

better business

rural communities unlocking
their potential together

1,000,000 hours
growth rate
97% survival rate
£6,000,000

COMMUNITY-OWNED VILLAGE SHOPS: A BETTER FORM OF BUSINESS

January 2011

Produced by the Plunkett Foundation



1. An Introduction

Community-owned village shops have been one of the leading success stories of the UK co-operative and social enterprise movement. In 1991 there were 33 community-owned shops in the UK; at the beginning of 2011, there were 251, with new shops opening most months.

This report aims to give an overview of the development of the community shop sector in the UK, and of the health and wealth of the sector today. Specifically, the report provides numerical data about the range of legal and management structures of these shops; a summary of the scope of products and services they offer; an analysis of their profitability and contribution to the local economy; a background of the people who make community shops work; and an insight into their support needs and training requirements for the future. It also captures the success factors of community shops, focusing on one of the Plunkett Foundation's principle themes: 'Better Business'.

The report builds on previous surveys and reports about community shops, together with a comprehensive survey that was taken with 121 community shops in England between June and October 2010. These surveys were undertaken by the Community Retail Advisers employed by the Plunkett Foundation, mostly by telephone and visits to the shops. It represents the most comprehensive and inclusive survey that has ever been undertaken with community shops.

2. The Plunkett Foundation and Community Shops

Community-owned shops as we currently know them began in 1984 in the village of Halstock in Dorset. The village shop was threatened with closure and the community responded by setting up a community-owned shop. They also decided to set up a support service for other communities looking to do the same and the Village Retail Services Association (ViRSA) was born. ViRSA, through its network of regional field workers, supported over 50 shops to open by the year 2000. In 2004, discussions began between the Plunkett Foundation and ViRSA about merging after a number of years of working closely together. This process was completed the following year when ViRSA's activities supporting community-owned shops were officially taken on by the Plunkett Foundation.

Today, the Plunkett Foundation, based in Woodstock, Oxfordshire, has a team of dedicated staff to support community owned shops, and through a network of regional advisers, specialist consultants and mentors it has extended its range of services to support the growth of the sector through funding, advice, templates and resources and networking opportunities. Plunkett has become the only national organisation supporting the development of community-owned shops in the UK. It has always been an organisation which works in partnership where possible to deliver better services and works in partnership with a range of funding and support organisations to assist communities to set up and run a successful community shop. We have worked, and will continue to do so, with the network of Rural Community Councils in England. We also work closely with the Wales Co-operative Centre and other organisations in Wales. During the second half of 2010, Plunkett and the Community Retailing Network in Scotland have been building much closer links and now have trustees represented on each organisation's board.

In March 2010 the Plunkett Foundation launched the Community Shops Network as a direct response to the needs identified by community shops as being critical to their future success. The purpose of the network is to help community shops become a more self-supporting network and provide them with a platform from where they can share challenges and successes, learn from each

other and develop as a sector through peer-to-peer learning. The basis for the Community Shops Network was developed by drawing on great ideas from elsewhere in the world. In this case, it was from the Co-operative Grocers Information Network which provides a network and much more for food co-operatives in the US.

During 2010, the total value of support provided by the Plunkett Foundation for community shops was over £800,000. This included;

1. a telephone advisory service
2. a national network of retail advisers
3. a dedicated local food project
4. a mentoring and study visit service
5. consultancy support from specialist business advisers
6. a grant programme for new community shops
7. a dedicated website hosting an online forum, shop directory, resource bank and advice sheets
8. a template legal structure

