

How to Launch a Community-Owned Store

"I'm so glad that when we asked the big stores to come open up in our town, they said, 'Are you kidding? Get a life.' So we did! And a much better one."

—Sharon Earhart, director of the Powell Valley Chamber of Commerce in Powell, Wyoming

In more than a dozen towns across the country, citizens have seized the reins of their local economies by starting community-owned stores. These stores are local stock corporations, owned by residents who buy shares in the business. Shareholders meet periodically to vote on major matters and elect a board of directors. The board, which is typically comprised of local civic and business leaders, oversees the enterprise, while a store manager handles day-to-day operations.

Community-owned stores are designed by residents to meet specific local shopping needs. Most of those that have opened thus far are downtown department stores that sell affordable clothing, shoes, and housewares, and offer an alternative to chains like Wal-Mart and Target. But the model could be applied to many other types of retail businesses.

Unlike most stock corporations, community-owned stores typically have provisions in their charters and bylaws that prevent out-of-state residents from buying stock and limit how many shares any one person can own. This ensures that the business remains locally and democratically controlled.

This democratic structure makes community corporations fairly similar to cooperatives. Indeed, fledgling community-owned department stores can look to the success of grocery co-ops for inspiration. These consumer-owned stores, which began to proliferate in the 1960s, now number nearly 300 and have annual sales of about \$1 billion.



Fledgling community-owned department stores can look to the success of grocery co-ops for inspiration. These consumer-owned stores now number over 300 and have sales of \$33 billion, or about 4 percent of U.S. grocery spending.



The Powell Mercantile, a community-owned department store in Powell, Wyoming, has turned a profit every year since it opened in 2002.

Cooperatives and community corporations differ modestly in some respects. By law, the activities of co-ops must be fairly closely tied to meeting the needs of their member-owners, whereas community corporations may have somewhat broader missions. Setting up as a community corporation may also make raising sufficient start-up capital a little easier, because a single investor can buy multiple shares.

The Powell Merc: Model for Many

In 2002, a group of citizen investors in Powell, Wyoming, opened the Powell Mercantile, a department store that stocks an array of merchandise, including clothing, shoes, and housewares. The Merc, as it is known locally, has been so successful that it has inspired at least half a dozen other community-owned stores.

The idea for the Merc arose after the town's only department store—operated by a chain called Stage—closed, leaving residents without easy access to essential goods. Shopping for some basic items meant a 50-mile roundtrip to the big-box stores in Cody or a 200-mile round-trip to the mall in Billings, Montana.

Of more concern even than the closure of the department store itself were the other economic losses its disappearance would likely set in motion. Many feared that, as residents started traveling to Cody or Billings for things they used to buy at Stage, they would purchase other goods there as well, including many of the types of products sold by Powell's remaining Main Street merchants.

"Instead of this town folding up, we pulled ourselves up by the bootstraps."

—Dan Leoni, general manager of the Garnet Mercantile in Ely, Nevada



The Powell Mercantile carries clothing and shoes for men, women, and children, along with some housewares. The store recently doubled in size, to 14,000 square feet.

Town leaders initially responded to this crisis by courting big-box retailers, including Target, but their overtures were rebuffed because Powell does not have enough shoppers within a 25-mile radius to be worthwhile for one of the large chains.

Then they heard about Little Muddy Dry Goods in Plentywood, Montana. This small-town department store had been launched by a group of residents who had each put up \$10,000 in capital. A contingent of business and civic leaders from Powell visited Plentywood. They became convinced that the same model could work in Powell. They formed a board, incorporated, and filed papers with the state to offer stock in a venture they dubbed the Powell Mercantile.

Shares were priced at \$500, much lower than in Plentywood, with the hope that a larger number of people would invest. Residents responded enthusiastically. Within months over 800 shares had sold, generating \$400,000 in capital. A little over a year later, the Powell Merc opened its doors in the 7,000-square-foot storefront previously occupied by Stage.

