

A Better Form of Business 2013

Community-owned village shops



The community shop sector

Community shops: 303 (and counting!)

Space: **214,942.14 sq ft**

People: 945 staff; 7796 volunteers;

51,510 members

Services: 174 post offices; 130 cafes;

6,666 suppliers of goods and services

Financial Performance	2012	2011	% increase
Total* Gross Sales	£48,711,601	£43,081,515	+13.1%
Like-for-Like Gross Sales**	£23,930,514	£23,261,044	+2.9%
Total Net Profit	£1,596,028	£1,300,000	+22.8%

^{*}Total refers to the estimated value of all 303 community shops based on average shop turnover

^{**} Like-for-Like sales compare trading figures provided by the same 137 shops who shared financial data for a full 12 month period for both 2011 and 2012

Foreword

Welcome to A Better Form of Business, the Plunkett Foundation's annual report on the status of the community-owned village shop sector in the UK.



This document, despite being entitled A Better Form of Business, isn't intended as a cheerleading exercise. We aim to tell the story as it is, good and bad. What is clear from this report, however, is that the figures for 2012 are overwhelmingly good.

We're seeing the community shop sector continue to grow, by 25 shops in 2012 and by 141 over the last 5 years. We're also seeing the trading performance of community shops improving with growth of profits and growth of like-for-like sales outstripping most supermarket chains.

Community shops demonstrated considerable resilience in 2012 during a time of challenge to many parts of the economy and society. In 2012 no community-owned shops closed anywhere in the UK. This is in stark contrast to the plight of many villages, towns and cities which are suffering accelerated losses in service provision.

What is also clear from the report are the significant and far-reaching positive impacts community-owned shops have on their local community and economy. Their role in helping those affected by social isolation in rural areas was particularly noted but, overall, community shops clearly demonstrate how they have contributed towards what our founder, Sir Horace Plunkett, would have called 'Better Living'.

Community-owned shops succeed due to the hard work of thousands of people across the UK who, as members, volunteers, employees and committee members, are committed to making sure the shops which they own and control are successful and resilient. While this report highlights the success of community shops, we should never forget the hard work that goes into setting up and running successful enterprises. The Plunkett Foundation would also like to thank the range of individuals and organisations that support our work with community shops, without which much of this would not have been possible. At the end of 2012 we were delighted to extend our partnership with the Esmee Fairbairn Foundation in order to help a further 80 community-owned enterprises to establish, and we've been continuing to work with the Prince's Countryside Fund, The Co-operative Enterprise Hub, The Midcounties Co-operative, Hastoe Housing Association, Garfield Weston Foundation, PF Charitable Trust and the Big Lottery Fund to ensure the success of community-owned shops continues for generations to come.

James Alcock

1. R. Note

Head of Frontline, Plunkett Foundation

Introduction

Community-owned village shops continue to be one of the leading success stories of the UK co-operative and community enterprise movement. In 1993 there were just 23 community-owned shops trading in the UK; 20 years on there are 303, with a further 30 anticipated to open in 2013.

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; and a background of the people who make community shops work. It also captures the success factors of community shops, focusing on one of the Plunkett Foundation's principal themes: 'Better Business'.

The report is based on new information provided by 251 out of the 303 community shops trading in England, Scotland, Northern Ireland and Wales, supplemented with existing data supplied by the remaining 52 shops the previous year. This information was collected by Plunkett Foundation staff between January and February 2013 via a combination of a web-based survey and detailed telephone interviews. It represents the most comprehensive and inclusive survey of community shops that has ever been undertaken.



1. The Plunkett Foundation and Community Shops

The Plunkett Foundation was established in 1919 to help rural communities tackle the problems they face by working together through co-operative means. Much of our work today involves supporting rural communities to take over or set up vital village services in community ownership – from the village shop, pub or bakery, through to more unusual services such as launderettes and watermills.

The Plunkett Foundation is the only organisation providing a comprehensive UK-wide service that aims to help more community shops to open and existing ones to thrive. Managed by a dedicated team of staff based in England and Scotland, we offer a tailored programme of advice and support through our 21 staff, 7 community advisers, 16 regular mentors and over 50 specialist consultants. This service reaches any community based in England, Scotland, Wales and Northern Ireland, and we were also very proud to support the first community shop to open in the Republic of Ireland in 2012.