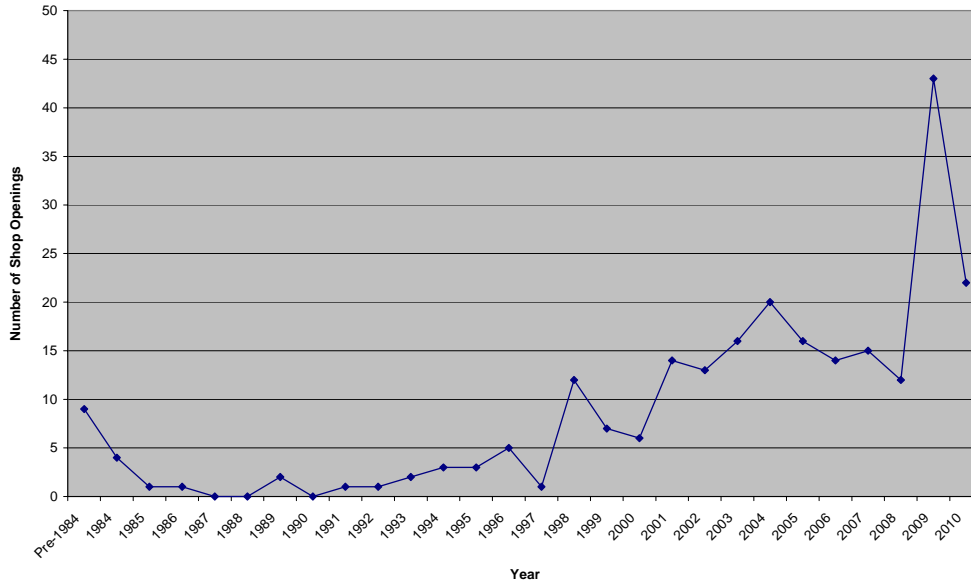
3. Media Coverage

The past year has seen media coverage of community shops reach an all time high. On 2 June 2010, a community shop opened in Ambridge, the fictional home of Radio 4's *The Archers* – the longest running radio drama in the world. Since October 2009, 800,000 daily listeners have been taken through the process of setting up a community shop, undoubtedly contributing to the increased levels of awareness of community-ownership and understanding of its values that we've experienced.

The Archers' community shop storyline, which has run from October 2009 through to the shop opening in June 2010 and continues, has raised the profile of community shops to a new level. Although already recognised to some extent for our work in helping to support the majority of the 240 real community shops in existence, our role in the opening of a fictional shop on the second-most popular radio station in the UK proved the real catalyst for the explosion of media coverage that followed. Since May 2010, articles, press releases and expert commentary about community shops and the work of the Plunkett Foundation have reached over 11 million people; from weekend nationals like the *Saturday Telegraph*, glossy magazines like *Period Living* and national radio programmes like Radio 4's *Farming Today* and Radio 5 Live's Breakfast show, right through to regional and local papers and social media like Twitter and blogs, our work really has permeated through the entire media spectrum. In 2011, we expect to see an even greater interest in what we do, thanks to the broadcast of several high-profile television documentaries on community ownership, as well as a continuation of coverage in the national media.

4. The Rate and Location of Shop Openings and their Resilience Survival

Figure 1. Community Shop Openings since 1984:



The community shop sector is growing at a fast pace, and throughout the last decade shops have opened at an average rate of 19 per year. With an estimated 400 village shop closures each year, community shops are effectively replacing almost 5% of all village shops closures. Community shops now represent a rational and achievable alternative for communities who have lost or are at risk of losing their village shop.

Figure 2. Community Shops closures across the UK

Shop Name	County
Copdock and Washbrook	Suffolk
Melmerby	Cumbria
Cleeve Prior	Worcestershire
Upton	Nottinghamshire
Bretherton	Lancashire
Monkleigh	Devon
Crafthole	Cornwall
Shillbottle	Northumberland

With only 8 out of 259 community shops ever having closed, the 97% survival rate of community shops present a very positive picture for the future resilience of the community shop sector. This survival rate compares extremely positively with estimations for UK businesses nationally which are estimated to have a 5 year survival rate of 46.8% (Office for National Statistics).

Figure 3. Community Shops in the Regions

Region	# of Shops
South West	75
South East	65
East of England	28
West Midlands	19
Scotland	17
East Midlands	16
Wales	11
Yorkshire and the Humber	9
North West	8
North East	3

Figure 4. Coverage of Community Shops across the UK



Community Shop growth is clearly strongest in the Southwest of England followed by the Southeast, and it would appear from our current pipeline of enquiries that interest in community ownership is continuing to grow in these two regions above other areas. It is difficult from the recent data collected to explain all of the socio-economic reasons why community shops are being set up, but it is likely that this clustering effect is a result of rural communities looking over the garden fence and being inspired by their neighbouring communities. This is not surprising since communities rarely embark on a community shop project without visiting other shops first, and will also lean significantly on those that they have visited whilst they are in development for advice and support. Communities in the Southwest and Southeast subsequently have more support available to them than those in other regions.