The store has been a huge success, offering customers good service, often provided by people they know, and the convenience of shopping close to home. Prices are relatively low as well, because the store has no debt to service and no investors clamoring for a high rate of return. Also key has been the know-how of an experienced inventory buyer who was a regional manager for the Stage chain for many years.

Not only has The Merc met a critical community need; it has also turned a profit for five years running. In 2006, The Merc had profits of \$32,000 on \$634,000 in sales. Rather than pay dividends, shareholders have opted to plow the profits back into the business. In 2007, the Merc bought the building next door, more than doubling the size of the store.

By bringing more people downtown more often, the Merc has boosted sales at other downtown businesses. It's also given the community a new sense of pride and self-determination. Many residents refer to the Merc simply as "our store."

The Powell Mercantile's success has inspired several other community-owned department stores in the Rocky Mountain West. Residents of the Wyoming towns of Worland and Torrington have established their own stores: Washakie Wear, which opened in 2003, and Our Clothing Store, started in 2005.

When J.C. Penney pulled out of remote Ely, Nevada, residents capitalized their own store with nearly \$500,000 in stock shares (priced at \$500 a piece), hired a former J.C. Penney manager, and opened the Garnet Mercantile in 2004. In Livingston, Montana, the Livingston Mercantile, owned by 250 local shareholders, celebrated its first year in business in December 2007. All of these stores have joined together to form a buying cooperative to reduce costs by buying some goods in bulk.

Other examples of community ownership can be found in several very small Midwestern towns where residents have purchased a local



The Livingston Mercantile in Livingston, Montana, is owned by 250 local shareholders. It's one of several community-owned department stores that have formed a buying group to reduce costs.

"We don't have to wait for someone to give it to us; we can give it to ourselves."

—Rebecca B. Caplice, president of Greenfield Savings Bank and co-founder of the Greenfield Mercantile

grocery store in order to keep it open. In 2003, for example, some 60 people in Munich, North Dakota (population 268), formed a corporation to buy the town's only grocery store after the owner was forced to retire due to health issues. Washburn Community Foods in Washburn, Illinois (population 1,147), underwent a similar conversion to community ownership in 2000 when 380 residents became shareholders.



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East Coast Catching On

In isolated western towns, community-owned stores have provided an antidote to a sudden dearth of staple goods within a reasonable distance. Most have opened in places that are too small and remote to interest chain retailers. In the East, community-owned stores are catching on less out of dire necessity and more as a sought-after alternative to big boxes.

In 2006, a grassroots group in Saranac Lake, New York, managed to rally residents and head off construction of a Wal-Mart superstore. But they knew that it would be a short-lived victory unless they found a way to fill a local need for more affordable shopping options. As long as this gap in the retail mix remained, Wal-Mart and other chains would eventually return and be welcomed by the community.

The group decided to launch the Saranac Lake Community Store to provide low-cost clothing, shoes, linens, craft items, and baby goods. Shares went on sale to the public in July 2007 and, by December 2007, the venture had attained more than 40 percent of its goal of \$500,000 in start-up capital.

Residents of Greenfield, Massachusetts, have also been working to establish a community-owned store called the Greenfield Mercantile. The initiative was prompted in part by the closure of Ames, a regional chain of discount department stores, which left a gap in the availability of low-priced goods. (The town already has a mid-priced department store on the main street and its owners support the Mercantile effort.)

Unlike isolated towns in the West, Greenfield has four Wal-Mart stores within about 20 miles. Several years ago, residents voted against Wal-Mart's application to open in town. Mercantile advocates hope that by launching a low-priced alternative, they can prevent further incursion by chains and maintain the vitality of Greenfield's downtown and homegrown businesses.

With the support of grants from the USDA Rural Business Enterprise program and the Greenfield Redevelopment Authority, and help from the Franklin County Community Development Corporation, a steering committee spent three years laying the groundwork for the enterprise. They prepared a detailed business plan, incorporated, and formed a board of directors, comprised of bankers, attorneys, civic leaders, and other community members.

In 2007, they made a stock prospectus available and received permission from the state to begin selling shares in the Greenfield Mercantile. They need at least \$600,000 to make the store a reality and hope to raise \$800,000.



