

Research Study

Overview of Results



Ownership Transition in Rural Nebraska Grocery Stores: A Multi- Ownership Perspective

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June 2024

Executive Summary

In Fall 2020, University of Nebraska-Lincoln researchers studied the perceptions and experiences of rural Nebraska grocers about transitioning rural grocery stores to new ownership. This study focuses on transitions from grocery stores owned in proprietorships into stores jointly owned by a community group. Grocery store owners, employees, and community members described the ownership, market, and community context during ownership transitions, grocery store owner motives for involving community members in store ownership transitions, and community motives for involvement with these transitions.

We use survey and focus group responses to discuss links between rural grocery store ownership, market conditions, and community interests when making ownership transitions. We surveyed rural Nebraska owners of privately- and jointly owned grocery stores in Fall 2020. Focus group interviews were also conducted in Fall 2020 with cooperatively owned store owners to provide more in-depth analysis of the motives for, and outcomes experienced from, ownership transitions. Lessons from these groups are needed to develop tools for planning successful transitions from privately to cooperatively held grocery stores.

Key Lessons and Challenges to Grocery Store Ownership Transition

Survey responses and focus groups interviews provided several **lessons about transitioning rural grocery stores ownership into multi-ownership** legal structures.

1. Multi-ownership structures (cooperatives, LLCs, interlocal) emerge from ownership transitions when community groups perceive a business rationale. Groups of local residents must value convenient access to goods and services enough to plan and execute the process of forming and governing a business.
2. Community groups can successfully plan and execute transitions into multi-ownership that include major changes to grocery store marketing plans.
3. Participants in planning and executing grocery store ownership transitions leverage their prior community leadership experience and existing community networks.
4. Multi-owner groups do not perceive financial capital to be a serious constraint during transition, nor is the availability of financial capital a motive for choosing multi-ownership legal structures.
5. Incumbent owner perceptions about whether local communities will participate in a multi-ownership transition affect their willingness to participate in a multi-ownership business transition.
6. Multi-ownership businesses emerged in situations where communities included multi-ownership stores within plans to reach specific goals to retain community amenities.
7. Participants in planning and executing grocery store ownership transitions leverage latent managerial skills to adapt business and marketing plans.
8. Distinct attitudes about the relative importance of financial and community benefits exist between stores that transitioned into corporations and into cooperatives.

9. Awareness of multi-ownership legal structures did not cause groups participating in ownership transitions to exclude other legal structures.

Our observations also revealed **challenges** ownership transitions into multi-ownership will face.

1. Groups participating in ownership transitions select only from among legal structures they are aware of. Some groups discovered the multi-ownership structures during the transition process.
2. Recommendations from attorneys and accountants strongly influence the legal structure owner groups select. Understanding about multi-owner legal structures among these professional groups affects the number of ownership transitions into multi-owner legal structures.
3. The multi-ownership groups we observed were composed only of retail customers. We have no observations about transitions into ownership by multistakeholder groups (e.g., local agricultural producers and local merchants who sourced from local agricultural producers).

Introduction

Independent grocery stores, stores whose owners operate fewer than four outlets, play a vital role in rural Nebraska communities. These stores help ensure food access for rural residents. Despite this, the total number of rural Nebraska grocery stores has declined from 290 in 2016 to 204 in 2021 (US Bureau of Census). The decline is attributed, in part, to the closure of independent stores, which are often owned by individuals or small groups. Closure is often caused by store owners looking to divest the store and retire. Finding qualified, motivated owners to purchase and operate independent grocery stores presents pressing challenges for many rural communities.

The urgency of finding new owners is complicated by the decline in rural Nebraska population. Due to limited job opportunities, customers travel to larger communities for employment. As a result, superstores in larger rural communities are capturing an increased market share away from the local independent stores. Reduced sales also mean these independent stores may no longer meet minimum wholesale delivery requirements. This forces owners to purchase inventory from nearby superstores, at retail prices, for resale.