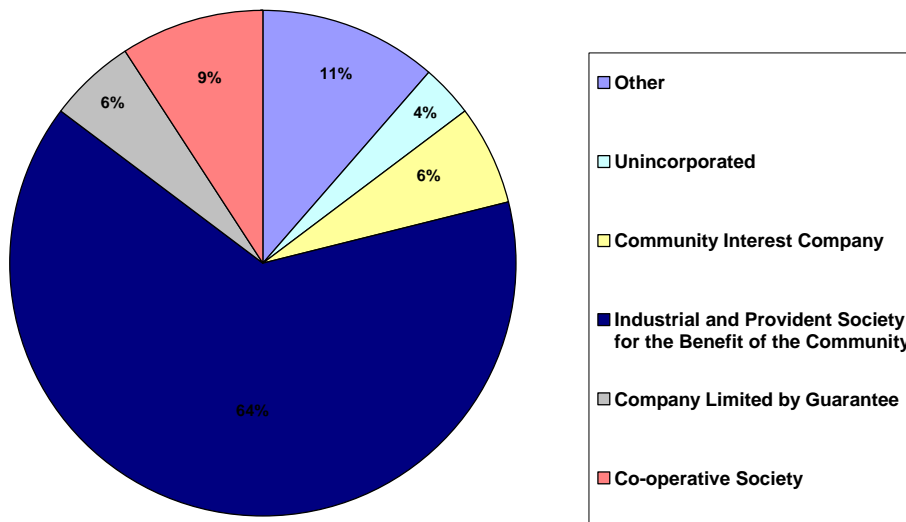
The specific growth of shops in 2009 and 2010 can also be partly justified as a result of funding that was made available by the Plunkett Foundation’s Village Core Programme, which funded 50 shops alone in those two years. This programme provided a grant of up to £20,000 from the Esmee Fairbairn Foundation, matched with a loan from Co-operative and Community Finance. It is worth noting that far more shops benefited from the programme than those 50 alone, as many communities were inspired to start fundraising with the knowledge that this funding package was available. By raising funds through withdrawable shares, many communities raised enough capital to subsequently withdraw from the Village Core Programme, making the funding available to another community.

Based on the data in the pipeline and the available funding through the Village Core Programme, it is anticipated that a further 20 shops will open in 2011, and between 20 and 30 in 2012.

5. Legal Structures and Membership

As trading organisations, community shops need to have a legal entity to ensure that they comply with legal requirements such as tax, indemnity and insurance. Community shops, by and large, adopt legal structures which enable genuine community ownership and democratic control.

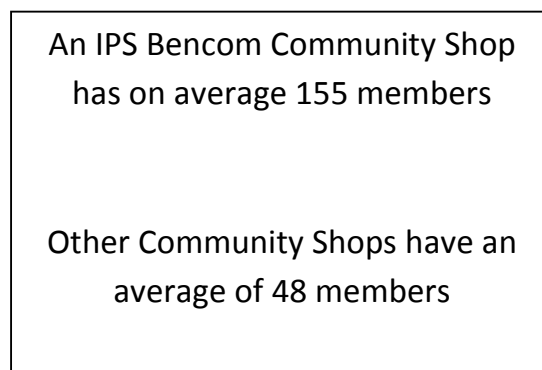
Figure 5. The range of Legal Structures adopted by Community Shops



Over 60% of communities have chosen to adopt the Industrial Provident Society for the Benefit of the Community (IPS Bencom). Plunkett, and previously ViRSA, has been a promotional body for this structure owing to its close fit with the aims and objectives of most community groups who are setting up a community shop. An IPS Bencom, for example, exists to serve and benefit the wider and collective interests of a given community – above that of its staff, or its members, or its committee. The main driver for most shops, for example, will be to provide an essential retail and social facility for vulnerable groups in a village, rather than to source and provide food for its members at a discounted rate.

To a lesser extent, communities have adopted other structures such as Community Interest Companies, Companies Limited by Shares or Guarantee, IPS Co-operative Societies.

Figure 6. Membership base for IPS Bencoms



A valuable feature of the IPS Bencom is the promotion of members and member involvement. Of the surveyed shops, IPS Bencoms had an average of 155 members, in comparison to 48 for other structures. The benefits of a larger membership base include:

- having a larger number of people who have a financial interest in the running of the company,
- a greater number of people who attend AGMs and committee meetings and positively contribute to the overall direction of the business ,
- a more accessible pool of people to draw on when committee numbers are falling, or when more volunteers are needed to help run the business.

Although a Company Limited by Guarantee or a Community Interest Company can include membership and share issues, the majority of community shops adopting those structures haven't appeared to have achieved this to date. This makes those structures more vulnerable when volunteer numbers reduce, or when the original directors or committee members are no longer able or willing to serve.

In December 2010, Plunkett updated its IPS Bencom Model Rules to bring them up to date in terms of legislation, shop requirements, and language. One new feature included in the rules is to allow for Withdrawable Shares. Withdrawable Shares provide the option for communities to allow members to purchase more than one share and at higher entry levels with the added option of paying interest to members. This leads to the potential for members to invest higher amounts of

capital into the venture (up to £20,000 per member) when investment is required, with the opportunity to withdraw it again when the business can afford it.

6. Financial Performance

It is generally accepted that community shops can perform well where previously a privately owned shop failed. This is because community shops have unique differences and advantages over privately owned enterprises.