Since 2004, the Garnet Mercantile has provided affordable clothing and some housewares.

"The [Green Fields Market] co-op is much more than a store. When you are there shopping, you are taking care of your personal needs while taking care of your community. That's what we want for the department store."

—Steve Alves, documentary filmmaker and co-founder of the Greenfield Mercantile in Greenfield, Massachusetts

Getting it Going

Although every community-store initiative develops in a unique context, the following provides an outline of the initial steps involved.

1. **Develop a preliminary vision** for the store by identifying the community needs that the store could fulfill.

2. **Convene a steering committee** of community leaders and interested citizens. The committee should include a diverse group of people, such as business owners, elected officials, bankers, and those with financial, legal, fundraising, and marketing skills. Agree on a basic plan of action and rules for how the committee should operate, including the frequency and length of meetings and how decisions will be made.

3. **Research established community-owned stores.** Talk with the founders and directors of community-owned stores. Consider taking a field-trip to see one firsthand. Most of these enterprises are willing to share their business plans, marketing strategies, and other material to be used as guides and models.

4. **Reach out to Local Merchants.** Meet with local business owners, particularly those downtown or near the likely location of the store, to answer their questions, ask for their advice, and invite them to get involved. Some retailers may be concerned that a community-owned store would compete with their business and reduce sales. That has not proven to be the case. Indeed, community-owned stores have generally boosted sales at nearby businesses, including those that may sell some of the same types of merchandise. By increasing customer traffic, the community store in Torrington, Wyoming, for example, contributed to the opening of five new stores downtown.

5. **Engage the public and solicit input.** Organize one or more forums in which the committee can present its idea for a community-owned store and gather feedback from citizens. Consider inviting a leader of an established community store to give a presentation.



After rallying to prevent construction of a Wal-Mart store in 2006, residents of Saranac Lake, New York, are working to establish a community-owned store that would sell low-cost clothing, shoes, linens, craft items, and baby goods.

6. **Conduct a market study.** A market study quantifies the demand for certain products and services in a given market. It can confirm that there are in fact local needs that are not fulfilled by existing retail offerings and determine the dollar amount of that unmet demand. This analysis will help the committee make key decisions about the store's location, size, merchandise mix, prices, and more.

A market study for the Greenfield Mercantile, for example, revealed that, of the \$50 million that Greenfield residents annually spend on the types of products the store planned to offer (family clothing, jewelry, housewares, and small appliances), \$40 million is currently spent outside the town. Capturing just 5 percent of that spending would be enough to make the Mercantile viable.

The committee should first investigate what studies may have already been done by the local government or private entities. A local Chamber of Commerce or Main Street organization, for instance, may have already completed a downtown market study that the committee could use.

If an adequate study is not available, the committee could conduct its own, relying on do-it-yourself guides. See, for example, "Evaluating Retail Opportunities" in the market analysis tool created by the University of Wisconsin's Cooperative Extension program at uwex.edu/ces/cced/downtowns/dma/9.cfm

Alternatively, the committee could apply for funding to hire a market research firm or seek out free technical assistance. Entities to approach about potential grants or assistance include state and local economic development agencies, small business development centers, university cooperative extension programs, the USDA Rural Development office, and the U.S. Small Business Administration.

7. Write a business plan. A business plan is critical to establishing a viable business and convincing community members to invest in the enterprise. Business plans enumerate action steps, budgets, timetables, and procedures for starting and running the store. Many of the same types of organizations mentioned above can provide assistance in drafting a business plan. Along the way, the steering committee will need to make key decisions about many aspects of the enterprise, including:

- Structure and management. Will the store be set up as a consumer co-op or a community corporation? What will be the voting rights of shareholders (e.g., one vote per shareholder or one vote per share)? What will be the responsibilities of the board of directors? What will be the responsibilities of the store manager?
- Merchandise mix. What kinds of products will the store sell and how extensive will the inventory be in each of the categories? Will the store follow any purchasing guidelines, such as favoring goods produced in the region or those meeting fair-trade standards? These decisions will be informed by the market study and input provided by the public.
- The size and design of the store, and the type of location needed to make it viable.
- Staffing. What job positions will the store require? Most community stores hire seasoned retail managers to run the day-to-day operations.
- Marketing strategy. How will you promote the store and build a customer base?
- Projected start-up costs and ongoing expenses, including occupancy costs, wages and benefits, inventory, equipment, advertising and promotion, etc.



