



# EXPLORING RURAL GROCERY STORES: OPTIONS FOR OWNERS AND COMMUNITIES


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# TODAY'S PRESENTATION

- NCDC Overview
  - Kauffman Research Study Highlights
  - Best Practice Examples
  - Exploring Community Supported Enterprises
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# NEBRASKA COOPERATIVE DEVELOPMENT CENTER NCDC

For over **23** years, the UNL NCDC has been working with startup and established “multi-owner” businesses throughout the state.

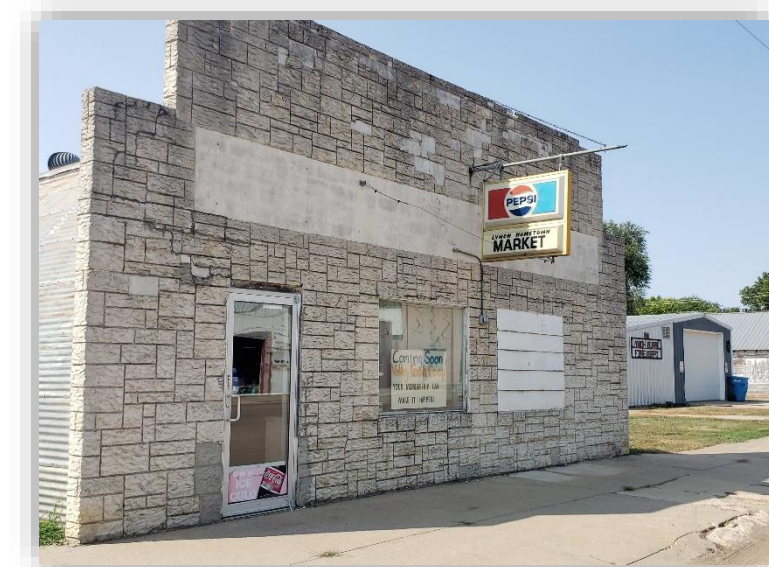
NCDC is Nebraska’s center for cooperative based business development. NCDC facilitates the formation of new business ventures and growth of existing businesses by providing technical assistance, training and education programs.

NCDC has worked with **40** communities exploring cooperative rural grocery stores since 2000.



# HISTORICAL KNOWLEDGE

- Nebraska Cooperative Development Center
  - Increasing requests for grocery store transition assistance
- Observations
  - Communities experiencing declining populations and shrinking retail trade areas
  - Grocery store owners –
    - Many are reaching/reached retirement age
    - Holding older facilities/equipment
    - Finding a lack of buyers
    - Challenges to maintaining profitability



Cooperative business formation viewed as the *last resort* option.



# CONNECTING TO GROCERS THROUGH NGIA


- Creating and identifying resources for grocers focused on community supported / cooperative models.
- Exploring the North Dakota Rural Assess Distribution (RAD) Cooperative to help mitigate transportation costs for rural grocers.
- Co-hosting first Summit.



# OPPORTUNITY RESEARCH

## WHY?

*What is the mindset of the current owners and prospective buyers or community members that is preventing more cooperatives, community-owned business formations?*



Ewing Marion Kauffman Foundation

Heartland Challenge 2

\* Addressing rural business transfer opportunities by providing education on models of shared business ownership, including business cooperative.





# GROCERS RESEARCH STUDY

Mail/Electronic survey of 216 independent rural business owners

- 31% response rate or 67 responses
- 64 currently involved owners of which 61 operating > 2 years.
- 6 transitioned within 2 years

Focus group sessions – Six sessions

- 34 owners, EconDev Leaders, Investors, Managers
- Representing 3 Cooperatives, 5 LLC/private, 1 inter-local



# CHALLENGES OF INDEPENDENT GROCERS

Biggest concern for small stores/communities:

Supply & Transportation Issues:

