



NCG Programs Update

March 2022



CE Pugh
Chief Executive Officer

Taking on 2022: What's Next for Co-ops

NCG co-ops met the challenges brought on by the COVID-19 pandemic and ended 2021 with strong annual sales growth. Despite significant headwinds for prepared foods and wellness departments, store sales increased by 4% in 2020 and by 3% in 2021. In contrast, other natural retailers have reported negative comps, and the Natural Enhanced Channel saw sales decline 2.5% in 2021. Even with the omicron variant spike early in 2022, co-ops are seeing operations return to normal — sales growth continues, prepared food venues are reopening, shopper metering has ended and store hours have expanded. Most NCG co-ops entered the new year strong!

There are, however, several challenges that can be best met by working in partnership with brands and distributors. Two of the most pressing are:

- The highest inflation in many years, especially food inflation
- Difficulty meeting the sustained, elevated demand for food-at-home given supply challenges

While difficult, I believe co-ops are well prepared to turn these challenges into opportunities.

Inflation

Operating costs for retailers — wages, benefits, insurance, rent, maintenance, etc. — continue to increase. Because co-op profit margins are small, we must pass these cost increases on to customers. Many co-op members and shoppers may be insulated from inflationary forces and any future economic slowdown; however, many others are not.

Faced with price increases across the household budget, many customers will quickly discover that spending on groceries is one of the few variables they can control. While paying less for gas, electricity or a cell phone plan is more challenging, if not impossible, choosing which grocery store to shop at and what to purchase when they shop is relatively easy.

This is an especially difficult challenge for community-owned grocery stores and brands built on systems that are better for farmers, the environment and our communities. Lowering prices without compromising our key values makes addressing inflation more challenging for all of us.

It should come as no surprise that the best solutions our co-ops have to meet this challenge are cooperative solutions — pooling their collective purchasing power to meet the needs of their communities. Through NCG, co-ops have several programs designed to help customers continue to find

ON THE COVER: Artist J Muzacz with his mural at Wheatsville Co-op, Austin: Sarah, Eugenie and Assata — cocoa farmers in Ghana and Ivory Coast

Message from the CEO continued

With demand for food at home remaining at elevated levels and inflationary pressures impacting additional households, more consumers are seeking savings than ever before. Participating in NCG value programs has never been a better investment!

value at their co-op. Our flagship Co+op Deals program remains one of the most effective promotions programs in the industry. In contrast to other retailer and distributor promotions, NCG co-ops pass every penny of a brand's pricing investment made in Co+op Deals directly to shoppers, and in most instances add to your investments to hit price points that drive pantry-loading and volume.

In addition to Co+op Deals, NCG continues to increase the everyday value co-ops deliver to shoppers through both our Co+op Basics program and the competitive shelf prices made possible through your investments in Core Sets cost supports. These programs are essential to our ability to meet the diverse needs of the communities that co-ops serve, and we simply could not do so without your support and investment. With demand for food at home remaining at elevated levels and inflationary pressures impacting additional households, more consumers are seeking savings than ever before. Participating in these NCG value programs has never been a better investment!

Supply Chain

For months now, “supply chain woes” have made national headlines as both brands and distributors struggle to meet consumer needs across all classes of trade and most sectors of the economy. Though co-ops have fared better than many, our industry is not at all immune. Difficulty sourcing raw ingredients and packaging materials, delays in ports, the addition of distancing and safety protocols in production facilities, scarce transportation resources, and increased production costs have all conspired to make it more difficult than ever to keep the shelves well-stocked. Over the last six months, we saw these and other challenges hit our partners in wholesale distribution like nothing we've ever experienced. Though in-stock rates improved early last year, out-of-stocks have been at historically high levels through the back half of 2021 and early part of 2022 thus far.

One of the ways NCG is working to address this is through distribution. In 2020, we expanded our wholesale partnerships to include a secondary supply partnership with KeHE Distributors. Alongside healthy growth in our purchases with our primary wholesaler, UNFI, this partnership with KeHE has grown very rapidly; our co-ops' KeHE purchases have increased over 750% from the first week of service under this partnership! Because a brand's out-of-stocks don't impact all wholesalers at the same time or in the same way, the addition of a second wholesale partner is helping co-ops provide a better shopping experience and more items in-stock to their shoppers. In 2022, we plan to expand our partnership with KeHE to include support for NCG's flagship value programs, including Co+op Deals. We view this expansion as creating more opportunities for the brands we work with —

Message from the CEO continued

In 2022, we plan to expand our partnership with KeHE to include support for NCG's flagship value programs, including Co+op Deals. We view this expansion as creating more opportunities for the brands we work with — particularly those whose products our co-ops purchase from KeHE — to deliver value directly to co-op consumers.

particularly those whose products our co-ops purchase from KeHE — to deliver value directly to co-op consumers. Look for additional details on the timeline for KeHE's participation in Co+op Deals in future NCG updates.