To represent community shops in the market place and at a policy level, Plunkett co-ordinates the Plunkett Community Shop Network, a membership scheme providing community shops with access to a range of heavily discounted goods and services.

Almost a third of community shops have joined the PCSN since its launch in March 2011, with savings per member shop being in the region of £550, or £52,000 collectively. The PCSN is steered by an advisory group consisting of 12 community shop representatives who provide Plunkett with additional insight into the wider issues faced by community shops, and support Plunkett to ensure their voice is heard at the national level.

2. Growth Rate, Geographical Spread, and Resilience of Community Shops

Growth

Community ownership now represents a rational and achievable solution for communities that face having no access to retail services in their community. At the end of 2012 there were 303 community shops trading in the UK and they have been opening at an average rate of 28 annually during the last five years.

Figures 1 and 2 demonstrate consistent growth of the sector throughout the last 20 years – which is partly a response to market failure and partly due to the community ownership model being better known and understood. Village shop closures, for example, have continued at an estimated rate of 400 each year and at the same time, organisations such as the Plunkett Foundation and rural community councils have been actively promoting the community shop model and developing packages of support.

Of particular importance to the growth of the sector is Plunkett's Village Core Programme, funded by the Esmee Fairbairn Foundation and supported by the LankelleyChase Foundation, which has provided substantial advisory and financial support to directly help over 90 community shops to open between 2006 and 2012, and indirectly a further 60 that opened in the same period.

Plunkett is confident that growth of the sector will continue at a similar rate and, based on the current pipeline, early estimations suggest a further 30 community shops will open in 2013. This is based on a past conversion rate of just less than 1 in 6 enquiries leading to an opening. At the start of 2013, for example, Plunkett was working with a record number of communities to explore opening a community shop –197 communities (see figure 4).



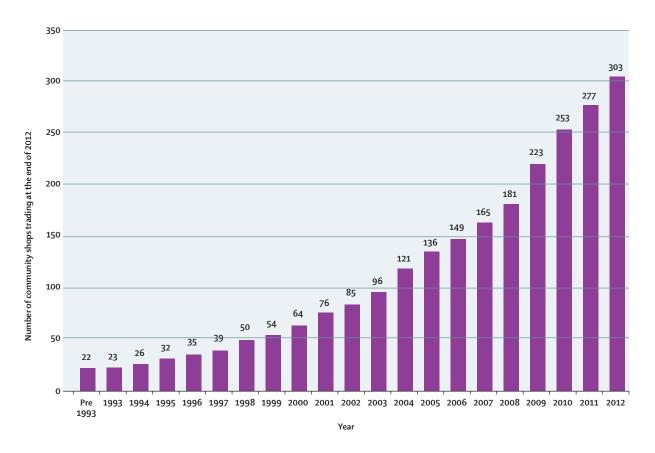
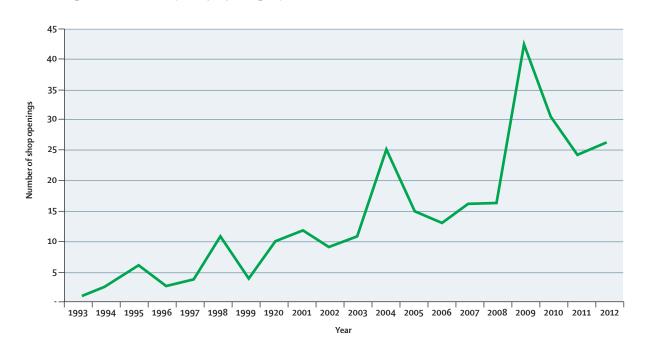