By opening a low-priced department store in downtown Greenfield, Massachusetts, community store proponents hope to maintain the town center's vitality and prevent further incursion by big chains.

- Projected income, including the threshold necessary to operate in the black.
- Financial requirements. How much capital does the community corporation need to raise through stock sales? How much will shares cost? Will there be restrictions on stock sales? The Greenfield Mercantile, for example, allows only Massachusetts residents to buy shares and does not allow any single individual or organization to own more than 100 shares or 3 percent of the total shares sold, whichever is greater.
- Milestones. What are the steps involved in selling stock and opening the store? What is the timetable for completing each step?

8. Form a board, file articles of incorporation with the state, and write bylaws. Check with your state's secretary of state's office for information on incorporating. Bylaws are basic rules for the corporation and cover such things as the annual shareholders' meeting and the procedure for designating officers. Use the bylaws of another community corporation as a starting point.

9. Draft a prospectus for stock sales and submit it to the state for approval. Most states provide for Small Corporate Offering Registration, a simplified form for registering to sell stock to the public. If the amount of stock issued is under \$1 million, the corporation is not subject to the filing requirements of the federal Securities and Exchange Commission.



Proponents of the Saranac Lake Community Store have set up a web site and rented a downtown storefront to disseminate information about the venture and sell shares.

10. Market the stock. Once the prospectus is complete and the state has approved the offering, the stock can be marketed to the community—with great fanfare! Among existing and planned community stores, marketing techniques vary. In Saranac Lake, a storefront downtown is staffed by Community Store Advisory Committee members, who sell shares, answer questions, and provide information about the enterprise. Greenfield organizers retained a qualified person to promote and manage stock sales for their Mercantile. For Washburn Community Foods in Illinois, volunteer organizers sold shares door-to-door in every community within a fifteen mile radius of downtown Washburn. The founders of the Garnet Mercantile in Ely, Nevada, struggled at first to reach their stock sales goal, but made a dramatic turn-around with a strategic phone campaign and a sales booth at the town's popular July 4th festival. Many community enterprises use web sites to disseminate information and build interest.

11. Establish the store. Once sufficient start-up capital has been raised, the community store's board of directors can begin to implement the business plan. Hiring a qualified store manager and securing a suitable location are among the top priorities and, indeed, the search may start prior to reaching the stock sales goal.

Community Commitment

As with any business, hard work, informed decision-making, and careful attention to details are key to the success of community-owned stores. Communities should go into these ventures with hopes high, but with their homework done.

All community-owned stores depend on volunteers. This is especially true in the start-up phase when much of the work must be carried out by the steering committee and

others who contribute their time and expertise to specific tasks, such as preparing legal documents, marketing shares at a fair, or painting and outfitting the store itself.

Although challenging to establish, community-owned stores deliver significant benefits. They bring people together around a common enterprise. They fill vacant storefronts, both directly and indirectly, that would otherwise multiply on Main Streets. They contribute to a more robust local economy and greater community self-reliance.

ADDITIONAL RESOURCES



Map & Contact Information

Visit the "Get on the Map" section of BigBoxToolkit.com to see a map of community-owned department stores. Click on one of the icons to read details about that store and link to its web site.

Why Support Locally Owned Businesses?

A concise one-page flyer detailing the top ten reasons to choose locally owned businesses. www.newrules.org/retail/whylocal.pdf

The Hometown Advantage Bulletin

A free monthly email newsletter reporting on successful community initiatives to strengthen independent businesses. www.newrules.org/retail/ebulletin.html

Big-Box Swindle

This book offers an in-depth look at the consequences of the big-box economy as well as an invigorating account of how some communities have countered the spread of chains and rebuilt their local economies. www.bigboxswindle.com