- Lack of ability to acquire food directly
- Wholesaler/cold storage warehousing

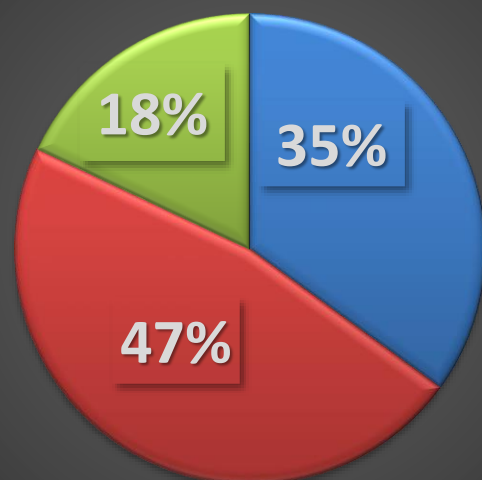
***“no **access** to sales pricing available to others, like rebates which can be passed on to the customer.”***



# CHALLENGES OF INDEPENDENT GROCERS

## Financial Risk

Level of Difficulty to Maintain Profits



■ Major challenge   ■ Moderate challenge  
■ Minor challenge

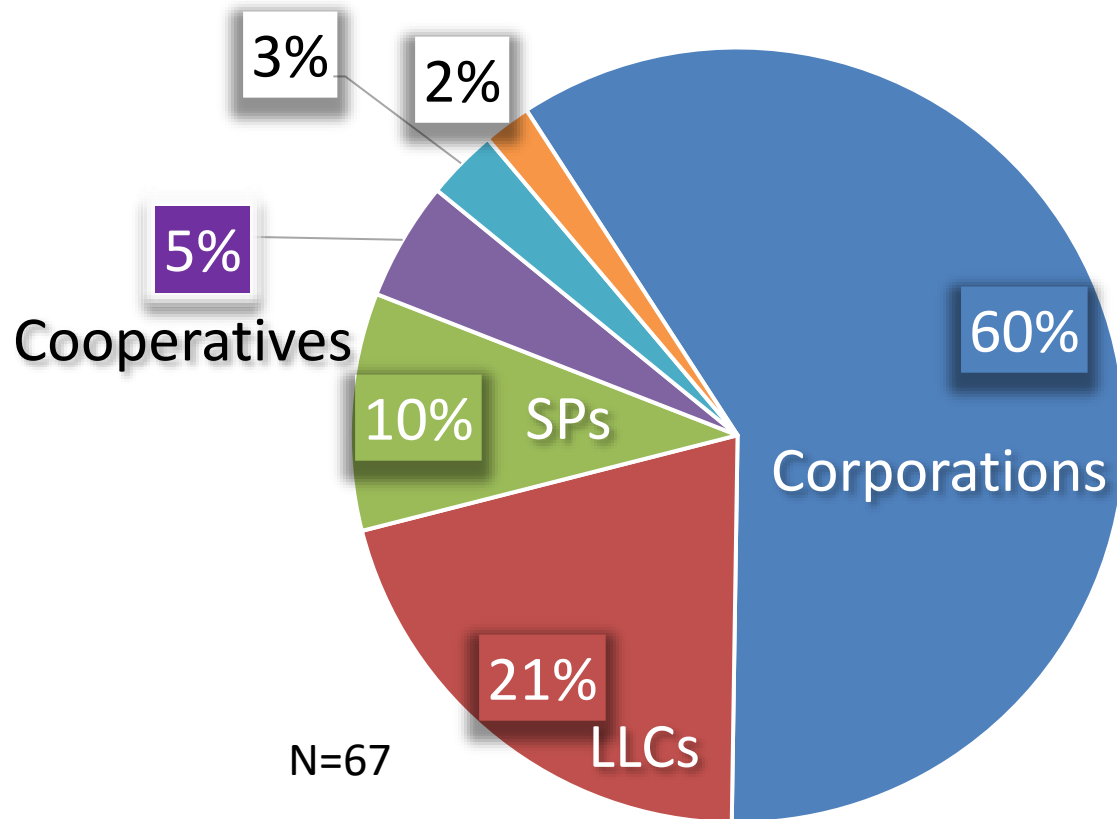
Where insufficient profits, physical facilities were negatively affected.

**86%** of private retailers believe they **MAY BE** able to sell the business for more than their investment.

Potential buyer's acceptance of multi-ownership was more favorable when store operations were determined to be unprofitable.

# CHALLENGE WITH CO-OP MODELS

## Limited Examples



“While not typical for grocery stores, several Nebraska communities are making it work.”

In all 9 communities participating in Focus Groups, ownership changed from sole proprietors to multi-ownership.