Figure 2. Community Shop Openings by Year



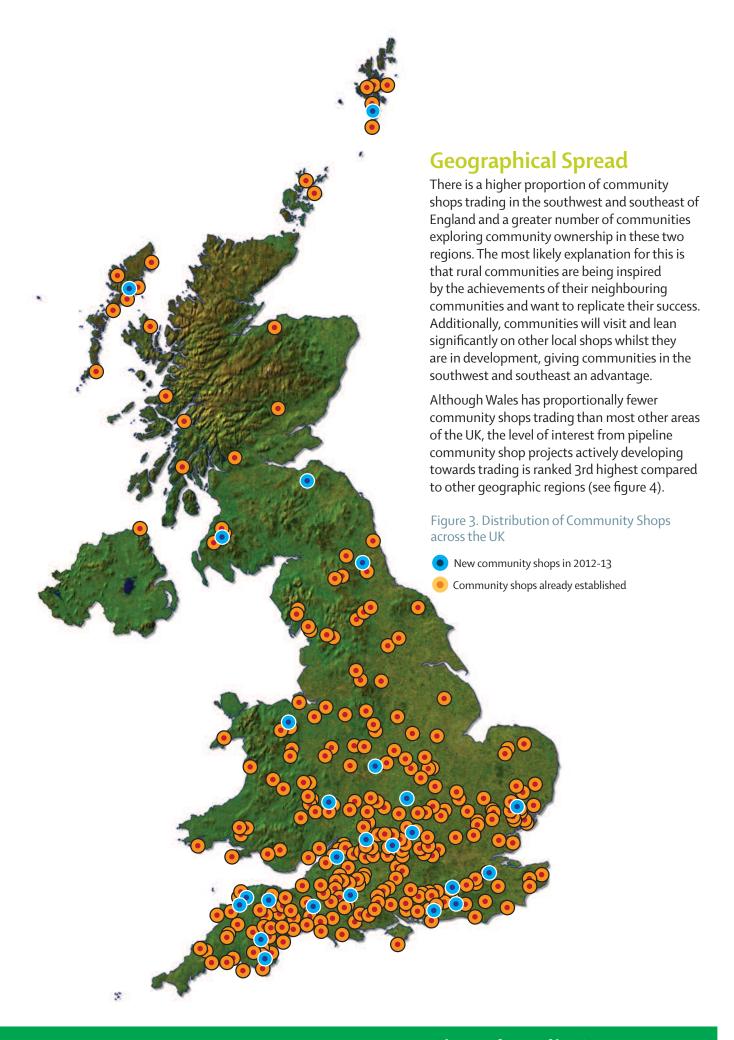


Figure 4. Community Shops in the Regions

Region of the UK	Number of shops Trading	Number of communities in Pipeline
South West of England	92	53
South East of England	75	35
East of England	32	17
Scotland	23	20
West Midlands	22	13
East Midlands	19	10
Wales	15	23
North West of England	10	9
Yorkshire and the Humber	10	8
North East of England	4	7
Northern Ireland	1	2
Total	303	197

Resilience

No community shops closed in 2012. In fact, since our community shop records began in 1992, only 13 community shops are known to have ever closed, indicating a long term survival rate of 96% for community shops. This compares extremely positively with estimations for UK businesses which have an estimated 5 year survival rate of 45% (Office for National Statistics).

3. Legal Structures and Membership

Range

Community shops trade, employ staff, manage volunteers and enter into contracts and financial arrangements. They therefore require a legal entity to protect the individuals running the business by giving them 'limited liability', and they also require a legal structure to ensure that they are compliant with legal necessities such as tax, insurance, trading standards and employment rights.

Plunkett recommend that community shops adopt legal structures which enable genuine community ownership with equal and democratic control. We would expect this to include:

- Open and voluntary membership
- One member one vote
- The interests of the shop to be linked into community control disallowing any one member from having greater control than others
- No profit distribution to members based on investment (other than payment of interest)

The majority of community shops have chosen to register as an Industrial and Provident Society for the Benefit of the Community (soon to be known as a Community Benefit Society). Other suitable structures communities have adopted include Community Interest Companies, Companies Limited by Guarantee and Industrial and Provident Society Co-operative (soon to be known as a Co-operative Society).

Since our community shop records began in 1992, only 13 community shops are known to have ever closed, indicating a long term survival rate of 96%

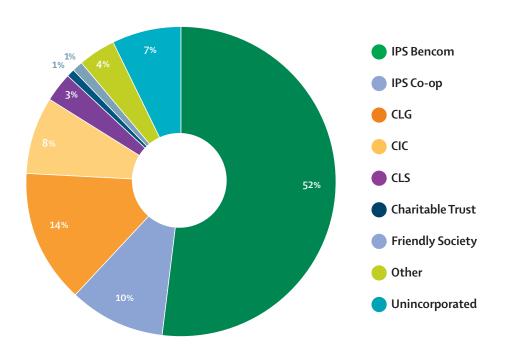


Figure 5. Legal Structures Adopted by Community Shops

Plunkett promotes the IPS for the Benefit of the Community legal structure owing to its close fit with the aims and objectives of most community groups that are setting up a community shop. An IPS for the Benefit of the Community, 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.