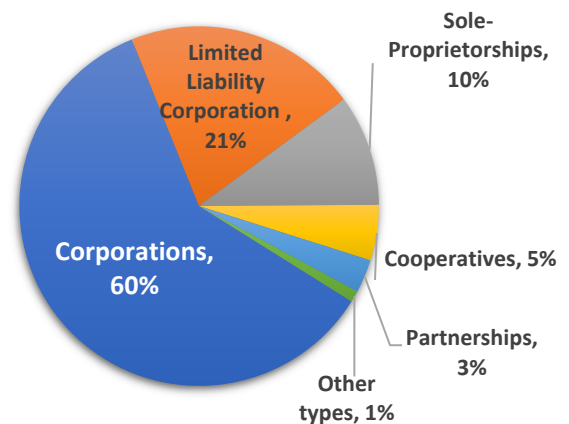
Despite these challenges, rural Nebraska residents consider independent grocery stores an important community amenity. When the business rationale for the store persists, residents have acted together to prevent grocery stores from closing. Residents have been willing to operate retail grocery stores using business models involving community ownership. Legal multi-ownership structures that are alternatives to proprietorships include cooperatives.

This report describes steps taken, and lessons learned, by rural Nebraska communities when independent grocery stores transitioned to multi-ownership. In particular, the challenges communities face with these models, the business considerations involved, and how communities develop commitment and investment in multi-owned stores are discussed. Specific steps are included that communities should consider when transitioning sole proprietorship grocery businesses into multi-ownership legal entities.

Participants

An electronic survey was distributed to independent, rural grocery store owners and general managers across Nebraska. The survey was e-mailed in April and May 2020 to 216 selected Nebraska grocery stores. Responses were received from 67 (31%). Respondents completed the survey on their own. Some were currently employed by or operating the store, others had done so only in the past. Topics in the survey included store ownership (manner of ownership, expected benefits of ownership), store product mix, current and future ownership status, and owner perceptions about benefits to the community created by the store.

Respondent Business Formations



Respondents represented corporations (60%), LLCs (21%), proprietorships (10%), cooperatives (5%), partnerships (3%) and other types of firms.

Six focus groups were conducted with rural grocery business owners or founders. Nine businesses participated. Ownership of each changed from sole proprietorship to multi-ownership. Four multi-ownership structures were represented: two stock cooperatives, one non-stock cooperative, four limited liability companies, one holding company, and one inter-local public-private entity. Topics of discussion included how to keep residents engaged with store owners as transition progresses from formation to a sustainable business, and the perceived advantages of legal structures. An open-ended interview process allowed respondents to provide an expanded explanation for their motives leading to their decisions.

Focus Group Business Types
Inter-Local Agreement Public-Private (1)
Cooperative (2) Stock/Traditional
Cooperative (1) Non-Stock
Limited Liability Company (4)
Holding Company (1) Corporation

Respondents and panelists represented a range of rural grocery store conditions. The rural nature of these stores can be seen in the distances customers travel to survey respondent's stores. Survey respondents were asked the distance customers travelled to patronize their store. The most common distance was less than 5 miles, the average was 9.4 miles, but some traveled fifty or more miles. The stores described by panelists were in small towns:

"450 people in county and 120 in town."

"600 people in town, one grocery store, bank, library, two bars, car dealership, lumber yard. Fairly active town"

"Similar to [named Nebraska town], pop 307. Thirty percent of the community lives outside [the town]."

"Closest Walmart is 100 miles away."