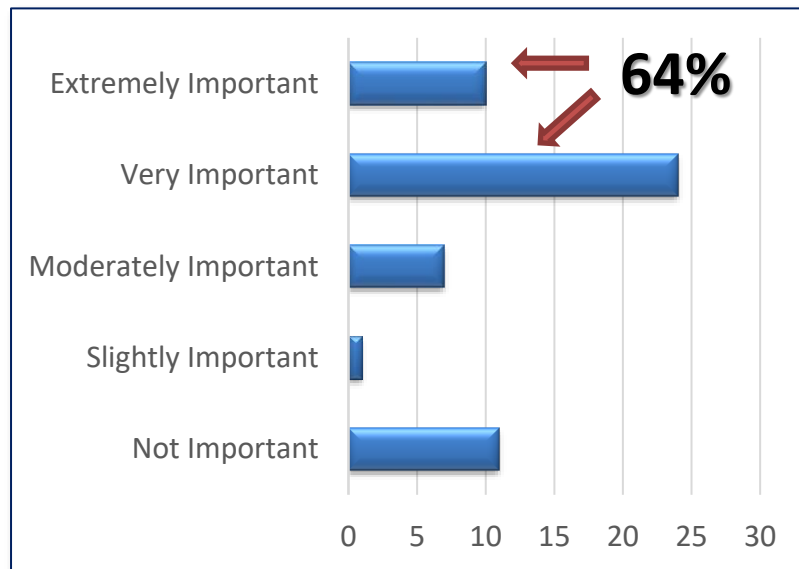
- △ Three were legal Cooperatives
- △ Others **EMULATED** Cooperative Business Philosophy – 1 vote per share (stock)



# CHALLENGE WITH CO-OP MODELS

## Lack of Professional Education

How important is it that an accountant or attorney recommended the business structure?



“My lawyer knows how to set up an LLC and not a cooperative...”

“CPA favored LLCs in general, no one really questioned it.”

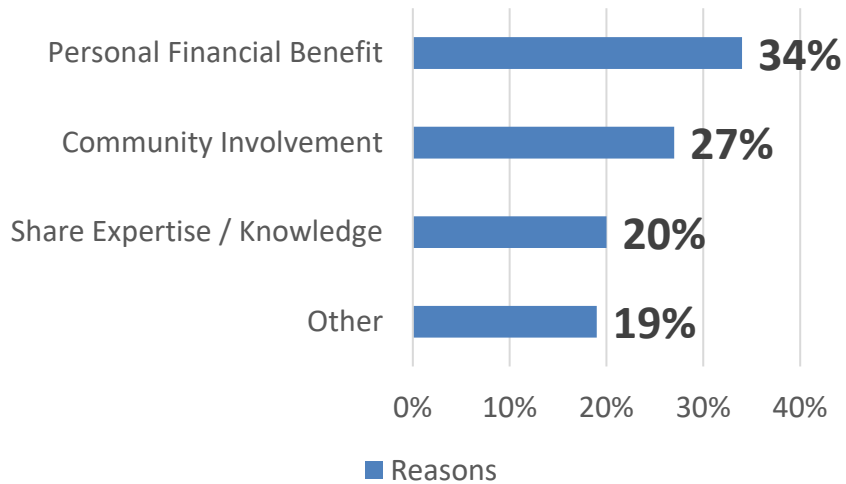
The absence of attorney or accountant knowledge of the legal business forms does appear to influence choice away from multi-ownership.



# SHARED OWNERSHIP: DIFFERENT PERCEPTIONS

## Personal vs. Community

Reasons for Choosing to be in this Grocery Store



Other: family (10)

- 1 Self-employment
- 2 Profit
- 3 Return on Investment
- 4 Tax advantages
- 5 Maintain property values

### Personal Gains

Ranking of Profit vs other financial benefits

- 1 Access to retail service/food for community
- 2 Provide community amenity
- 3 Enhance the quality of life
- 4 Save/create local jobs