Another way we address supply challenges is by continuously improving the accuracy of our demand forecasts and working closely with you to plan promotions. And yet we understand that with even the best developed plans, factors outside your control can cause things to go sideways. We rely on our brand and distribution partners to manage the supply needed to maximize the return on your promotional investments. Communication is key to our shared success. If you have concerns about whether you'll have enough product for a planned Co+op Deals promotion, please reach out as early as possible. We will do our part to be as flexible and accommodating as possible.

These current challenges will continue to test our commitment and dedication. But we know NCG's inclusive business model provides better outcomes for every stakeholder. Our relentless focus on improving the health and wellness of our neighbors offers a clear choice for everyone interested in good food, better health and stronger communities. This work has never been easy — we don't choose the cooperative form of business because it's easier; we choose it because it's better. We hear from so many of you that your choice to work with NCG and support co-ops through our programs is more than just a good business decision; it also reflects a fundamental belief in our shared values and the sort of world we mutually seek to create. We are grateful for the difference we are able to make because you've chosen to work with us and for your continued support in our efforts to positively impact our food system and our communities!



In cooperation,
CE Pugh
Chief Executive Officer



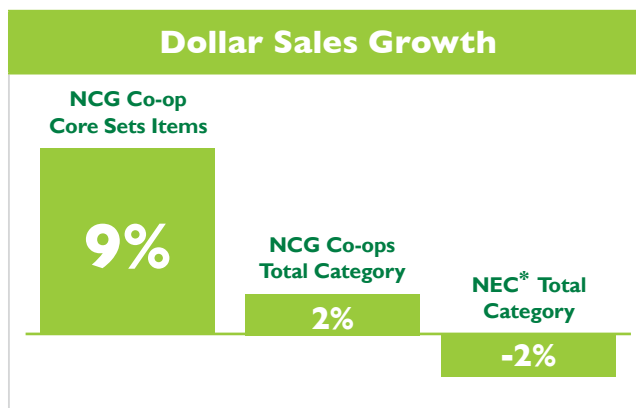
Performance Highlights: Core Sets at One Year

April marks the one-year anniversary of the launch of NCG's Core Sets program. By October 2021, we reviewed and reset 17 categories and cut in new items through our new-item-only reviews in 10 additional categories. We have just begun to aggregate data on how Core Sets is performing, and we're eager to share a few highlights.

Category Management Strategies Are Driving Growth

In 2021, we completed five rounds of reviews. Data is now available for rounds 4, 6, 7 and 9.

For these four rounds, sales growth for items included in Core Sets assortments significantly outpaced the category as a whole during the same time period — growing at 9% compared to overall category growth of 2% at NCG co-ops and -2% the Natural Enhanced Channel (NEC).



Graph includes 2021 rounds 4, 6, 7, and 9. Round 4 was the first round of review upon launch of the Core Sets program; Round 10 resets were delayed until January 2022 due to supply issues and are not included; we did not conduct reviews for rounds 5 or 8. The data shown here reflects time periods from one month after each reset through November 2021.

*NEC: Natural Enhanced Channel as defined by SPINS.

Program Updates and Partner Opportunities continued

One metric NCG uses to assess category performance at the outset of a review is alignment of assortment across co-ops, in particular on items that generate 80% of category sales. For the categories included in the four rounds noted above, we increased the aggregate alignment for top selling items from 46% to 75%. We expect adoption rates will keep increasing as co-ops become more familiar with Core Sets and experience its potential for sales growth.

In 2022, we'll review 19 categories and then increase that number to 30 categories in 2023 and 40 categories in 2024. NCG will continue to evaluate how we

can improve the Core Sets program, incorporating feedback both from co-op retailers and participating brands. The initial success of 2021 is only the beginning, and we anticipate exciting growth in the years to come as the program becomes well established.

We recognize that our Core Sets program success is only made possible by the strong commitment our brand partners have to increase sales, as demonstrated by enhanced promotional planners and pricing investments through our Core Sets Cost Supports program component. Thank you!



2023 Core Sets Category Review Calendar

The **NCG Category Review Calendar** will be available at Partner Co+nnexion Monday, March 7th. To submit a proposal for a scheduled review, complete the **NCG Core Sets Submission Template**

and send it directly to the appropriate category manager by the category deadline. Find the review calendar, submission template and a NCG staff contact list in the “Helpful Information” section at the bottom of the [Partner Co+nnexion](#) home page.