Observations

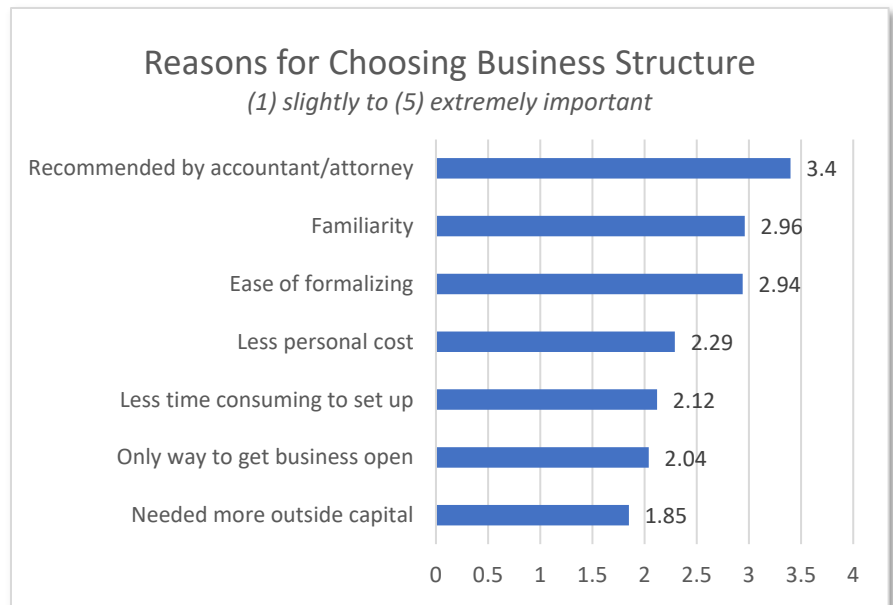
We examined survey and focus groups responses to note the major themes owners and communities consider when transitioning grocery store ownership in rural Nebraska. In particular we looked for themes related to concerns owners and communities have when transitioning ownership into multi-owner legal structures, such as cooperatives, limited liability companies, or others. Three major themes stood out in our results. One, communities need to be aware multi-ownership legal structures exist in order to plan for it. Two, communities must identify a need in their community that a grocery store could meet and be satisfied the justifies planning and executing an ownership transition into a multi-ownership legal structure. Three, if a multi-ownership legal structure is pursued, incumbent owners need to believe a multi-ownership transition is valuable enough to them and the community to justify participating in the transition process. We discuss these themes below, providing relevant observations from the survey results and direct quotes from focus group participants.

Result 1: Communities Evaluate Multi-Ownership Legal Structures within the Context of What They Know and Are Willing to Invest In.

A community’s decision about legal structure first rests on their understanding about what options exist. Multi-ownership legal structures, such as cooperatives, are uncommon. Before they can select a multi-ownership legal structure, community members need to be educated about how these meet the needs and prospects of a grocery business.

One indicator of how uncommon understanding about multi-ownership legal structures is how few Nebraska-based examples of multi-owned grocery stores there are. Twenty-six of our survey respondents and focus group participants represented multi-ownership situations in rural Nebraska: thirteen were LLCs, three were cooperatives, two were partnerships, and one was owned by multiple public groups within the same municipality. By contrast, in 2020 there were 204 grocery stores outside of Douglas, Lancaster, and Sarpy Counties.

Communities are likely to consult accounting and legal professionals when learning about legal structures. The importance of professional education about multi-ownership models is evident in our focus group comments and survey responses. Regardless of the type of legal structure used, 64% of survey respondents indicate it is very or extremely important to their choice of legal structure that an



accountant or attorney recommend that structure. One focus group participant said their “CPA favored LLCs in general, no one really questioned it. Just wanted something to get the liability out a little bit and wanted a name on the [store].” We infer that the limited number of grocery stores founded as cooperatives or community-owned businesses is related to the absence of attorney or accountant knowledge about multi-ownership legal business forms.

The importance of the attorney or accountant advice to the legal structure decision depends on whether multi-ownership structures are considered. Survey respondents working for cooperatives think it was “extremely” important the attorney or accountant recommend a cooperative and that a cooperative be easy to formalize (plan, incorporate). Respondents working for corporations responded that it was “very” important an attorney or accountant recommend the corporation model and that it be easy to formalize. Regardless of whether multi-ownership structures are adopted, the most important reason (3.4 on a scale of 1 to 5)- respondents indicate for why they

choose a legal structure is the recommendation from accountants or attorneys. Multi-ownership grocery business owners are more likely to use professional advice when deciding to adopt this legal structure.