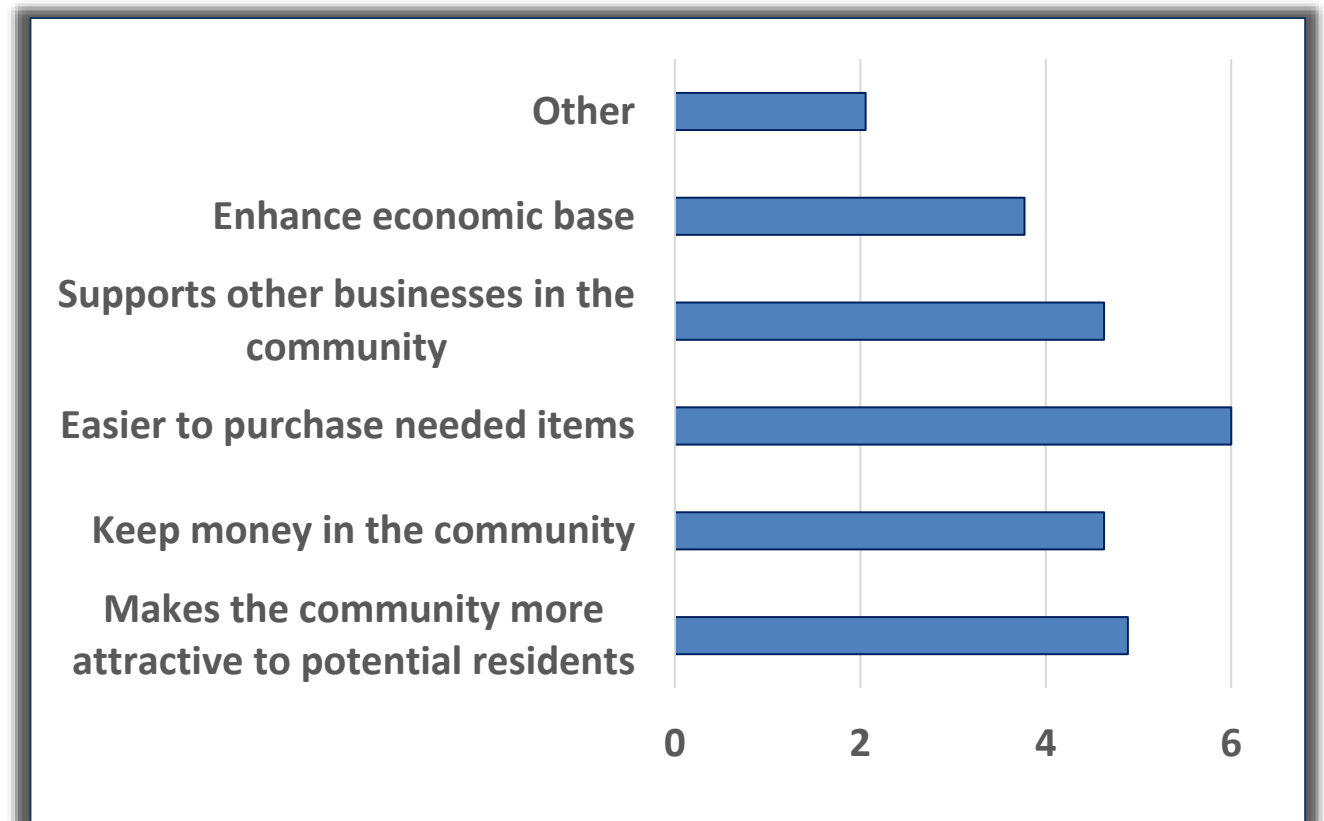
### Community Involvement

Ranking of Community Involvement vs other benefits

# SHARED OWNERSHIP: DIFFERENT PERCEPTIONS

## What Owners Believe Patrons Want

**100%** of owners currently in business believe it is **somewhat** or **extremely** important to retain a store in the community



# FINANCIAL INCENTIVES TO OWNERSHIP

## Corporation vs. Cooperative

- |   |   |
|---|---|
| 1. Access to retail service   | 1. Sustaining and growing the community |
| 2. (Tied) Amenity, convenience, quality of life, sustaining and growing the community | 2. Access to retail services            |

“Older people were distraught [the store was being sold]. The bank was concerned, banking and groceries in town are important.”





# FILLING A BUSINESS NEED

## Common Good

Focus Group participants indicated that multi-ownership legal structures were not selected simply for their own sake; instead, the community perceived multi-ownership as the **best solution** for their community.

“Without a grocery store we have a dying community. The grocery store helps and without it we would really struggle as a community.”



# FILLING A BUSINESS NEED

## Common Good

For cooperatives, providing for the common good is also a financial consideration.