A valuable feature of the IPS for the Benefit of the Community is the promotion of members and member involvement. Community shops on average have 170 members; shops with an IPS structure have an average of 191 members, in comparison with 113 for other structures. The benefits of a larger membership base include:

- Having a larger number of people who have a financial interest in the shop and who are more likely to use it regularly;
- 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.

Figure 6. Membership base for the IPS for the Benefit of the Community

Shops with an IPS structure have an average of 191 members Other community shops have an average of 113 members



Although a Company Limited by Guarantee or a Community Interest Company can include membership, the majority of community shops adopting those structures don't appear to have been motivated to grow a large membership. This makes such structures more vulnerable when volunteer numbers reduce, or when the original directors or committee members are no longer able or willing to serve.

The added benefit of the Industrial and Provident Society legislation is that it is the only legal structure that can issue community shares, which in 2012 were responsible for raising an average £35,200 towards set-up costs of community shops.

4. Community Shop Management Structures

Governance

Community shops are membership organisations; the members being the owners of the business. Management committees are elected by the membership to oversee the strategic operation and finances of the business. They also determine how the shop is managed and who manages it. On average, community shops have 170 members and 7 representatives of members on the management committee.

Tenure

The majority of community shops are run by the community. Figure 7 illustrates that only 8% of community shops are managed by a private tenant, with the remaining 92% being managed by the management committee – who themselves will recruit either paid staff, or volunteers, or a combination of the two.

Figure 7. Management Structures

Management Structure	Percentage of shops
Managed by management committee	92%
Leased to a private tenant	8%

Figure 8. Staffing Structures

Staffing structure	Percentage of shops
Staff and volunteers	61%
Volunteers only	22%
Paid staff only	17%

Staffing

At one end of the spectrum, there are community shops that are entirely run by paid staff (17%) and, at the other end, there are those entirely managed by volunteers (22%). However, the majority (61%), fall somewhere in-between. There is no right or wrong way; all shops will need to work out what works best for their community and they will find there are pros and cons with all options.

Having paid staff can give a greater sense of control, continuity and stability to the business. Paid staff can also be tasked to help ensure the shop is meeting the performance targets set by the management committee. On average community shops will employ 4 members of staff, many of whom will be part-time, which equates to 945 people nationally.

Volunteers help add to the vibrancy of community shops. By their very nature they involve large numbers of people who are front-of-house. Having volunteers is a very visible way of demonstrating that the business is community owned, and allows all those involved to feel a sense of ownership and contribution. In total, 83% of community shops use volunteers to support the running of the business. These community shops engage an average of 31 volunteers regularly, which equates to 7,796 people nationally. With most volunteers working 2-4 hours per week, it is estimated that community shops generated 1.47 million volunteer hours throughout 2012. Applying this to the minimum wage of £6.19 gives a total saving of £9.1 million, or £29,935 per shop.

5. Community Shops and Assets

Community shops are difficult to define on size, premises type or ownership – the range is significant! As figure 9 illustrates, a third of community shops are in rented premises, just under a third own the freehold, a lesser number occupy their premises rent-free, and even fewer hold a lease.

Figure 9. Tenure of Community Shops

Tenure Type	Percentage of Shops
Rented	33%
Freehold	28%
Rent-free / Peppercorn	21%
Leasehold	18%

Figure 10: Typical Premises for Community Shops

Premises type	Percentage of shops
Original shop	40%
Converted premises	19%
New build	16%
Village hall (internal/annexe/extensions)	13%
Portable/pre-fabricated	8%
Church/chapel	3%
Pub/pub car park	1%



The largest proportion of shops are based in the former village shop premises (40%) but, increasingly, communities have been establishing shops in converted premises (19%) and turning to new-build properties (16%). These have the advantage of more bespoke retail space, improved parking and access facilities, opportunities to combine the shop with additional community or commercial activity, and often at a lower freehold cost. For these reasons, we anticipate the proportion of community shops with freehold tenure to increase, and the proportion of community shops in former village shop premises to decrease.