5 Key Reasons why Community Shops can succeed where commercial ventures have not

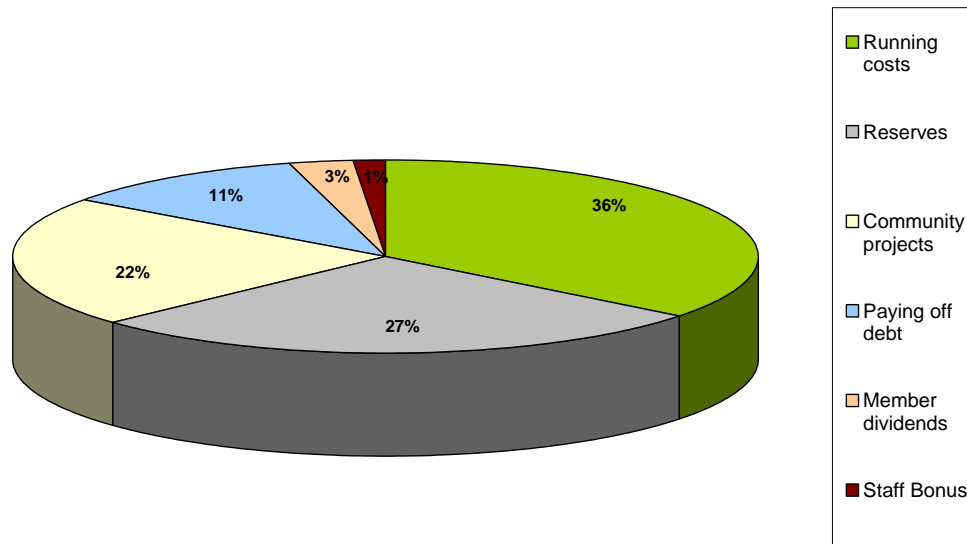
1. The community is usually more keen to support a venture in which they have an economic and social interest, and in the knowledge that there is no single individual that is profiteering from the venture
2. Staff costs can be reduced by volunteer involvement. Statistics below in section 8 suggest that a typical community shop will have around 30 volunteers, each working 2-4 hours a week
3. The difficulty of finding and affording suitable premises can be overcome by co-locating within existing community buildings such as the village hall, pub or church building. Often the ownership or long term lease of premises is covered by funds raised from grant sources or from shares or loans from within the community
4. Community shops can take advantage of rate relief for small rural businesses and can apply for favourable tax conditions with HMRC
5. Community shops are also able to tap into knowledge and expertise provided in-kind by residents of their community and more likely to acquire free of charge second hands goods and services from other retail stores.

Based on the data of 91 shops that was prepared to share financial information, turnovers for the 2009-10 financial year varied from £3,000 to £900,000, with a median average of £120,000 and a mean average of £132,655. This represents growth of 7% based on figures recorded for the 2008-09 financial year.

Taking the average turnover of £132,655 per shop, it could be said that the collective turnover for the 251 community shops in the UK is in the region of £33million.

The average Net Profit recorded for the 2009-10 financial year was £3,654 with a range of -£14,000 to +£35,000. The potential for Net Profit was much higher, however, as many shops indicated that they had been aiming to breakeven, spending and reinvesting predicted surpluses back into the business throughout the year, in order to avoid taxation. Taking Net Profit to be £3,654, suggests that community shops collectively made a Net Profit of about £1million in 2010.

Figure 7. Distribution of Net Profits



The largest share of Net Profit, 63% was reinvested back into the running costs of the business and allocated towards general improvements. 22% of Net Profits were distributed for community use and benefit – based on an average Net Profit of £3,654 suggests that community shops collectively contributed around £200,000 to community projects in 2010.

Figure 8. Profitable Lines for Community Shops

Most Profitable line	Number of Shops
Local Produce	37
Cards	15
Confectionery	13
Soft drink	11
Bakery	9
Deli	9
Stationary	8
Alcohol	7
Cafe	6
Ice cream	5
Teas and Coffee	5
Fresh Fruit and Vegetables	5
Dairy	4
Sandwiches	3
Newspapers	3
Cigarettes	2
Frozen	2