Our observations do not, however, indicate that accountants or attorney advice is the only source of information used when deciding on a legal structure. Community members also consult their own knowledge about legal structures. The second most important reason (2.96 on a scale of 1 to 5) survey respondents choose their selected business organization is the respondents' own familiarity with it. Community members are willing to make the effort to learn about legal structures. For example, one community, in its response to a long-term local store closure, pursued self-education about multi-ownership legal structures. Another community states,

"We conducted a community survey to address the need of the store and once word was out, we found more resources and that is how we learned about cooperatives."

Another group says they are *"are open to more cooperative[s]. [They] get one call a week [about cooperatives in other industries, i.e., senior housing]."*

Survey respondents also indicate the legal structure decision is related to the human capital required of community members to form the business. Respondents working for grocery cooperatives indicate it is a "moderate" or "very important" consideration, when choosing the cooperative model, that this model be the only way to get the business open and that the personal cost be low to do it. One focus group participant said, *"I will not tell you that a cooperative is easy, but I will tell you that for longevity it is probably why we are still in business."* Conversely, respondents working for corporate grocery businesses indicate that these reasons are "not at all important."

Once the multi-ownership model is selected, respondents indicate they are willing to use their human capital, in collaboration with attorneys and accountants, to arrange a multi-ownership business organization to meet community requirements. Survey and focus group participants who use multi-ownership structures can find accountants or attorneys who are able to adapt the legal structure to cooperative business principles or to meet state incorporation requirements. Professionals help tailor legal structures to capital or governance needs. Focus group participants mentioned:

- One community has an LLC operating like a cooperative. The management team serves as the cooperative board.
- Individual community members formed an LLC that allowed them to collectively meet the \$20,000 investment level set for the building of the new local store.
- One focus group participant said they *"started with a large goal, selling shares was not easy. People sat back and waited. We had to restructure goals."*
- Focus group participants explained how some communities made large human capital investments. One participant shared that time was a key factor when they were planning to open their store. They would have liked to have had all their shares sold prior to opening but did not achieve their goal. Instead, they had a \$70,000 debt at the start of operations. Confidence to start operations under this financial condition belies a sense of community commitment to the grocery store.

In contrast to the human capital required to arrange a multi-ownership business, the need for outside financial capital is a “slightly” or “moderately important” reason for selecting the legal structure. Community members give more consideration to the community’s willingness to try to form the business than how difficult it may be to raise financial capital when deciding to adopt multi-ownership legal structures. The following statements from focus group participants illustrate how financial capital is considered when selecting whether to pursue multi-ownership. A theme in these statements is that the strength of community interest in multi-ownership, as measured by financial investment, meets equity needs.

- *“To have the larger investors and no help was not going to work for the community either. It depends on the community and their situation.”*
- *“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.”*
- *“The original 50 investors bought shares at \$25,000 each. A second offering of five shares at \$10,000 rounded out the startup up capital. Post construction, a third round of 10-lower class- shares was offered at \$1,000 each because young people wanted to invest but didn’t have that much to invest.”*

Together, themes of financial requirements, time costs, and education suggest a tradeoff between community resource capacity and the ability to meet business needs.

In summary, surveys and focus group respondents consider their capital when deciding whether to adopt a multi-ownership legal structure. Human capital, in the form of knowledge about multi-ownership legal structures, matters both before the choice (“does the community know about these options?”), and after the choice (“is the community willing to adjust a business plan to accommodate existing community needs, within the multi-ownership context?”). Financial capital is considered in the decision process. Financial concerns, such as incorporation costs, equity capital requirements, and the feasibility of obtaining adequate capital do arise, but these appear to be subordinate to human capital questions. Survey and focus group responses suggest communities think about the feasibility of multi-ownership in the context of their community resources.