Converted premises tend to be former agricultural buildings - such as barns and stables - and also outbuildings belonging to public houses. Of the more unusual conversions, we have seen shops open in a dovecote, a bus shelter, a former fire station, public toilets and in 2012 we saw the opening of a shop burrowed underneath a village green.

The trend towards conversions and new builds and more ambitious projects which combine community activities and services, has led to higher start-up costs. In 2005, the average start-up cost was £60,000; this has risen to £103,000 in 2012.

The size of shops also varies significantly. The largest community shop recorded is 5,164 sq ft, and the smallest 128 sq ft. The average, however, is 709 sq ft.

6. Financial Performance of Community Shops

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.

Five 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 above in section 4 suggest that a typical community shop will have around 31 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. 93% of shops, for example, receive discretionary rate relief
- **5.** As member-owned organisations, community shops are more likely to listen to and respond to the needs of their members and of their wider community. They are therefore more likely to stock and sell products and services that their customers want. As membership organisations, they are also able to purchase collaboratively through the Plunkett Community Shop Network saving valuable time and money.





Turnover

Based on the data from 185 shops that were prepared to share financial information, turnover in 2012 varied from £4,000 to £1,000,000, averaging at £160,764 per shop. This represents a small growth from the previous year's figures which averaged at £156,981.

Taking the average turnover of £160,764 per shop, the total collective turnover for the 303 community shops in the UK is in the region of £49 million. This represents growth of 13.1% from 2011 (previously £43 million). This increase takes into account inflation, the increase in number of shops trading, and a growth of sales.

Looking at like-for-like sales for 2012 i.e. comparing only those 137 shops that provided financial data this year and the previous year, sales are up by 2.9%. This is a significantly better trading performance than all of the major retailers.

- Tesco¹ -0.3%
- Sainsbury² +1.8%
- Asda³ +1.0%
- Morrisons⁴ -2.1%
- Co-operative⁵ +1.9%
- Community shops +2.9%

¹ http://www.tescoplc.com/index.asp?pageid=17&newsid=764

 $^{^2\,}http://www.j-sainsbury.co.uk/media/latest-stories/2013/20130319-fourth-quarter-trading-statement-for-10-weeks-to-16-march-2013/$

³ http://your.asda.com/archives/press-centre/02/2013

⁴ http://www.morrisons.co.uk/Documents/Morrisons_PRELIMINARY%20ANNOUNCEMENT_14March2013.pdf

⁵ http://www.co-operative.coop/corporate/Press/Press-releases/Headline-news/2012-annual-results

Turnover by Floor Space

Based on known average turnover, and known average floor space, the calculated annual turnover by floor area for 2012 was £242.72 per sq ft. This figure should be used as a reference rather than a target, owing to the wide range of turnovers and floor space that this calculation is based upon. A small shop, for example, will have a totally different stocking and merchandising agenda than a larger shop. Figure 11 provides a further guide on the averages and ranges of turnover for different size stores. Again, this should be used as a reference rather than a target.

Figure 11. Turnover by Floor Space

Area of premises	Average turnover/sq ft	Minimum total turnover for bracket	Maximum total turnover for bracket
100 sq ft - 400 sq ft	£319.32	£4,160.00	£250,000.00
400 sq ft - 750 sq ft	£238.19	£14,000.00	£350,000.00
750 sq ft - 1,000 sq ft	£215.55	£122,000.00	£317,625.00
1,000 + sq ft	£199.90	£271,195.00	£950,000.00

Wastage

84% of community shops recorded their wastage, whether through writing in a log-book or using a more sophisticated system like EPOS. Of these, the average wastage recorded in 2012 was £1,468.20 per shop.

Net Profit

Community shops aim to achieve a wide variety of margins, depending on what they sell and what their priorities are. The average gross margin achieved in 2012 was 22%, with a range between 15%-40%.

The average net profit recorded for the 2012 financial year was £5,267 and ranged from -£22,972 to +£43,067, suggesting a collective net profit of about £1.6 million in 2012. The potential for net profit was much higher, however, as many shops indicated that they had been aiming to break even; spending and reinvesting predicted surpluses back into the business throughout the year in order to avoid taxation.