- Concerned about matching financial requirements to the capacity of the community
- One that encourages community participation.

“To have the larger investors and no help was not going to work for the community either. It depends on the community and their situation.”



# FINANCING A COOPERATIVE

## **Common Good**

“We took the amount we needed to raise and [looked at the] interest levels – that was the decision. Thought \$100 would take too long and \$1000 would be too much.”

“We wanted 50 investors at the cost of \$25,000 & 25 shares at \$10,000. Lowered because young people wanted to invest but didn't have that much to invest.”



# FINANCING A COOPERATIVE

Together, themes suggest a tradeoff between community resource capacity and the ability to meet business needs.



Financial requirements



Time



Education



Costs (physical/operational)

Individuals stated the effort to establish the business was justified when multi-owner stores were expected to generate ***substantial community value***.

True whether obtaining financial capital was difficult or relatively easy.



# RECOMMENDATIONS

Multi-ownership structures are feasible replacements for the prior structure. However, education is needed.

1. Attorneys and accountants can strongly influence the legal structure.
2. Community leaders (economic developers, Extension, city administrators) should have resources on cooperative processes and community engagement.
3. Buyers & sellers should recognize cooperatives as an additional option.

Cooperatives should form around specific community needs.

1. Opportunity to evaluate and provide new community services/retail sales.
2. Opportunity for latent managerial/leadership skills to emerge within community.
3. Translate cooperative legal structure to other critical businesses/services.

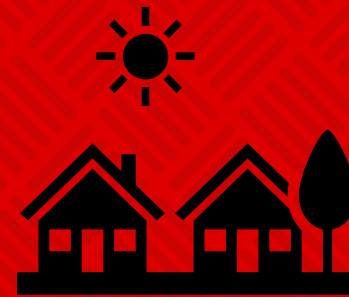
Multi-ownership businesses should be equally considered as a business structure, not as a last resort.





# Nebraska Cooperative Development Center

Creating Tools to Strengthen Businesses and Communities





# CAPITAL IS NEEDED SUCCESS

- Capital structure refers to the choices that business owners make when acquiring the capital to finance all fixed and short-term assets including building, equipment and inventory.
- How capital is structured impacts the profitability and return on investment of the business and has a major impact on risk.
- Capital can include:
  - Owner Investment
  - Loans
  - Gifts
  - Grants

<b>Characteristics &amp; Entities</b>	<b><i>Sole Proprietorship</i></b>	<b><i>General Partnership</i></b>	<b><i>Limited Partnership</i></b>	<b><i>C Corporation</i></b>	<b><i>S Corporation</i></b>	<b><i>LLC</i></b>	<b><i>Cooperative</i></b>	<b><i>Limited Cooperative Association</i></b>
<b><i>Formation Documents</i></b>	None	General Partnership Agreement  Local filings if partnership holds real estate	Limited Partnership Certificate;  Limited Partnership Agreement	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger; IRS "S-Corp" Election	Certificate of Organization  Operating Agreement	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates*; Stock Ledger* <small>*exceptions for Nonstock Cooperatives or other circumstances</small>	Certificate of Organization;  Bylaws;  Organizational Board Resolutions
<b><i>Ownership</i></b>	One owner	Unlimited number of general partners allowed	Unlimited number of general or limited partners allowed	Unlimited number of shareholders allowed; No limit on stock classes	Up to 100 shareholders allowed; Only one basic class of stock	Unlimited number of "members" allowed	Unlimited number of shareholders or members allowed	Unlimited number of patron members and investor members allowed
<b><i>Capital Contributions</i></b>	Sole proprietor contributes whatever capital needed	General partners typically contribute money or services to partnership and receive an interest in profits and losses	The general and limited partners typically contribute money or services to the limited partnership and receive an interest in the profits and losses	Shareholders typically purchase stock in the corporation; Stock may be either common or preferred	Shareholders typically purchase stock in the corporation, but only one class of stock is allowed	The members typically contribute money or services to the LLC, and receive an interest in profits and losses	Members typically purchase one share of voting stock (one member-one vote) in the cooperative; Cooperative may issue preferred stock; margins of the cooperative may be used to fund ongoing operations	Patron members typically purchase one voting membership (one member-one vote); LCA may issue Investor Memberships; margins of the LCA may be used to fund ongoing operations

# COMMUNITY SUPPORTED GROCERY STORES – SUCCESS STORIES

- Lindsay – 2004 - Coop owns building leases to store.
- Elwood – 2013 - Community formed committee when store was listed for sale. Group was able to purchase, remodel and reopen store in 9 months.
- Stapleton – 2018 - Community Angel purchased building. \$25,000 Nebraska Catholic Campaign for Human Development Grant for business planning and staff training.