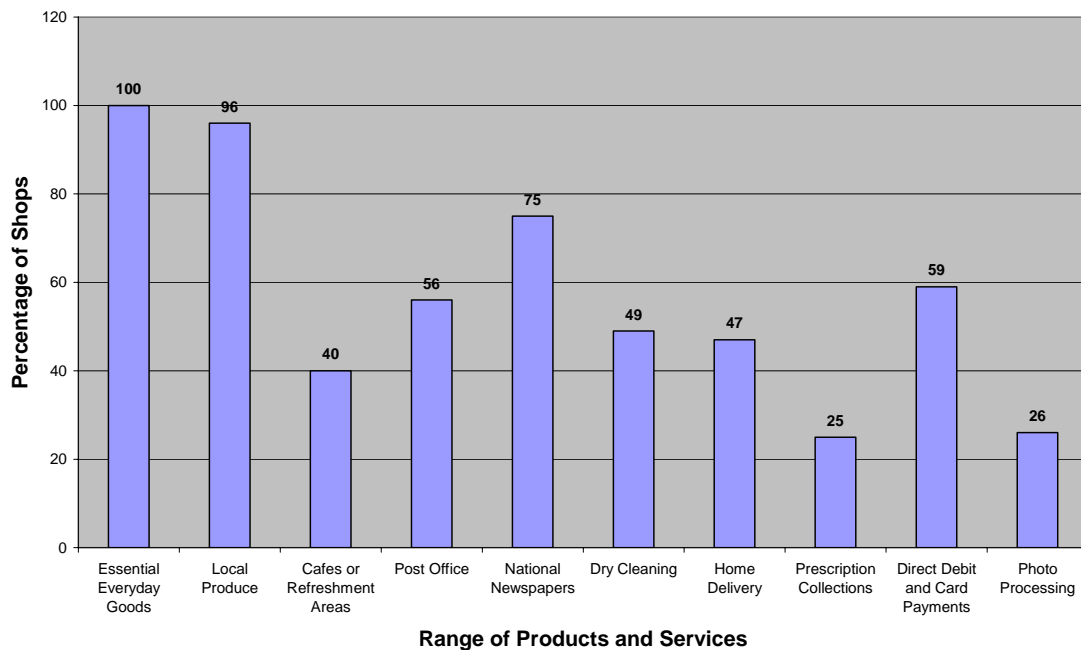
Community Shops aim to achieve a wide variety of margins, depending on what they sell, and what their priorities are. The average gross margins achieved in 2010 was 21%, with a range between 6-34%.

By far the most profitable line of goods sold in community shops was quoted to be local produce. This complements the research completed by Plunkett’s Making Local Food Work programme which suggested that consumers have a growing interest and requirement for local produce, and that the number one platform for purchasing it is from a village shop. This does not necessary suggest that community shops prioritise local food sales, only that it is currently offering those shops the highest margins. Informal feedback gathered from Plunkett’s Look for Local project staff and consultants has been that many community shops are reluctant to increase the amount and range of local food owing to the potential decline in sales of other ranges and the perceived additional time and administration sourcing local food might incur. This clearly shows there is much more to do to promote the benefits and impact of local food sales through community shops.

Out of 121 surveyed shops, 27 shops had secured £215,840 in grant funding over the last 12 months - mainly to facilitate improvements to premises, purchase new equipment, and introduce energy efficiencies. This might suggest that community shops on average will seek an average of £1,783 to remain sustainable. On the other hand, only 27 shops had sought grant funding – the remaining 94 had not thought it necessary. The one exception – the 122nd shop - received a grant of £220,000 to fund the development of brand new premises in Down Ampney, Gloucestershire.

7. Range of services offered

Figure 9. Typical Products and Services available in Community Shops



One of the key characteristics of a community shop is that no one shop will look the same as another, or sell the same goods and services. After the ‘everyday essential goods’, additional goods and services available differ from shop to shop, depending on the market demand and the local

area. Some shops include in-house counters for fresh produce including meat, delicatessen, fish, cooked food (pies), bread etc. Some arrange for mobile services such as the fish monger to call weekly to encourage people to walk up to the shop. Some are able to provide lunches with freshly made sandwiches or warming up pies and pastries in a microwave. And it is the people – the staff, volunteers and customers - who create the atmosphere and activity that makes each shop unique and interesting.

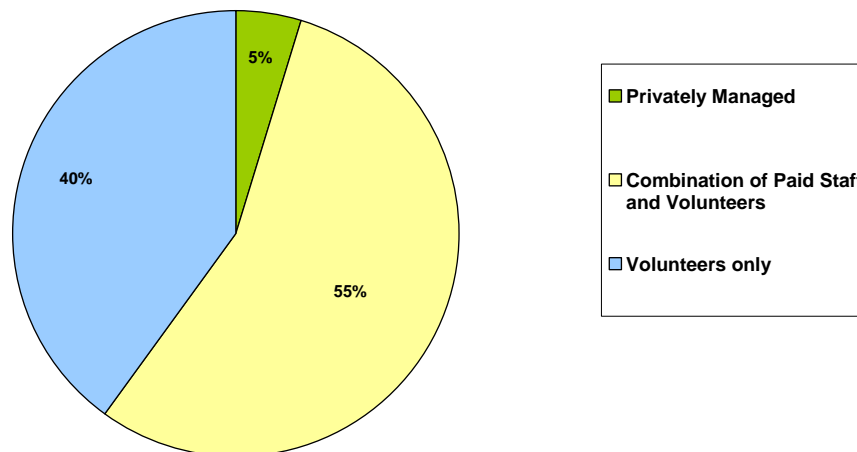
One of the key similarities that shops will have and shown in figure 9 is that 98% of community shops will stock and sell local food to some extent. This is very much what will offer the shop that point of difference – the range and quality of goods that rarely no other shop or supermarket would be stocking.