The average net profit of £5,267 in 2012 shows an increase of profitability of 11.5% compared to £4,724 in 2011, and an increase of 29% compared to £3,654 in 2010.

Distribution of Net Profit

The largest share of net profit - 30% - was invested into shop reserves and 29% reinvested back into the running costs of the business and towards general improvements. 19% of net profit was distributed for community use and benefit. Based on the value of average net profit generated, this suggests that around £303,000 was distributed for community use and benefit in 2012.

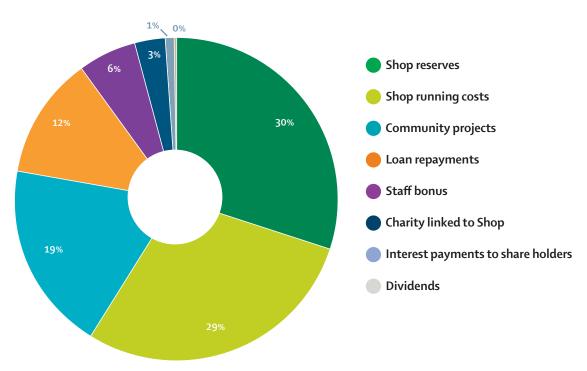


Figure 12. Distribution of Net Profits

Almost a third of all community shops are currently members of the PCSN and this number is growing rapidly. The three most popular reasons for joining were: the financial savings; to feel part of a community shop sector; and to support the Plunkett Foundation.

Reserves

At least 65% of community shops indicated having reserves of varying amounts. Of those who disclosed, the average reserve held was £23,062.7% of shops stated they had no reserves at all.

Membership

The Plunkett Community Shop Network (PCSN) is a membership scheme for community shops which provides members access to a national purchasing scheme saving them valuable time and money, together with representation at a policy level. The PCSN is steered by an elected representation from 12 community shops who input into the selection of preferred suppliers and the direction of Plunkett policy.

Almost a third of all community shops are currently members of the PCSN and this number is growing rapidly. The three most popular reasons for joining were: the financial savings; to feel part of a community shop sector; and to support the Plunkett Foundation. Recorded savings per member shop is in the region of £550 across the various benefits they signed up to. However,

for the energy offer alone, savings have been much higher, averaging at £1,149 per shop. The potential for generating savings through membership is much higher - the average unit price for electricity paid by non-members in 2012, for instance, was 11.79p/kWh, whereas members paid an average of 9.97p/kWh. This means that non-members would potentially have saved an average of £386 per shop if they had joined and purchased energy through the membership.



6. Community Shop Products and Services

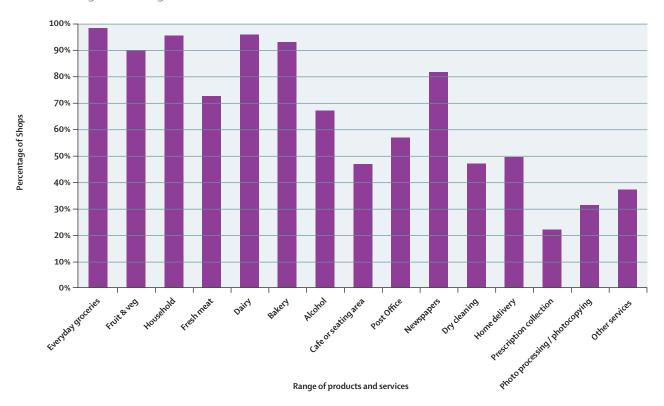


Figure 13: Range of Products and Services

Figure 14: Most Profitable Lines

Most profitable line	Number of shops
Cards and stationery	41
Confectionery	32
Local food and produce	31
Dairy and eggs	25
Soft drinks	21
Alcohol	19
Newspapers and magazines	16
Café	15
Fruit and vegetables	14
Groceries	13

47% of community shops offer café facilities and seating areas – from a fully serviced tearoom to a self-service coffee machine with a small seating area - and this appears to be a growing trend.

Everyday Essentials

Community shops tend to have one or two national suppliers providing the core of their retail stock. They will, however, have an average of 22 different suppliers in total, 13 of which are local. This ensures they are able to source the everyday basics at a competitive rate, but also build up stock tailored to the needs of their wider community. This will range from bread and milk, to ambient goods and household items. The sheer number of suppliers they use adds to the diversity of community shops, meaning that no one shop will look or feel the same as another.

