



# Legal Minute

Fall 2007

## Thinking Outside the Big Box: Community-Owned Stores and Cooperatives

Small communities across the nation may suffer empty downtown storefronts as giant retailers lure customers out of town and onto the highways. One large vacancy can have a domino effect on other businesses, and a once vibrant downtown can look like a ghost town almost over night. Many rural communities are drawing on a familiar model—community managed cooperative enterprises. In Swanville, Minnesota, sixty families pitched in to share ownership of the town's only restaurant. In Powell, Wyoming, a community-owned corporation sold 800 shares to finance a retail store to fill a vacancy when a chain department store went out of business.

### **What is a community-owned store?**

A community-owned store is a store financed and owned solely by members of a community. Because residents own the store, they can tailor the store to meet the unique needs of consumers and can set fair prices. Community-owned stores typically turn to local sources for goods and services, and profits from the store tend to be recirculated locally. Locally-owned stores return \$45 out of every \$100 spent to their community as opposed to chain stores, which return \$13 out of every \$100. ([www.liveablecity.org/lcfullreport.pdf](http://www.liveablecity.org/lcfullreport.pdf)) Thus, the model can provide a considerable boost to a community's economy.

### **What are the benefits of a community-owned store?**

Community-owned stores preserve local character and prosperity. In a world of chain stores, one-of-a-kind businesses and regional themes like "Keep Austin Weird" have an economic advantage. Local ownership enables those who feel the impact of a decision to make critical decisions affecting the business. Through operating of the enterprises, neighbors are linked by both economic and social relationships. A strong anchor business can also create new local businesses and jobs. Often community-owned stores pay better wages than their big box counterparts. Local stores also promote sustainable environmental growth and reduce sprawl. In addition, local businesses are not tied to a national sales plan and can offer a range of product choices that suit their unique customers.

### **What obstacles stand in the way of a success for a community-owned store?**

The model relies on the financial backing and continued patronage of members of the community. The most critical factor in raising money for a community-owned store and for the ultimate success of the store is how much the community is behind the idea.

### **How is a community-owned store run?**

A community-owned store is a corporation, capitalized through the sale of stock to local residents, and run by an elected board of directors. Anyone in the community can purchase shares in the store, but to ensure that the business is not dominated by any one individual and is truly owned by the community, there is typically a maximum limit on the number of shares each individual can buy.

## Who has successfully used this model?

One of the most publicized success stories has been The Mercantile (“The Merc”) in Powell, Wyoming. In Powell, a rural community of 5,000, a group of community leaders used the community-owned model to replace a vacant downtown retail storefront. The group garnered the support of the residents by holding frequent public meetings and pitching the idea to prospective stockholders and local merchants/suppliers. In 2001, The Merc officially incorporated itself and raised over \$400,000 in capital by selling stock at \$500 a share (one individual could buy no more than 20 shares). The Merc made a profit from its beginning, clearing \$560,000 in gross sales just three years after its inception. Residents of the town are so proud of the store they own that the Merc recently expanded to sell a broader array of products.

## What is a cooperative (co-op)?

Co-ops are another way that people join together to provide goods and services. “A cooperative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.” ([wheatville.coop/faqc.html](http://wheatville.coop/faqc.html)) Familiar membership co-ops are farmer and electrical co-ops. Day-care and housing co-ops are often staffed by members and serve only members. Other consumer co-op models, such as REI or most organic food co-ops, are open to everyone, but may offer discounts to members. Selling memberships and shares involves the community and assures customers of continued service.

## What types of cooperatives exist?

Co-ops generally fall into four categories: consumer, producer, worker, and purchasing/shared services. In the U.S.:

- There are more than 3,000 farmer-owned cooperatives.
- More than 50,000 families use cooperative day-care centers.
- Two million households receive telephone service from telephone cooperatives.
- 37 million people receive electricity from rural co-ops.
- 84 million people are members of credit unions.
- More than 6,400 housing cooperatives provide 1.5 million homes. [[The Co-op Advantage](#), Fall 2007]

## What is the difference between community-owned stores and cooperatives?

Community-owned stores are open to everyone (including to residents who do not own shares in the store), but shareholders split any profits. Co-ops generally serve their members and typically only stock items that serve their members’ interests. Cooperatives are operated primarily to benefit members and not generate maximum profits, while community-owned stores may prioritize profits and could pay dividends to shareholders if sufficient capital is generated.

## Useful Resources: Community-Owned Stores

“Powell Mercantile serves as model for others”

(<http://www.casperstartribune.net/articles/2004/11/16/news/wyoming/c1d16119668eeda987256f4e0011b15a.txt>)

“Making Merc Work” (<http://www.headwatersnews.org/p.earhart030205.html>)

“Community-Owned Stores Provide Alternative to Chains” (<http://www.uwex.edu/CES/cced/downtowns/lfb/lfb/LTB1204.pdf>)

“Saranac Lake Community Store” (<http://www.community-store.org>)

“BALLE: Business Alliance for Local Living Economies” ([www.livingeconomies.org](http://www.livingeconomies.org))

“The New Rules Project” ([www.newrules.org](http://www.newrules.org))

## Cooperatives

“University of Wisconsin Center For Cooperatives” ([www.uwcc.wisc.edu](http://www.uwcc.wisc.edu))

“National Cooperative Business Association” ([www.ncba.coop](http://www.ncba.coop))

“Cooperative Life” ([www.cooplifecoop](http://www.cooplifecoop))

“Rural Cooperatives” ([www.rurdev.usda.gov/rbs/pub/openmag.htm](http://www.rurdev.usda.gov/rbs/pub/openmag.htm))

“Texas Rural Cooperative Center” (<http://ea.panam.edu/rcdc>)