# COMMUNITY SUPPORTED GROCERY STORES – SUCCESS STORIES

- Hay Springs (Farm to Family Cooperative) – 2021 - \$100,000 campaign goal. \$93,525 USDA RBDG Grant to purchase building. WESTCO \$10,000 grant to assist with start-up costs; used Public school foundation as a pass through.



## COMMUNITY SUPPORTED GROCERY STORES – SUCCESS STORIES

- Emerson (Post 60 Market) – 2022 - Healthy Food Grant - \$150,000. Loan through NENEDD.
- Lynch – 2022 - \$140,000 Capital Campaign Goal. \$200,000 Healthy Food Grant paid for addition of a dock and received a REAP grant.
- Utica – 2022 - transitioned from LLC to Cooperative. Loan through SSEND. LB840 reuse available for pass through.
- Stuart – considered Cooperative, chose Investment Club model.



# COMMUNITY SUPPORTED GROCERY STORES – SUCCESS STORIES

## **Transitioned to private owner with community support enterprises**

- Springview – 2020 - Donations through local Economic Development Group provided GAP financing for purchase by a community member.
- Peru – received ARPA and CDBG funding.
- Dalton – 2023 - Local buyer was supported by community to purchase store.
- Ravenna - City provided LB840 financing to MNBO in Wood River to purchase store.
- Loup City and Minden - 2023– Acquired by B&R Stores (family-owned Nebraska Cooperation based in Lincoln).



# BUILDING A COOPERATIVE

- Exploring the Possibility and Organizing
- Assessing Feasibility & Planning
- Implementation



# HOW NCDC HELPS – *EXPLORING THE POSSIBILITIES*

## Exploring the Concept

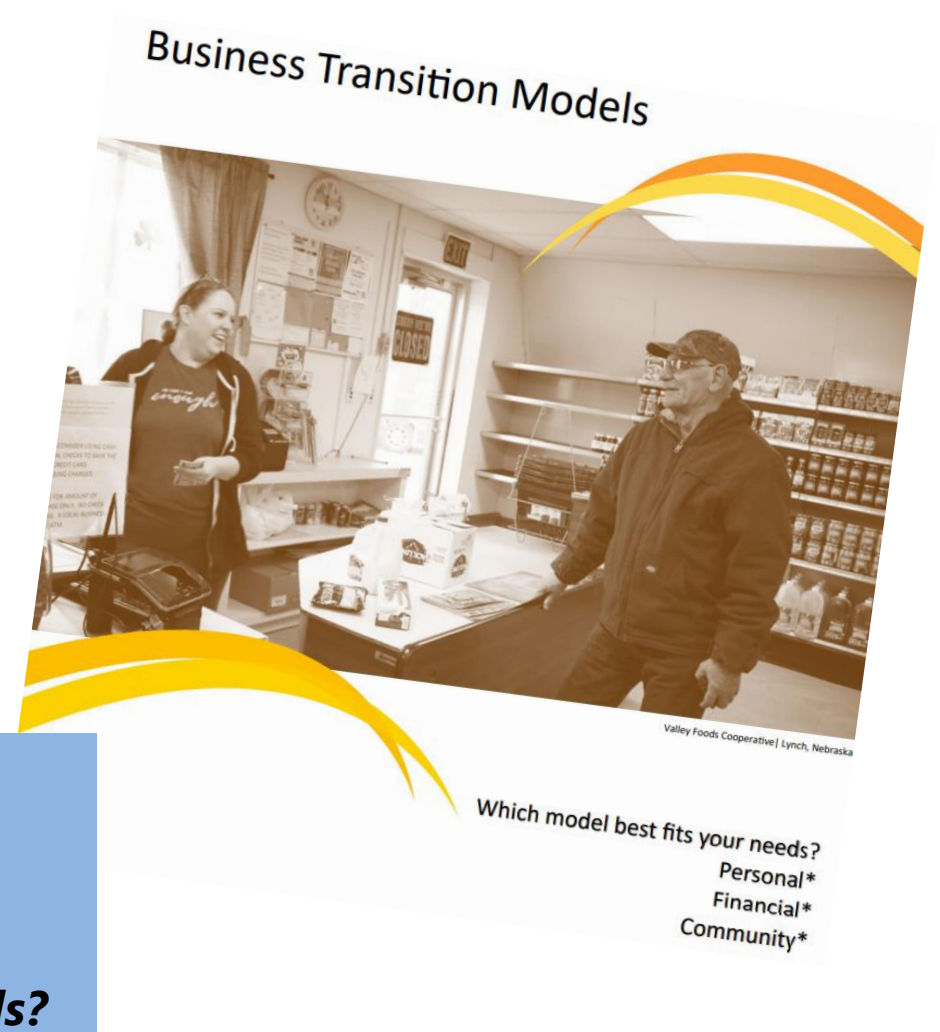
- What is the Business Concept?
- Is a co-op the best structure to fulfill your vision?

