

Developing a Mindset for Multi-Ownership

A Study of Nebraska Independent Rural Grocers and Their Communities

Marilyn Schlake & Shawn Kaskie, Department of Agricultural Economics & Rural Prosperity Nebraska, University of Nebraska–Lincoln

RESEARCH QUESTION

For more than 20 years, the Nebraska Cooperative Development Center (NCDC) has worked with startup and multi-owner businesses, providing technical assistance, training and education. There has been an increasing number of requests for grocery store transition assistance. Looking at the challenge to increase transition effectiveness, researchers wanted to know the mindset of sellers, prospective buyers, and community members toward multi-owner or community-owned businesses, including cooperative formations.

The Problem

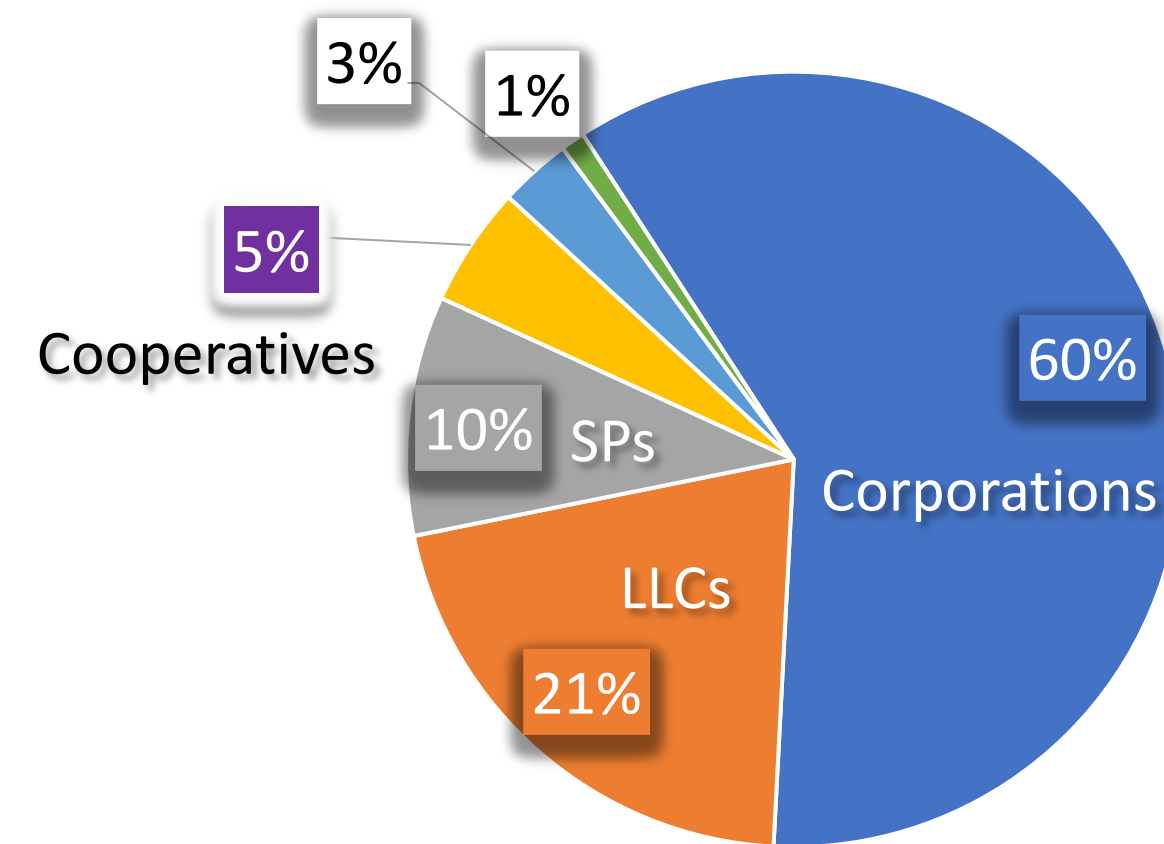
- Smaller, rural communities are experiencing declining populations and shrinking retail trade areas.
- Many rural grocery store owners are reaching or have reached retirement age.
- Sellers are holding older facilities and equipment.
- There is a lack of grocery store buyers.
- There are challenges to maintaining store profitability.
- Cooperative business formation is viewed as the *last resort* option.

