



RURAL GROCERY STORES: OWNERSHIP MODELS THAT WORK FOR RURAL COMMUNITIES



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In our previous brief, *Rural Grocery Stores: Importance and Challenges*, we outlined the importance of the institution to rural communities, the trends regarding the disappearing grocery store in rural communities and the challenges faced by rural grocery stores in this age of competition from large superstores. We also highlighted some research that gives hope to rural grocery stores in terms of the economics of grocery stores and the shopping patterns of rural consumers.

In this brief we examine some common ownership models used by individuals and communities to address the need for local grocery stores in rural communities, provide examples of such models and analyze how the models address the challenges facing rural grocery stores.

Ownership Models

There are four primary models for ownership of grocery stores in rural communities:

- Independent retailer
- Community-owned
- Cooperative
- School-based

The independent retailer model is the traditional model of ownership of rural grocery stores (and most other rural retail business). However, these are precisely the retailers that are most in danger and who represent the vast majority of grocery stores leaving rural communities. Most of the challenges outlined in our previous brief go directly to the economic viability of independent retailers. Numerous challenges to rural retailers are particularly onerous for rural grocery stores. Capital needs combined with an unreliable customer base brought on by consolidation and competition make for significant economic challenges. Rural demographics also make for less retail opportunities as fewer customers live in rural communities and retail owners are aging with limited transition opportunities in most rural communities.

Some statewide initiatives have developed to address the capital needs of independent retailers in economically disadvantaged communities, including rural communities. These initiatives also have the goal of increasing access to healthy food in what are generally low-income communities. Begun in 2004, the Pennsylvania Fresh Food Financing Initiative (FFFI) is a private-public partnership that provides grants and loans for grocery store development in low-income communities and neighborhoods. FFFI has financed 74 grocery stores—all independent—across Pennsylvania. The model has been replicated in Illinois, Louisiana and New York. (Mitchell 2008, Food Trust)

Absent initiatives such as FFFI that address both the challenges facing independent grocery retailers and the need for local grocery stores in rural communities, other

ownership models have sprung up throughout rural America to preserve or start local grocery stores.

Cooperatives and Rural Grocery Stores

One of the intriguing ownership models for rural grocery stores is the cooperative model. The interest in cooperatives as a model for rural grocery stores combines two facts about cooperatives. One, cooperatives have long been used in rural America for a variety of community needs. Nearly every rural community in the Midwest and Great Plains has at least one cooperative institution, usually some form of agricultural business. But the model can be adapted to other uses. Second, cooperative food retailers are relatively common, generally in urban settings. Natural and health food cooperatives exist in most urban areas. While not the size and without the sales of large supermarkets, these cooperatives serve an important food niche in the communities and neighborhoods they serve.

The question, then, is how to take a model that has served rural America well for decades and has served as an important component of the food retail business and transform it to an effective ownership model for isolated rural communities lacking a grocery store.

To be an effective model of rural grocery store ownership a variety of critical components are necessary in the development and start-up phases of a cooperative grocery store, considerations that are often quite different than for a traditional retail operation. For example, the effectiveness and economic viability of cooperatives are based on personal relationships more than other forms of retail operations. As such, who is involved in a cooperative is an early, critical component of a cooperative grocery store. In a case study of rural food co-ops in Wisconsin, the University of Wisconsin found the following to be important or critical components to “the successful start-up” of a rural grocery co-op: (Lawless)

- Competition
- Community and industry support
- Member support
- Quality of the business plan
- Business growth patterns
- Market niche
- Board and management leadership
- Finance

Further, the University of Wisconsin examination of rural grocery store co-ops unveiled

four “keys to success.” (Lawless)

- ▶ **Strong operational management.** A successful cooperative employs “managers who are willing to innovate, make necessary changes, invest and grow.”
- ▶ **Member, community and industry support.** Successful rural grocery store co-ops had “substantial leadership and financial support from members” at the start-up phase. They also benefited from a culture of cooperatives in their community. Existing cooperatives provided financial support and management expertise. It is also likely members of existing cooperatives were more likely to become members and patrons of the new grocery store cooperative. Building upon a familiar model of ownership and management made success more likely. Successful cooperatives also benefited from the support of local public officials.
- ▶ **“Reasonable” competition.** Successful cooperatives “benefited from a location as the sole grocery store in their immediate area.” The successful rural cooperative grocery stores highlighted by the Wisconsin analysis had no competition within 20-30 miles. Finding an attractive location with “reasonable” competition allows a cooperative effort to find and cater to its niche market.
- ▶ **Dedicated organizers.** In more evidence that people make a cooperative run, it was found that successful cooperatives draw on the leadership skills of dedicated volunteers.