## Willingness to Work Together?

- If yes, form a steering team.

### ***Tools Used***

- Community Survey
- Resource Connection/Referrals
- Coaching/Facilitation
- **Business Transition Models – *Which model best fits your needs?***



# HOW NCDC HELPS – *ASSESSING FEASIBILITY*

## Considerations in Feasibility & Planning

- Feasibility
- Operations
- Sources of Supply
- Identify Sources & Capital
- Business Plan



### *Tools Used*

- Community Survey
- Resource Connection/Referrals
- Coaching/Facilitation
- **Grocery Cooperative Business Planner**



# HOW NCDC HELPS – *IMPLEMENTATION*

## Considerations in Implementation

- Incorporate
- Membership Drive/Other Capital
- Design/Acquire/Build Facility

## *Sustainability*

- *Celebrating Success*
- Strong Board
- Continued Communication

## *Tools Used*

- Resource Connection/Referrals
- Coaching/Facilitation
- Ripple Mapping - Success



# OUTCOMES – RIPPLE MAPPING IN EMERSON

## Grocery Store Outcomes

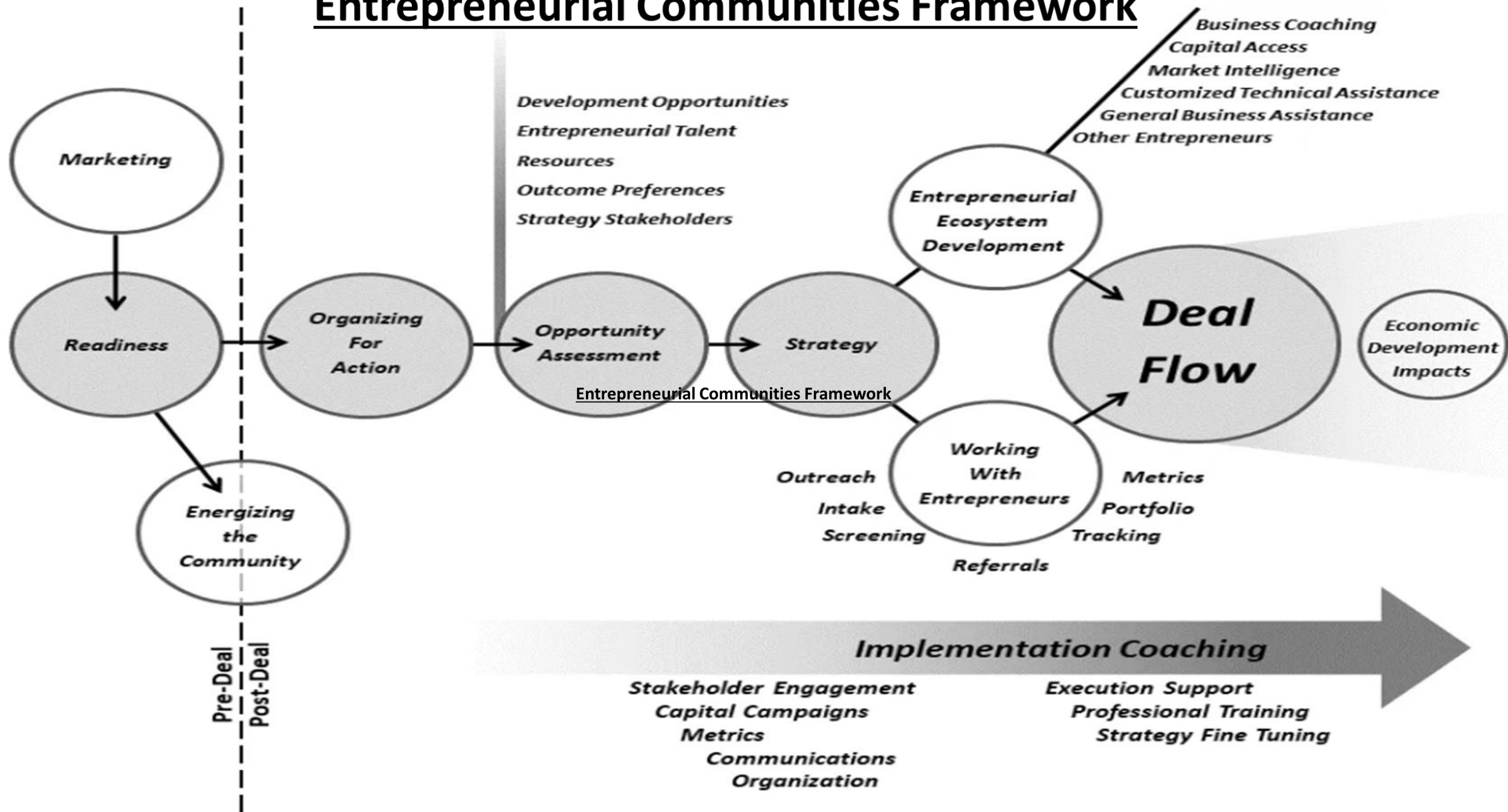
- People shopping local
- Renovation of older building
- Local products showcased
- Increasing sales volume (exceeded expectations)
- People learning business skills
- Collaboration with other local businesses