The grocery store research was funded by the Ewing Marian Kauffman Foundation as part of the Heartland Challenge grant program.



CHALLENGES WITH MULTI-OWNER, COMMUNITY COOPERATIVE MODELS

Limited Examples

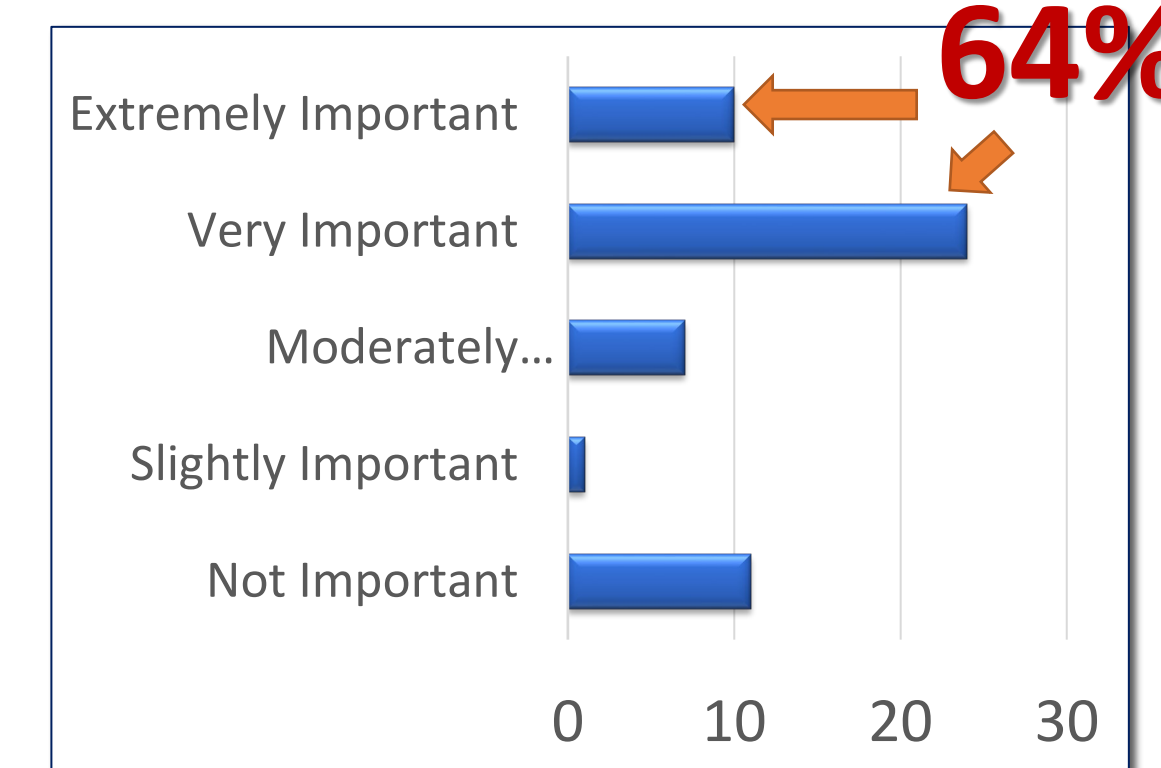


Of the survey 67 responses, only **5%** were legal cooperatives.

9 communities participated in Focus Groups, all changed ownership from sole proprietors to multi-ownership
 ▲ Three were legal Cooperatives
 ▲ Others **EMULATED** Cooperative Business Philosophy – 1 vote per share (stock)

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.”