Result 2: Communities Must Identify a Need for the Grocery Store and Accept this Need Justifies Ownership Transition Effort

Successful grocery business ownership transitions require it to have business continuity. Communities must consider whether value proposition still exists for the store. Survey respondents, composed of a sample of people active or formerly active in grocery businesses, believe rural communities benefit from having a local grocery store. We observe that 100% of respondents currently active in the grocery business believe it is “*somewhat*” or “*extremely*” important to retain a store in the community. Transitions involving transformation into multi-ownership happen when the community perceives multi-ownership as the best legal structure to preserve the grocery store’s value.

Articulating the Need

Survey responses suggest the priority of benefits from store operations. From most to least important, these are making it easier for residents to purchase needed items, communities with grocery stores are more attractive to potential residents, the store supports other community businesses, the store retains money in the community, and the store enhances the economic base of the community.

Focus group participants either had completed, or were actively participating in, an ownership transition into a multi-ownership legal structure. They describe their motives for grocery store ownership in terms of business value continuity.

- *"What really drove this is when they lost the store in town, it's a big deal for the older people, they missed it a lot. It was hard on them."*
- *"We lost [the] store two – three years before. It is a big deal. It hurts the younger people."*
- *"Older people were distraught [the store was being sold]. The bank was concerned, banking and groceries in town are important."*
- *"We keep alive for the community. We are proud that we can give service to the community."*
- *"Since I have moved to [community] I have shopped there. I love that it is a gathering place. It is where everyone comes to get information and give information. That is important."*

Business continuity does not necessarily mean continuing the business model the incumbent owner used. One focus group participant said,

- *"The old grocery store is being remodeled into a fitness center. They got rid of two blighted businesses. Markets are changing, there are some things you just can't save. Just like you can't make a living on a 150-acre farm anymore."*

Survey respondents representing cooperative businesses rank sustaining and growing the community highest and access to retail as the two most critical benefits grocery stores provide. Survey respondents representing corporations ranked access to retail service first, and tied for second were amenity, convenience, quality of life, and sustaining and growing the community. In other words, business continuity means slightly different things for multi-owner and corporate ownership transitions. There is a stronger emphasis on community-wide benefits for multi-owner businesses and business access second. Representatives from both types of legal seem to view retail access and community benefits as key products and services in their operations.

Measuring the Need

Respondents and focus groups participants describe efforts made to measure the scope of community needs for a grocery store. Participants report insights gained about anticipated community benefits from a grocery store via feasibility studies, done with assistance from

the University of Nebraska-Lincoln and USDA Rural Development, and public meetings that include informal votes.

- One panelist said, *“Data is going to support what you need to do and how much traffic is out there before you can say that it ought to be done.”*
- Another panelist said the *“community survey told us a lot. Community members were honest with the results.”*
- One community gauged community interest for continuing a grocery store’s operations.
- Another focus group participant states that, *“evaluating their community, seeing the level of involvement”* helped to determine what direction to go.
- A third participant explained that they *“Met former president of [a grocery trade association] and she helped quite a bit coaching them through it, she didn’t sugar coat it at all. [The] right mix of people in group, financial people, a guy who owned a [grocery store] helped with liquor license drywall coolers, etc. [We] worked over five nights over 2-3 weeks. Then decided to have public meetings, emails, posters to get word out about continuing grocery store. [We] had two public meetings, with a straw vote ‘would you support us and how much can you give’.”*

Other focus group participants considered maintaining the store vital to the sustainability of the community.

- *“It was an essential business; many folks are elderly. [We] saw it as a payback to the community.”*
- *“Without a grocery store we have a dying community. The grocery store helps and without it they would really struggle as a community. If we didn’t have a grocery store, we would have nothing.”*
- *The absence of a grocery store “hurts the younger people. This helped us. [Another community store] was closing.... [A community leader] told them that if you want a store, you have to have people investing. [Another community] had people come and invest.”*
- *[The store was set up because they] “wanted to make sure [the community] still had the store, for young teachers to continue to stay – [to] have what they need. For the elderly so they don’t have to drive to [another community] to get groceries.”*
- *“The store is kind of a community mascot. They are 40 miles away from the next gallon of milk. The convenience of being able to get groceries is huge, especially with COVID. They were able to have lots of items that bigger stores didn’t have during that time. It created a lot of community loyalty.”*
- *“Since I have moved to [community] I have shopped there. I love that it is a gathering place. It is where everyone comes to get information and give information. That is important.”*

These responses show grocery stores fill a need. The need is large enough that community members may get involved in efforts to continue it. The willingness to continue to meet this need is related to a shared understanding of the benefits the community needs. Plans to continue the critical products and services of the grocery store are made when the community assess how important these are for them.