Available Now: Second Half 2022 Co+op Deals Program Info

We are currently accepting Co+op Deals proposals for the second half of 2022. While there is no increase in fees, please be sure to read the Co+op Deals program information to review updated contract terms and instructions.


Find all the information you need to submit Co+op Deals proposals on [Partner Co+nnexion](#).


Get to Know NCG's Associate Category Managers

Our associate category managers bring a variety of skills and knowledge that support our category managers in helping to create success for our brand partners and our co-ops. We recently expanded the number of associate category managers to provide

more time for category managers to focus on working with brand partners to grow sales and distribution. Allow us to introduce you to the newest members of our team.

| Berhe Tesfahun he/him | |
|---|--|
|  | CATEGORY MANAGERS I SUPPORT Donna Schlaufman |
| | JOINED NCG January 2021 |
| | BASED IN St. Paul, Minn. |
| | HOW TO CONTACT ME berhe.tesfahun@ncg.coop |
| <p>What drew me to co-ops and NCG: Being a member at my local co-op and understanding the value it provided to the community was a profound learning experience that ultimately drew me into an organization that helps co-ops do that on a larger scale.</p> <p>What I like best about the categories I work with: Experiencing all of the innovation that is occurring in my categories is what I like the most. As consumers are becoming more health conscious, it is really exciting to see brands adjust, given the nature of the categories I work with have been unhealthy historically.</p> <p>What my favorite brand reps do best: My favorite brand reps are excellent communicators, resourceful, organized and have a better understanding of how co-ops differ from other natural retailers.</p> | |

| Lisa DeMaria she/her | |
|---|--|
|  | CATEGORY MANAGERS I SUPPORT Jeanette Bloss and Claudia Crowder |
| | JOINED NCG October 2021 |
| | BASED IN Central New Jersey |
| | HOW TO CONTACT ME lisa.demaria@ncg.coop |
| <p>What drew me to co-ops and NCG: The values that are promoted and championed by NCG and co-ops align closely with my personal convictions, particularly regarding social, environmental and food equity issues. I was excited to find a role where I could use my background in purchasing and supply chain to contribute to organizations that work toward furthering those causes.</p> <p>What I like best about the categories I work with: It's hard to pick one thing! All the categories I work with have their own unique nuances, and I'm really enjoying learning about the different facets of each one.</p> <p>What my favorite brand reps do best: I really enjoy working with reps who are invested in long-term partnerships and recognize that at the end of the day we all have the same ultimate goal — to develop strategies that are mutually beneficial for the brands, NCG and, most importantly, our member co-ops, because when they succeed, we all succeed.</p> | |



Jess Saunders she/her

CATEGORY MANAGERS | SUPPORT
Morgan Organ

JOINED NCG
October 2021

BASED IN
Tampa, Fla.

HOW TO CONTACT ME
jess.saunders@ncg.coop

What drew me to co-ops and NCG: I was looking for meaningful work in which I would be able to do what I love and also support a company and mission I truly believe in.

What I like best about the categories I work with: I support the wellness categories, and it has been fun to see what brands have come up with during the pandemic as we're all shifting to focus more on our general wellbeing and self-care. Seeing brands supporting this trend with innovation is exciting.

What my favorite brand reps do best: They are collaborative, responsive and able to share learnings and category trends they are seeing.



Niki Nash she/her

CATEGORY MANAGERS | SUPPORT
Brian Larson and Sarah Gordon

JOINED NCG
October 2021

BASED IN
Austin, Texas

HOW TO CONTACT ME
niki.nash@ncg.coop

What drew me to co-ops and NCG: I worked in partnership with NCG for almost 20 years as the grocery and wellness purchasing director of a member co-op, and I was therefore given a direct and continuous look at the value NCG provides year after year. With the implementation of Core Sets, I was moved to do my part to directly support this game-changer of a program while joining a dedicated and knowledgeable team where I can learn and grow.

What I like best about the categories I work with: The variety of refrigerated items is so interesting; there's the most traditional of foods in human history alongside exciting new innovations. Overall, I value learning about brand commitments to measurable investments in a better world for people, animals and the planet.

What my favorite brand reps do best: Clear and timely communication plus enthusiasm for the brand and the work.



Meet Our Newest Member Co-ops

Four more co-ops have joined the NCG system since fall 2020. Each at different stages in their evolution, these co-ops are committed to empowering their communities and providing their neighbors with fresh, healthy, local food. We are delighted to have them as NCG members!