Increasingly, shops are also choosing to include café facilities – from a fully serviced tearoom to a self service coffee machine with a small seating area. This will add to that point of difference from other stores, and promote the social and community aspects of the shop’s purpose.

Figure 9 draws out other similarities that community shops typically have, but in particular it is worth noting that 58% of community shops host post office facilities.

8. Community Shop Management

Figure 10. Management Structures of Community Shops



The Plunkett Foundation has often advised that the ideal situation for a community shop is to have a paid manager with either paid or volunteer assistants, as this can give a greater sense of control, organisation and stability to the business. Whilst volunteers will be at the heart of most community shops, especially in the day-to-day running of the shop, a paid manager will be able to provide the overall continuity and ensure the shop is meeting the performance targets set by the management committee.

An average community shop will employ 1.9 staff, 30 volunteers and will have a committee of 7 people, and a membership of 133. A minority of shops – 5% - are privately managed, but the

premises or lease of the premises will be owned by the community ensuring the community is able to retain the facility.

Most community shops use volunteers to some extent, and 90% use volunteers on a regular basis. The shop with the largest number of volunteers was over 90.

The range of volunteers per shop varied between 1-92, averaging at 30 volunteers per shop. With most volunteers working 2-4 hours per week, it is estimated that community shops attracted over 1million volunteer hours throughout 2010. Just applying this to the minimum national wage, this represents a £7million saving to those shops in staff time, or £27,752.40 per shop.