Making the Commitment to Act

A multi-ownership business requires community members to participate in the business in new roles. Ownership and governance commitments require business participation by the community in roles beyond the customer. Our survey and focus group responses illustrate ways community members participate in the transition process.

Communities invest human and financial capital into the grocery store when taking on the ownership and governance roles prominent in multi-ownership businesses. The effort community members made to invest human and financial capital into ownership transitions suggests the value communities place on grocery store business continuity. Focus group participants, for example, talk about residents purchasing used equipment and volunteering their time and dollars. One community indicated they *“leaned heavily on the [knowledge] resources of the two previous owners. They told us what the potential was for a store.”*

Other actions include:

- Community members attended the store auction to buy the used equipment for a future store.
- Community purchased the building from previous owner, ended up demolishing the building and built the new facilities in another prime location.
- Developed agreements with nearby grocers to obtain groceries if they did not meet minimum purchasing requirements.
- Recruited volunteers to manage the store. In this case, the focus group participants indicated they needed more volunteers and more energy.

Focus group participants, each of which is involved with multi-owner businesses, indicate that if community support existed for the transition, they intend to leverage that interest as effort to plan the transition. Focus group participants say they use existing community capacity to plan business transitions.

- *“We had a great deal of volunteer support however, it seemed to be the same people over and over again volunteering. All of our volunteers had full-time jobs so much of the work was done on the weekends. We had our local high school shop class do some projects so they could get hands on experience and to help foster the community owned mindset.”*
- Another community said, *“Getting the community involved as soon as possible is extremely important. Having a group of people with the skill set in communication is very important.”*

- *“We had the community involved in making the decisions. We explained what the business structures were. We went door-to-door on surveys, etc. I would not have made decision on my own to be a cooperative.”*
- *“At the start, [the] community was really involved, [even] impatient. We had people sit on the sidelines wanting to see how they can get involved on down the road.”*

When asked about sources of funding, 60 percent of survey respondents indicated they were self-funded, 20 percent indicated they had received loans from local banks, and the rest had received financial gifts. Multi-owner respondents indicated community members made gifts (presumably investments) and they had obtained loans from banks and municipal economic development groups. Corporation respondents indicated capital funds came from personal accounts and local banks. The need for outside capital, a common challenge in cooperative equity drives, was the least important reason for their choice of business structure (1.85 on a scale of 1 to 5), suggesting financial support for transition into multi-ownership is not in doubt. In fact, 73% of respondents thought the need for more outside capital was at most “slightly important.”

Focus group responses illustrate the financial investments communities make in multi-ownership grocery stores. These include equity investment, lending or donating.

- *A panelist stated, “we found investors by visiting with people, 95% were interested. We reached out to people personally. Some said yes but later backed out, some said no, some said no and then invested. What really drove this is when they lost the store in town, it’s a big deal for the older people, they missed it a lot. It was hard on them. If you want a store, you have to get community people involved.”*
- *Another said, “When the investment club got started there was good community involvement and people realized the value of investing.”*
- *“We have a lot of giving people.... [The] box truck and building and renting for nothing. Ice cream machine were all gifts to the store.” Another community said, “an original owner wanted to sell...a community to west donated.” A third community said, “someone gave us a large part of money to get water softener.”*

These statements indicate that taking on the ownership role not only invited financial investment itself, but it also caused an education process to occur in the community about multi-ownership businesses.

Focus group responses also indicate the magnitude of financial investments community members are willing to make.