Of course, with every success there is failure. The Wisconsin studies identified several “pitfalls” for cooperative efforts. (Lawless)

- ▶ High turnover of leadership and management
- ▶ Too many “collateral” goals
- ▶ Lack of rigorous financial analysis
- ▶ Poor location
- ▶ Failure to change direction quickly
- ▶ Failure of the “cooperative advantage”

The last pitfall is particularly important for a start-up effort. The lack of membership support from the beginning means the effort loses out on “the very tangible factors (financial, leadership and expertise)” that make cooperatives successful and provide them an advantage over other ownership models. Any new cooperative initiative must make sure membership support is in place from the very beginning of the effort or it is likely to fail.

The “collateral goals” pitfall is also an important one for rural initiatives. Too often commercial initiatives in rural communities are weighed down with expectations of saving the community. That is especially a potential issue for a grocery store effort. Because of the importance as a community institution as we discussed in *Rural Grocery Stores: Importance and Challenges*, grocery stores have the potential to help rural communities meet myriad goals and needs—economic development, jobs,

healthier residents and communities. While these goals are all important for rural communities and their residents, a cooperative initiative must have a business and management focus first and foremost. Without that focus none of the other goals will be achievable.

It is clear that human resource issues are paramount for rural cooperative success. Strong management and a strong membership from the outset appear to be the paths to success. This is a risky path in many rural places, where aging and declining population are affecting community efforts dependent upon volunteers and members. This is particularly true in rural areas most in need of grocery stores, small and isolated rural communities.

Management expertise is also an issue in rural communities. The disappearance and consolidation of grocery retailers—and rural retail in general—has left rural communities lacking in retail management experience. Many co-op efforts are also not rooted in business and entrepreneurial goals, but rather in community activism, health food and social justice goals. (Maynard) As such, the necessary managerial and strong marketing skills are often not fully developed. Any rural grocery cooperative initiative would be wise to spend significant effort during the start-up phase in finding, developing and training management staff and in developing an effective operational plan.

Finally, the issue of business planning is a crucial one for any cooperative effort. But the lack of business planning is a characteristic for rural small businesses. A recent survey of rural small businesses and those providers who work with small businesses found that the lack of planning and basic business and financial knowledge were the primary challenges facing rural businesses at the start-up phase. (Bailey) Without planning and basic knowledge businesses will struggle to meet their potential and success will be less likely.

Cooperative food retailers are not immune from the challenges that face other food retailers. For example, natural food co-ops are declining in numbers just as traditional grocery retailers are, demonstrating that the consolidation and competition forces are affecting all models of ownership. (Maynard) Many co-ops are also undercapitalized, making their economic viability suspect. (Maynard) While the cooperative model poses significant challenges as an ownership model for a rural grocery store, there are success stories. And the cooperative ownership model has been successful in rural communities for decades. Rural grocery store cooperatives must use the expertise of existing cooperatives in their community. Learning the lessons, both positive and negative, of past and continuing efforts.

Community-Owned Grocery Store

An ownership model similar to the cooperative is the community-owned grocery store. The chief difference is that the community is the owner rather than a cooperative entity. The primary benefit of a community-owned store is that community residents owners can tailor the store to meet the “unique needs of consumers and can set fair

prices.” (Kansas State) This model also has the potential to provide a significant economic development boost to a rural community. Studies have shown that a locally-owned store returns an average of \$45 out of every \$100 spent to the community compared to \$13 out of every \$100 spent for chain stores. (Liveability)

Typically, a community-owned store is a corporation, capitalized through the sale of stock to local residents and operated by an elected board of directors. (Mitchell 2004, Kansas State) Stock sales are generally limited per individual to encourage widespread ownership and to avoid domination by one person or a small group of residents.

The Kansas State University Rural Grocery Store Initiative has identified several benefits of a community-owned store. (Kansas State)

- Preserve town’s local character
- Enable those who feel the impact of a decision to make critical decisions affecting the business
- Neighbors understand the economics of operating a rural grocery store
- Support local economies by keeping locally generated dollars recycling in the community
- Local grocery store complements other local businesses to create a diverse and thriving local economy
- Local grocery store provides convenient access to a variety of goods, staffed by local people

Successful community-owned efforts cite several factors in their success. Customer service offered by local employees and experienced local businesspeople comprising a direction-setting board are two factors that lead to local support. In addition, those involved with community-owned enterprises cite the fact that a lack of debt service in most such businesses and no stockholders demanding a high rate of return allow community-owned stores to keep prices reasonable and competitive with larger retailers. Finally, and less tangible but just as important, is the community’s sense of ownership. (Mitchell 2004)

Financing and local support are the critical factors for a successful community-owned grocery store. This model of ownership must rely on the constant financial backing of local residents as well as the continued shopping support of the community. As we saw in *Rural Grocery Stores: Importance and Challenges* local support of rural grocery stores can be an iffy proposition with chain grocery store competition and changing consumer purchasing patterns. But research in rural Iowa outlined in that brief also provides some measure of hope that rural people are willing to support local stores if prices and selection are competitive.