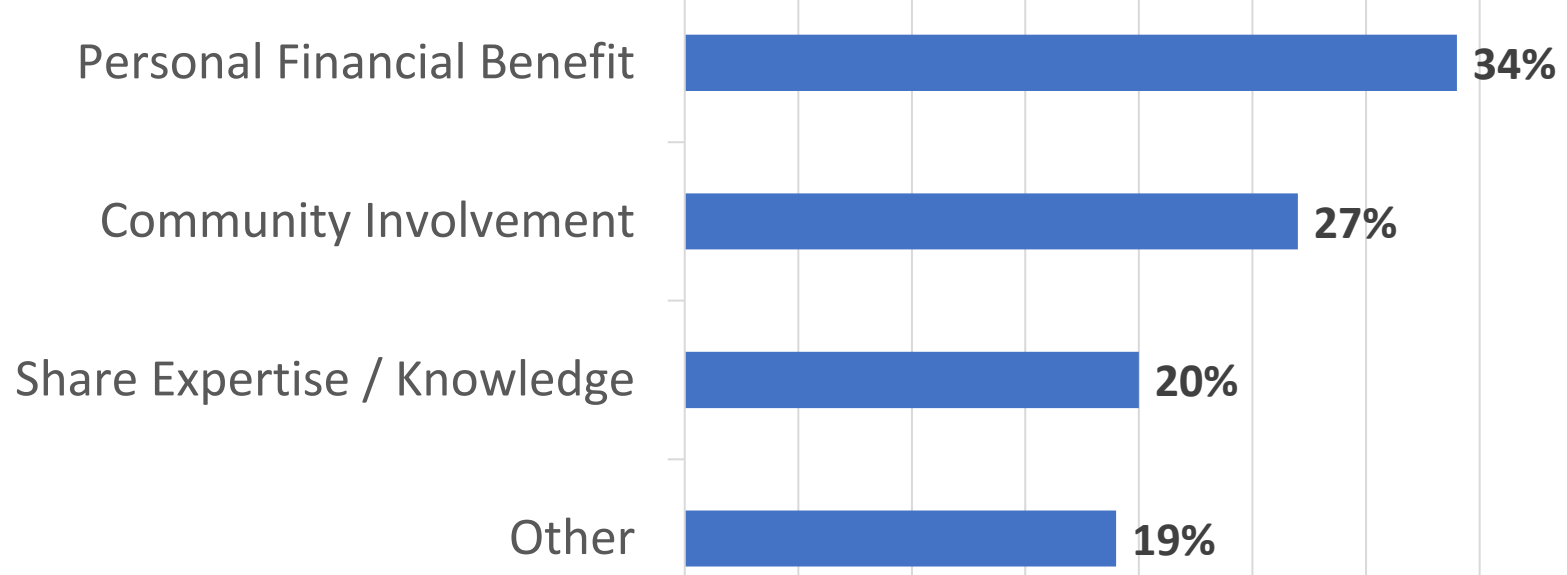
The **absence of attorney or accountant knowledge** of the legal business forms does influence choice away from multi-ownership.

KEY FINDINGS

- Multi-ownership structures emerge when a business rationale is preserved and when it meets dynamic community needs.
- Multi-owner groups are aware of both the financial and community benefits that can be generated by a grocery store in the community and make decisions based on these criteria.
- Multi-owner group awareness of community benefits suggests members are already community leaders who focused on ensuring community needs are met.
- Financial capital constraints are not reasons for choosing multi-ownership structures, nor do multi-owner groups perceive financial capital to be a serious constraint during transition.
- Multi-ownership structures are feasible replacements for the prior structure. However, seller perception about community willingness to support and invest in a multi-ownership business is less encouraging.
- Groups participating in ownership transitions select from legal structures in which they have the most knowledge or awareness.
- Establishing a multi-ownership business involves decisions that require a longer timeframe. During planning stages, respondents were still willing to consider other ownership structures first.

BUSINESS INCENTIVES

Reasons for Choosing to be in this Grocery Store



N-67, Other: family (10)

Personal vs. Community

The research study showed a different mindset for why individuals and community groups chose to be in a grocery store business.