- *A focus group member said, “It’s important to have a strong sense of community support. Have shareholders who are supporters. Really need to drive that when selling shares – ask for their support – super important.”*

Focus group respondents, all of whom represented multi-ownership settings, indicated:

- *“We did \$1,000 shares, but maybe \$500 would have been better. [However], it is easier to do the higher price for accounting.”*
- *“Sold \$1,000 shares. Most have one [share], a few have more. Total eighty shareholders, raised over \$100,000.”*
- *“Banks cannot be a member of a grocery cooperative, but they have donated.”*
- *“We had \$105,000 in memberships. These were tax deductible donations through [a local foundation]. We had \$75,000 from [economic development program], forgivable if we were in business for two years. That money is treated like shares, and dividends would be paid.”*
- *“[Community leader] is president of the bank and he was concerned about the grocery store closing. He got ten people together to see what they can do.”*
- Funding drives are even modified to meet the household budget limits of young families, with one store indicating the share price was *“lowered because young people wanted to invest, but didn’t have that much to invest,”* and that another *“reason to lower it [was] to keep young people investing [and] to create buy-in, so that the young people keep coming back and buying, they spread the news.”*

Another way community members illustrate their willingness to take on the ownership role is making financial investments to update physical facilities. When incumbent owners could not obtain sufficient profits, physical facilities were negatively affected. Additional investment was needed to remodel and replace the aging equipment. Physical asset investment strategies varied among survey respondents. One-third of survey respondents own their building outright; another third lease it; and 13 percent have the store under a mortgage. Both owners and lessees had remodeled their stores over time, however owners did it less frequently (once in 17.6 years on average) than lessees, who did it every 11 years.

Focus group participants were also concerned about physical capital. Location, building age and condition, and equipment were all mentioned by panelists. In all cases stores transitioning into multi-ownership legal structures were able to obtain adequate financial or physical capital to meet business goals. In the focus groups, all three cooperatives that were represented had remodeled their stores and utilized investor time and donations. Another multi-ownership store decided to proceed with new construction at a new prime location with new value-added services.

- One community thought its *“old building wasn’t in good shape”* and *“out of date.”* They decided to significantly remodel the building.
- Community volunteers *“worked more than five nights over 2-3 weeks”* getting the store ready. The community was able to secure grants to help with the costs.
- Community collaboration can also help a store open. *“A serious grocer became interested and would have leased [the building] to them if the community remodeled.”* The community purchased equipment for the store.

- A panelist said *“being a block off the highway is too far away. Need to find out where the traffic is and build there, location is key.”* They also said *“Why did [the former store] close? It wasn’t making money. Not sure if the store selling strictly groceries, would make it in original location.”* They built a store with multiple services, saying *“the fuel pumps bring in a bunch of customers, it’s a nice lit up building that people come in and buy a few things at convenience prices. Angled shelves have the convenience items the grocery shelves have normally priced items.”*

Finally, survey responses show community members understand the importance of the ownership role better when historical grocery store operations were unprofitable. It may be that, within the multi-ownership structure, community members feel comfortable spreading financial risk and more confident about reaching financial capital requirements among a community of investors. Community members report feeling this way even when incumbent owners have been unable to sell the business.

Result 3: The Incumbent Owner’s Perspective on Whether Independent Rural Grocery Stores Have the Resources to Meet Customer Needs in a Way that Rewards Ownership