9. Community Shop Support Needs

Figure 11. Three Areas identified by Community Shops that they do well

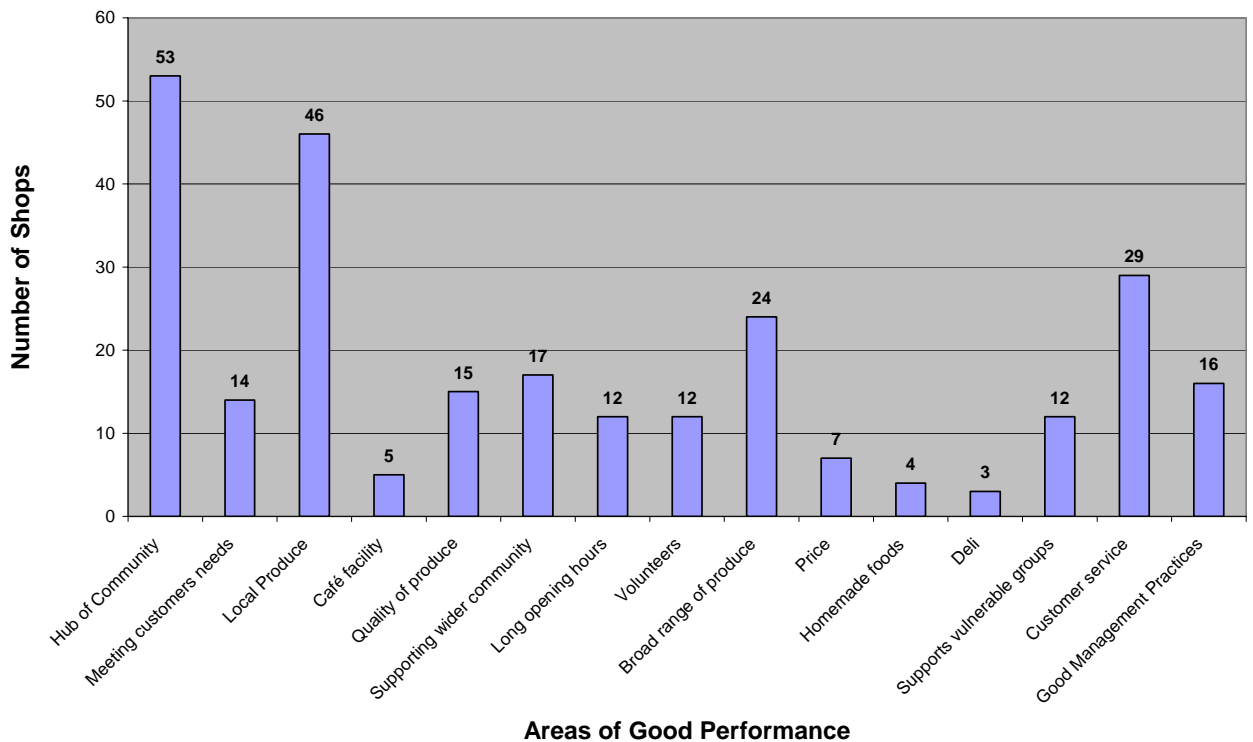


Figure 12. Three Areas identified by Community Shops that they do less well

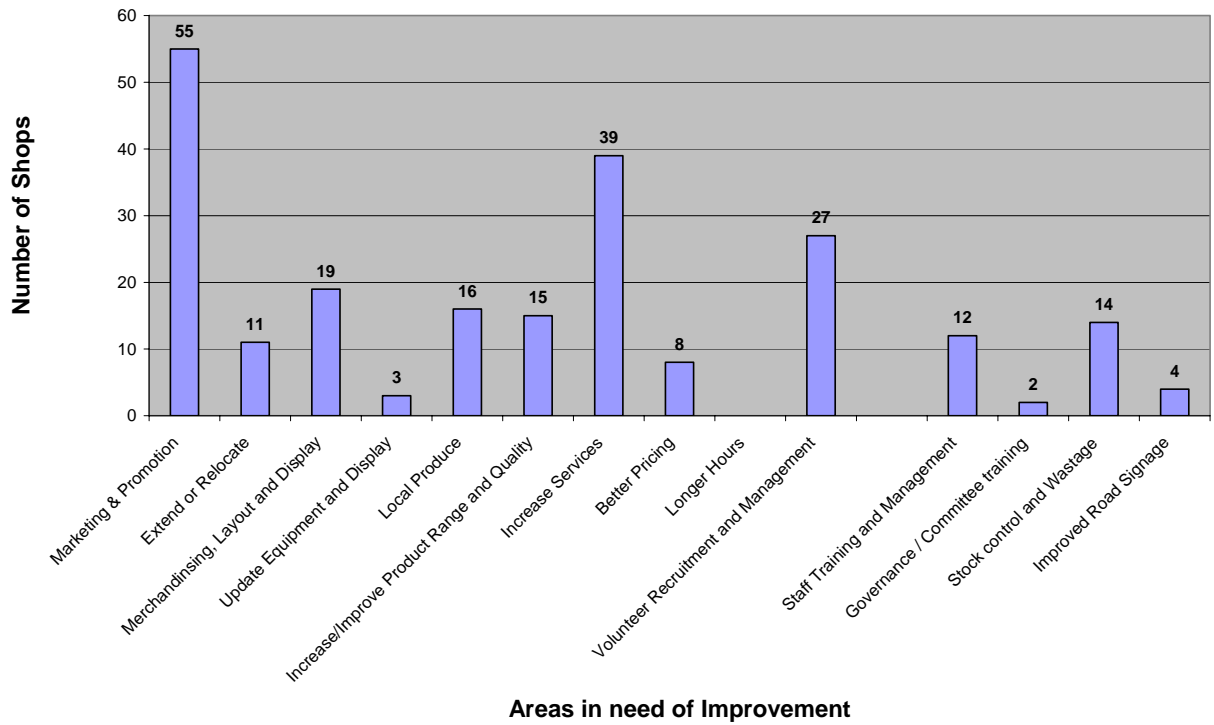
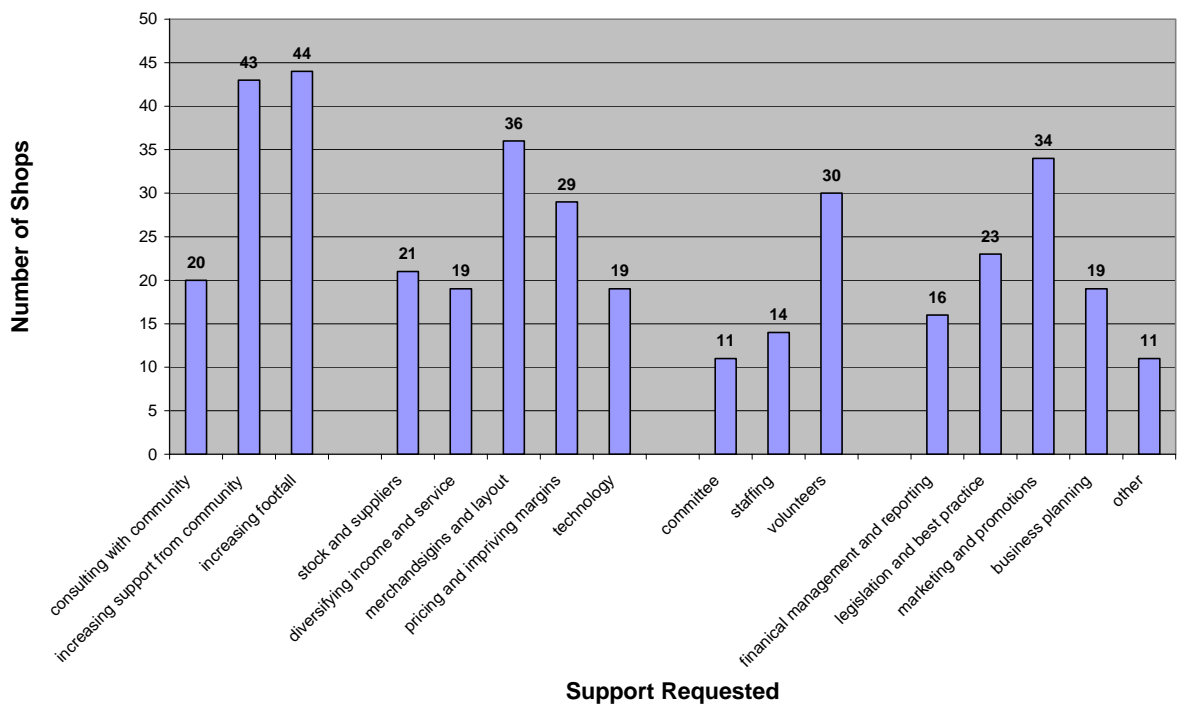