Local Food

One of the growing trends demonstrated in Figures 13 and 14 is the importance of local food to community shops. 95% of community shops stock and sell local food to some extent, and this was rated by shops as their most profitable line. 12% of shops rated local produce as their most profitable line, and of all those that sell local produce, it represented an average of 23% of their total sales.

Café Facilities

47% of community shops offer café facilities and seating areas – from a fully serviced tearoom to a self-service coffee machine with a small seating area - and this appears to be a growing trend. 15% of shops say this is their most profitable line, but for the majority it is an opportunity to add to their point of difference from other stores, and promote the social and community aspects of the shop's purpose.

Postal Services

57% of community shops offer postal services via Post Office Limited and 1% offer an alternative service directly with Royal Mail. The Post Office Limited services vary significantly from full-time provision provided from a secure counter to part-time outreach services.

7. Impact of Community Shops

Reducing Physical Isolation

Community shops offer a vital source of retail provision within rural communities, particularly as they are almost always the only form of retail provision in the settlement in which they are based. Community shops also serve a wider geographic area and are on average an 8-mile round trip away from the next nearest food store. The furthest distance a community would otherwise be required to travel, that we are aware of, is Co-Chomunn na Hearadh (Harris Community Co-op) on the Isle of Harris, which saves a round trip of 46 miles. These distances make such services a lifeline for many rural communities, particularly those in more isolated parts of the UK and particularly so for the elderly and less mobile.

Reducing Social Isolation

Regardless of the products and services sold in community shops, or even their distance to alternative sources of retail provision, an overwhelming message coming from interviewees was the important role the shops play in stimulating community and social activity. For example, community shop are often the only public place in a rural community that is open during the day and that offers a place where community members can go to meet with, and talk to, other people. Those involved in the running of the shop (such as the various staff, volunteers and committee members) are provided with unique benefits such as the opportunity to learn new skills, meet new people, and feel part of the community. These social opportunities have been recognised for their contribution in both reducing and preventing rural isolation and loneliness.

Environmental Impact

Having a community shop in a rural location can significantly reduce the number of times individuals drive outside of their community to access alternative retail services. Each shop will be able to calculate their own contribution to 'saved journeys' and this will depend on the service they offer and the loyalty of their customer base. But if a community shop only saved two journeys per month for each of their members, this would be saving 10 million miles per year in car journeys, equivalent to enough CO2 in a year to fill 19,622 double decker buses (3,967 tonnes CO2eq).

8. 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 with 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 Sir 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

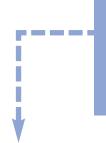
- Community ownership offers a realistic and achievable solution to rural communities facing commercial shop closures.
- Community shops are set to continue their growth at around 28 new shops per year.
- Community shops operate with a 96% success rate, compared with a national UK business survival rate of 45%.
- Financially, community shops have increased their financial performance in 2012 from 2011. Individual turnover is up by 2.9% and net profitability by 11.5%. As a sector, collective turnover has increased from £43m to £49m itself an increase of 13.1%.

2. Better Governance

- All shops adopt robust structures promoting genuine community ownership and democratic control.
- Community shops have an average of 170 members and 7 elected committee members.
- 52% of community shops adopt the IPS for the Benefit of the Community structure which significantly boosts member engagement: 191 over 113 for other structures.

3. Better Finances

- Turnover for community shops range between £4.000 - £1mpa.
- The collective turnover for community shops in 2012 is estimated to be at £49million or £160,764 per shop.
- Average net profits were recorded to be £5,267 per shop or £1.6million collectively.
- Community shops were operating at average gross margins of 22%.
- Volunteering saves shops an average of £29,935 per year in staff time.



4. Better Services

- 95% of community shops sell local produce.
- 47% of community shops have cafes.
- 57% of community shops host Post Offices

5. Better Communities and Lives

- 19% of net profits are reallocated to community projects representing £303,000 nationally.
- Shops typically employ 4 members of staff and create 31 volunteer placements.
- 83% of shops use volunteers regularly, in 2012 using 1.47 million hours.

A Better Form of Business 2013

Community-owned village shops

www.plunkett.co.uk



Plunkett Foundation

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Registered company number: 00213235 (England and Wales)

Registered charity number: 313743