Assabet Co-op Market (Maynard, Mass.)

With more than 1,700 owners, Assabet Co-op Market will open its 6,000-square-foot retail store in 2022. It was founded in 2013 on the mission of supporting the regional food system, strengthening the local economy and promoting the well-being of its members, community and environment.



Greenbelt Co-op Supermarket and Pharmacy (Greenbelt, Md.)

Its rich history and roots trace back more than 80 years! Greenbelt Co-op's mission is to provide food, pharmacy and other consumer services to its members and the community. With nearly 11,000 member-owners and 10,000 square feet devoted to retail space, the co-op's sales reached more than \$13 million last year.



High Falls Co-op (High Falls, N.Y.)

Located in a fast-growing area of the Hudson Valley, High Falls Co-op was established in 1974 and upholds a mission to serve the common good, its local economy and its 1,200 members through ethically sourced products. Annual sales at High Falls Co-op are nearly \$2.5 million.



Oshkosh Food Co-op (Oshkosh, Wis.)

This start-up co-op began organizing, recruiting members and fundraising in 2011, and opened its first retail location in July 2021. Today, it has more than 1,300 members and operates a thriving, full-service grocery store in the heart of Oshkosh. Winner of the 2021 "Best of the Best" award at the Up & Coming Conference for start-up food co-ops!

Growth Profile: GreenTree Co-op Market

GreenTree Co-op Market (Mt. Pleasant, Mich.), opened the doors of its beautiful new store on Dec. 8, 2021. With guidance and assistance from NCG's Store Development team, the co-op relocated from the small house that it had been operating out of since 1977 and expanded into a location just six blocks away — and four times larger.

GreenTree now occupies 10,000 square feet as the street-level anchor tenant of a newly constructed, multi-use building in downtown Mt. Pleasant. The co-op is projecting its sales volume will double, growing to over \$4 million per year.





Artist Reggie LeFlore with his mural at The Wedge, Minneapolis: Johnny Gabriel Navas Aquim – banana farmer in Ecuador.

Fairtrade America Campaign

In honor of Fair Trade Month in October 2021, NCG partnered with Fairtrade America on a national campaign to generate awareness about how the simple action of purchasing fair trade certified products makes a powerful difference in the lives of millions of farmers and workers across the globe.

The “Choose Fairtrade: Choose the World You Want” campaign commissioned local artists to paint bold, inspiring murals at NCG co-ops in Austin, Texas; Minneapolis, Minn.; and Tacoma, Wash. The murals weave the stories of real-life fair trade farmers into the lives of co-op shoppers and neighbors.

Nationwide, select Fairtrade America certified brands were featured in NCG’s Co+op Deals flyers during October. Numerous co-ops also participated in a merchandising contest featuring fair trade products and sharing their positive impact in store and on social media.

Co-ops over-index in sales of certified fair trade products compared to the competition. Additionally, co-ops play a key role in cultivating consumer interest and expanding the market for certified fair

trade products. The Fairtrade America campaign is one exciting example of an effort by co-ops to build broader consumer awareness about fair trade producers and products.

Fair Trade Matters to Co-op Shoppers

Fair Trade certified products make up a larger percentage of sales at NCG co-ops than at the competition.

Fair Trade Certified Products

| | |
|-------------------|-----------|
| NCG Co-ops | 6% |
| Natural Grocery | 3% |
| Conventional | 1% |

Data as a percentage of total sales, by retailer type, based on SPINS natural product sales data in 2021.

About NCG

We are National Co+op Grocers, a business services cooperative for 149 socially responsible, independently operated, community-owned grocery stores with more than 200 locations in 38 states and \$2.4 billion in annual sales. NCG provides the capacity of a chain to strengthen purchasing power and support healthy operations that deliver value to co-op owners and customers everywhere.

NCG also helps unite and expand the voice of food co-ops to advocate for issues that are important to co-op owners, shoppers and communities. Together we are working to build a sustainable food system, ensure the fair treatment of people, protect and preserve a healthy environment and promote the cooperative business model.

Vendors and suppliers have an opportunity to work with NCG to create efficiencies and drive growth by meeting the needs of our co-ops and their shoppers. Co-op shoppers are some of the most committed health and wellness consumers in the country. NCG is not funded by Wall Street or private equity; we are owned by the 149 co-ops we exist to serve. And because co-ops own us, we are deeply invested in their success. Visit www.ncg.coop to learn more about NCG and www.grocery.coop to learn more about food co-ops.

