we try to reduce the membership fee, subsidize the members' room, or improve member services? I recommend the third option.

Should the Finance Committee propose a budget that includes an opportunity fund?

b. Operations budget

Let's start with a plausible scenario and then ask what kind of budget we might produce as a result. The scenario is that the Finance Committee predicts that, based on past performance, our inability to reduce expenses (especially staff) any further, and our limited ability to make changes to attract new members, we will lose $10,000 in the next fiscal year. That kind of loss, year after year forever, would of course drive us out of business. On the other hand, that kind of loss could be sustained for another year or two while we make changes to become profitable again. Under those circumstances, here are two kinds of budget the Finance Committee could produce for approval in May:

- Budget One shows what sales growth and expense reduction are needed to produce a break-even year, even though achieving them is considered unrealistic. The Board recognizes that the budget is unrealistic and expects to use the difference between budget and actual performance as a monthly reminder of how much we need to make changes.

- Budget Two is a realistic projection of what will actually happen, given current trends, and ends with a $10,000 loss. The Board expects to use the difference between budget and actual performance as a monthly indicator of how much the situation has improved or deteriorated compared to the prediction, and it always has a good sense of how the year will end.

Another alternative, one that may seem strange, is for the Board to formally receive either of the budgets but not to approve it in the usual sense. Instead, the Board would only authorize the Finance Committee to use the budget as a standard of comparison in presenting statements.

What would this mean? Let's assume that the Finance Committee was correct in its prediction and that we actually lost $10,000. If we approved Budget One, then we might conclude that the Board and General Manager had failed to meet the budget. That would be true but unfair, since the Board knew the budget was unrealistic. If we approved Budget Two, we could conclude that the Board and General Manager had met the budget targets, but that could make it difficult to answer the question "Why did we lose money if we did everything according to the budget?".

On the other hand, if we simply take the budget as a prediction, then that prediction can be freely modified as we gain experience during the year, and there is no pressure to start the year with an unrealistically balanced budget. The Board never needs to "approve" a new budget that reflects changes; instead, the Board asks the Finance Committee and the General Manager for advice before making changes, makes changes as it sees fit, and sees the changes reflected in the actual past and predicted future performance.

Another advantage to not approving a budget is that it frees both the Board and the General Manager to make spending adjustments without concern about whether the new spending has been authorized by the budget. (It still needs to be authorized, but by another process, such as a clear statement of the General Manager's spending authority in the job description.) For example, if we purchased a new phone system that cost us $1,500 but reduced our monthly bills by $100, buying it would conflict with a pre-approved budget's specific lines for "telephone" and "store equipment". Also, if the budget had a specific allocation for casual labour, but sales were down and we didn't need as much labour, we would be quite unhappy if the General Manager justified spending the entire allocation on the grounds that it had been approved. That is, the real problem with approving a budget is often this: it seems as if each budget item is approved independently, while in fact what is being approved is the relationship among budget lines. That relationship is captured in the net surplus or loss, and perhaps the Board should be approving only the bottom line without approving any of the detail that gets us there.

This year, the Board has been operating without a pre-approved budget, but it has received both comparisons with previous years and a prediction of the end-of-year net loss. Would the Board have functioned any better if it had approved a specific budget? I'm not sure.

I should note that the Finance Committee briefly discussed these issues at its last meeting. At that time, Donald Altman said that organizations that have realistic budgets tend to last longer than those which don't. I interpret this as meaning that it's important for the Finance Committee to produce realistic figures that can be used as a management tool, but I don't think it addresses the issue of whether the Board should "approve" or simply "receive" the budget.

Whatever we decide to do about the format and use of the budget, the Finance Committee needs to know about any major new initiatives the Board has in mind. Otherwise, it will produce a business-as-usual scenario that simply attempts to project present trends and plans into the near-term future. Of course, that scenario could be adjusted to reflect later initiatives.

Board decisions required:

Should the Finance Committee produce a balanced budget (even if not realistic) or a realistic budget (even if not balanced)?

What new initiatives should be taken into account when preparing the budget documents? Alternatively, and perhaps more realistically, are there any initiatives for which the Board would like to see the budget with those plans both included and excluded, so it can decide (as part of the budget approval process) whether or not to carry out the initiatives?

c. Both budgets

I suggest you read the short article, "Why budgeting fails", by Péter Horváth and Ralf Sauter. You can find it at http://dougneeper.files.wordpress.com/2009/12/why-budgeting-fails.pdf. It discusses the kinds of problems I mentioned above. Here's half of the opening paragraph:

> When Jack Welch described the budgeting process as "the bane of corporate America," he was articulating the frustration of many senior executives and academics who recognize that this annual exercise is rarely justified in today's fast-changing, highly competitive environment. We couldn't agree more. In fact, we believe that if budgeting is to have any value at all, it needs a radical overhaul.

Note that the article discusses the Balanced Scorecard (or BSC), a financial tool that we haven't investigated. Since the article was published on the BSC's web site, I deduce that the tool might not be as essential as the article implies.

Future board decisions required:

What should the annual member services and building fees be for the next year?

How are the budgets to be interpreted, as authorization for specific spending or only as authorization for the Finance Committee to include the budgets for reference in its statements?