Figure 13. Areas of Support Requested by Community Shops



Key success factors that shops identify include community engagement, customer service, range and quality of produce and sourcing at the very local level. All these factors are points of difference beyond what other national stores and supermarkets are known for, and what really makes community shops different, fun, enjoyable places to be and work.

Areas for improvement identified by shops include getting their message across to a wider sector of their community about what and why they sell with the aim of increasing footfall. Coupled with this was wanting to increase the range of stock and services that customers wanted, and also identify what non-customers wanted. A further key area to improve was volunteer management. The training needs and requested support matched these areas of improvement with wanting to know how to increase footfall and how to engage support from the local and wider community. Additionally, marketing was also rated as important, as was general advice on shop layout and merchandising.

10. In conclusion, community shops represent Better Ways of Doing Business

Community-ownership works. It works in a variety of different communities in a multitude of different ways. This is a fundamental belief of the Plunkett Foundation, meeting all three of the principles which our founder, Sir Horace, set us up in 1919 to take forward in rural communities. It puts the people affected by a problem in charge of solving it. It uses enterprise which is often the most effective way of providing a sustainable solution. Lastly, it ensures that the enterprise is owned and run locally for the benefit of a community. Sir Horace believed that any co-operative that lost its connection with the community it came from was destined to eventually fail. For this reason, we see a bright future for community-ownership as a sustainable and relevant solution for past, current and future generations.

In accordance with Horace Plunkett's 'Better Business' principle, and in summary of the report's findings, community shops represent better ways of doing business in the following ways:

1. Better resilience:
 - Community shops operate with a 97% success rate, compared with a national UK business survival rate of 46.8%
 - Community shops are set to continue their growth at around 19 new shops per year
 - With an estimated 400 commercial village shop closures each year, community shops replace 5% of all village shop closures
2. Better Governance:
 - All shops adopt robust structures promoting genuine community ownership and democratic control
 - Community shops have an average of 7 directors and 133 members
 - 65% of community shops adopt the IPS Bencom structure which significantly boosts member engagement: 155 over 48 for other structures
3. Better Finances
 - Turnover for community shops range between £7,000 - £900,000pa
 - The collective turnover for community shops in 2010 is estimated to be at £33million or £132,635 per shop
 - Average Net profits were recorded to be £3,654 per shop or £1million collectively

- Community Shops were operating at average gross margins of 21%
- Volunteering saves shops an average of £27,752 per year in staff time

4. Better Services

- 98% of community shops sell local produce
- 40% of community shops have cafes
- 58% of community shops host Post Offices
- 59% of community shops take debit/credit cards

5. Better Communities and Lives

- 22% of Net Profits are reallocated to community projects representing £200,000 nationally
- Shops typically employ 1.9 members of staff and create 30 volunteer placements
- 90% of shops use volunteers regularly, in 2010 using 1million hours