- Of those who chose Personal Financial Benefit**
- | Ranking of Profit vs other benefits | Benefit |
|-------------------------------------|--------------------------|
| 1 | Self-employment |
| 2 | Profit |
| 3 | Return on Investment |
| 4 | Tax advantages |
| 5 | Maintain property values |

- Of those who chose Community Involvement**
- | Ranking of Community Involvement vs other benefits | Benefit |
|--|---|
| 1 | Access to retail service/food for community |
| 2 | Provide community amenity |
| 3 | Enhance the quality of life |
| 4 | Save/create local jobs |

Corporation vs. Cooperative

Research also showed a different mindset for why a corporation structure was selected versus a cooperative or community, multi-owner business structure.

- | | |
|---|---|
| 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 |

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 had the mindset that multi-ownership was 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.”

Community, multi-owner cooperative respondents indicated that providing for the common good was also a financial consideration.

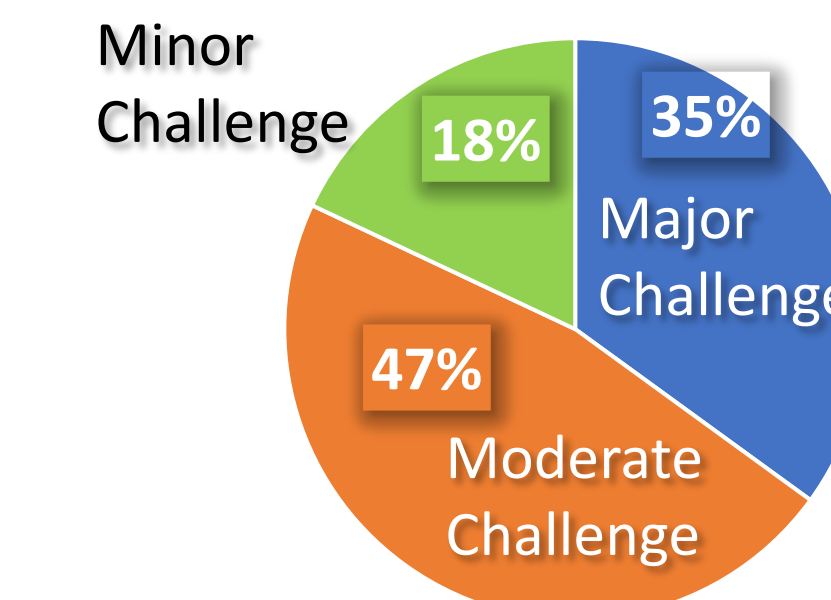
- Important to match financial requirements to the capacity of the community.
- Create an organization that encourages community participation.

“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.”

FINANCIAL INCENTIVES

Financial Risk

Level of Challenge to Maintain Adequate Profit Margins



82% of survey responses indicated that where there were **at least moderate** challenges to maintain store profits.

However, focus group responses indicated a **greater acceptance** of a community, multi-owner business model when store operations were determined to be unprofitable and ownership risk could be shared.

Individuals also stated the effort to establish the business was justified when multi-owner stores were expected to generate **substantial community value**. This was true whether obtaining financial capital was difficult or relatively easy.

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

RESEARCH METHODS

In Fall 2020, researchers conducted a mailed survey of 216 Nebraska independent rural grocers to seek their input on perceptions and experiences of transitioning a rural grocery store to new ownership, be it privately owned, multi-ownership or community, cooperatively owned. Focus group sessions were also conducted with transitioned business owners and economic and community leaders. Questions pertained to challenges and opportunities owners experienced while operating a rural grocery business, perceptions of community support and involvement in and with store transition, and motivations for continued operation or transition.

Survey Responses

- 31% response rate or 67 total responses.
- 64 currently involved owners of which 61 have been operating more than two years.
- Six respondents had transitioned within two years.

Focus group sessions – Six sessions

- 34 owners, economic developers, investors, managers and community leaders participated.
- Represented were three cooperatives, five LLC/private, and one inter-local grocery store business.

The University of Nebraska does not discriminate based upon any protected status. Please see go.unl.edu/nondiscrimination.

Nebraska Cooperative Development Center
 NCDC.UNL.EDU