The economics of a community will also play a role in the success of a community-

owned grocery store. Residents will have to have available funds to purchase stock initially and maintain financing as needed. Obviously, some communities will have more residents with the ability to accomplish this than will other communities.

Gove, Kansas (population 105, 2000 Census) is an example of a community that has successfully used the community-owned model. Gove's grocery store closed in 1980, a common occurrence in small, western Kansas communities like Gove. In response, a group of citizens formed the Gove Community Improvement Association (GCIA) and founded the GCIA Grocery Store. In 1995, the GCIA built a new building with volunteer labor, local donations and a loan from the local electric cooperative. The building contains both the grocery store and the County Seat Café, a locally-owned eating place replacing the town café that closed in the early 1990s. The grocery store is operated by a hired manager, but a volunteer board of directors provides directions and also works in the store. In 2006, the GCIA expanded its grocery business by purchasing a local grocery distribution business that delivers groceries to the GCIA Grocery store and then redistributes groceries to other local stores. This allows local stores to meet minimum purchasing requirements, a major challenge to rural grocery stores, while also sharing purchasing of items like meat and produce. Local residents may join the GCIA for a \$25 fee, which brings certain purchasing privileges at the GCIA Grocery Store (such as charging). (Kansas State)

School-based Grocery Store

A relatively new ownership model is the school-based grocery store. School-based enterprises are not new, but operating a business such as a grocery store off of school property is.

These initiatives are generally in small, isolated rural communities that have no grocery store and no prospects of developing one through any of the other ownership models. These efforts generally attempt to link that need with an entrepreneurial class or community service initiative at the school. The grocery store is generally small, not a comprehensive grocery store and with limited hours and they appear to provide basic products for the community.

The Bulldog Express in Leeton, Missouri (population 619) is an example of a school-based grocery store. The town had been without a grocery store for over 10 years, and residents were rightfully worried about the future of their town. The store came about through a collaborative process involving the school board, school personnel and interested community members during a period of time when the price of gas was limiting the shopping trips necessary for Leeton residents. (Bradley) The Leeton initiative has the similar multiple goals that other school-based efforts have—provide basic food products to the community (while lessening the need and expense for driving) while teaching students practical entrepreneurial skills.

Two classes at the local high school operate the store—the agricultural business class and the entrepreneurship class. The school district contributed \$20,000 to the project, partially to repair the building in which the store is housed and partially to initially stock

the store. Students do all the tasks needed to keep the store operating, including ordering and stocking. The store is open four days per week for about five hours per day. (Bradley)

School-based efforts also survive through the assistance of bigger businesses. The Leeton store received donations of store materials such as shelving and coolers from Circuit City and Coca-Cola (Bradley) A similar store in Arthur, Nebraska, received donations from Wal-Mart. (Market to Market)

One concern with school-based efforts is what happens if student interest wanes. Arthur, Nebraska (population 145), addressed this concern for the Wolf Den Market. The market opened in 2000 after students at Arthur High School recognized the need for a grocery store in the community closer than a 40-70 mile one-way drive for local residents. After two to three years it became clear there was sufficient community interest in the market, but the concern surfaced about its future as a student run enterprise. At that point the business was changed from a student-run enterprise to a cooperative operated by five adults. (Market to Market)

Conclusion

Rural communities without a grocery store and seeking to develop one have several ownership models open to them. The characteristics and circumstances of the community and its needs will determine which model will work best. All of the models discussed here require extensive planning and adequate financing. Local interest, passion and leadership are the obvious prerequisites for any of these ownership models to effectively function. Several of the models depend directly on local residents having a stake in the ownership, management and operation of the store. All require local support in the form of buying local for the economic feasibility of the store. As we have seen in other rural development initiatives, some communities have the leadership and wherewithal to make things happen, others do not. Federal, state, local and private entities involved in rural development have the task to provide information and resources to those communities that show the interest and passion in helping their community create a bright future and who demonstrate the leadership capacity to do so.

Many believe the futures of rural communities of this nation are very much in doubt. The demographic and economic challenges faced by many rural communities throughout the nation are, in the opinion of some, simply too great and deep-seated to overcome. The issues facing rural grocery stores are an example of those larger rural challenges. But we believe the future of these communities holds abundant promise if new economic models are encouraged and implemented. The ownership models for rural grocery stores presented herein are examples of how rural communities can shape their own future.

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ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

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