## Community Outcomes

- Elderly mental well-being is stronger
- Local commerce increased
- More pride in community
- Success brings more success
- Working together on projects
- Road map to help bring other businesses to community

***“We are a community that comes together to support one another.”***

# Entrepreneurial Communities Framework





# County eCoach Entrepreneurs

Entrepreneur Contacts		Business Statistics					Business Goals			
Total business outreach	Businesses completing program or actively ENGAGED	Full-time Employees at Start	Increase in FT Employees	Current Part-time Employees	Increase in PT Employees	Increase in Revenue since eCoach support	Add a New Product/ Service	Sell to a New Market	Add Specialized Employees	Invest in Offsite Employee Training
168	97	241	46	153	46	\$1,809,000	294	171	129	139



**Ripple Effect Map**



# Hall County eCommunity Road Map: *Entrepreneurial Business Plan of Action*

## Great Places to Start

- [SourceLinkNE](#)
- GI Chamber Startup Guide
- Small Business Map (English)
- Small Business Map (Spanish)
- [Small Business Administration](#)
- [NE Business Development Center](#)

## Mentoring & Services

- [CCC Entrepreneurship Center](#)
- [GI Area Economic Development Corp.](#)
- [UNL Extension - Rural Prosperity](#)
- [Center for Rural Affairs](#)
- [CoFound](#)
- [South Central Economic Dev. District](#)

## Local Financial Opportunities

- [LB840 \(GI Area Economic Dev. Corp.\)](#)
- [CCC Loan Fund](#)
- [City's CDBG Revolving Loan Fund](#)
- [Center for Rural Affairs Loan Fund](#)
- [Railside Rental Assistance Program](#)
- [City's CRA Facade Grant](#)
- [City's Tax Increment Financing](#)
- [Native360 Loan Fund](#)

# Grand Island Area Entrepreneur Roadmap



## Regulations, Compliance, Permits

- [Forms, Permits & Applications](#)
- [Zoning & Building Codes](#)
- [Regional Planning Commission](#)
- [Liquor License](#)
- [Fee Schedule](#)
- [Sales Tax \(City Info\)](#)
- [Sales Tax \(State Forms\)](#)
- [Food & Beverage Tax](#)
- [Central NE Health Department](#)

Roadmap Developed by:



In Association with  
Rural Prosperity Nebraska



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