Securing Human Capital

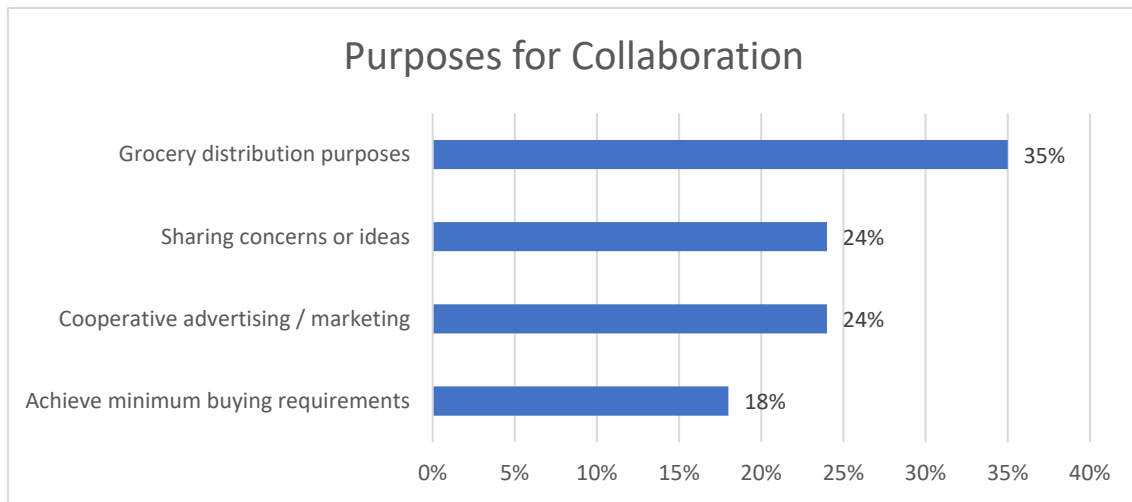
Successful business operations require adequate operations experience among employees. One hypothesis about why some grocery store ownership transitions result in multi-ownership is that the only source of labor for the store will be community owners who are compelled to volunteer to conduct store operations. In other words, perhaps multi-ownership commits, perhaps involuntarily, community members to develop adequate operations experience in the absence of qualified employees. Survey and focus group responses show this is not the case.

On average, survey respondents have substantial experience with the retail grocery business. The average years of experience was 15.9 years, and the most common response was 12 years. About a quarter of respondents had started the business they represented and 13% had inherited it. These experienced respondents considered themselves part of a community of customers as well as retail professionals. Several focus group participants indicate recruiting existing employees into roles in the post-transition business.

- *“We retained the current employee and hired her as manager. It was a way to get going...added her to [the] management team....”*
- *“...and now the former grocery store owner is on the management team.”*

Survey responses show that, when grocery managers and owners felt their experience inadequate to operational needs then collaboration among independent retailers helps fill the gap. Survey respondents tend not to use local technical business advisory resources, such as economic development personnel. Two-thirds of current operators indicate they collaborate with other nearby independent retailers. Collaboration is typically related to coordinated

advertising/marketing, grocery distribution, idea sharing, and making joint wholesale orders to meet minimum wholesale purchase requirements.



One focus group participant explained they currently “get trucks [on] time” and are “currently in conversation with [an]other grocery store to help with other grocer.” The willingness of operators to collaborate is directly related to the distance between stores. The average distance between stores in our survey sample is 13.8 miles. Survey responses indicate that greater customer travel distance is associated with greater amounts of collaboration among stores. For instance, respondents listing at least two reasons to collaborate (usually distribution or sharing concerns) then the average customer driving distance was 16.5. Respondents the single respondent listing 4 reasons to collaborate was 20 miles away from customers, on average.

Another key business requirement is having access to sufficient labor. Survey respondents indicate that, besides full and part-time employees, they can hire occasional part-time workers or seasonal full-time workers. Thirty-six percent of respondents indicate they work with full-time employees (65 full-time employees represented); 44 percent work with part-time and occasional employees (80 employees) and nine percent work with volunteers or unpaid workers (16 volunteers). Cooperative businesses are more likely than other business types to have volunteers or unpaid workers involved with the operating the business. However, three of five multi-owner respondents indicate they do not ask for volunteers. One focus group member indicated they “struggle with help” and with “getting part-time help to come in.”

The ability to sell produce is also related to having sufficient labor. The availability of satisfactory labor and ability to train staff to maintain produce quality were mentioned as reasons why produce handling is challenging. Survey respondents indicated that the two most common challenges for selling produce are to sell it before it deteriorates (a question of adequate demand) and the availability of satisfactory labor.

Circumstances Making Produce Handling Moderately to Extremely Challenging for Survey Respondents	
Selling produce before it deteriorates	57%
Availability of satisfactory labor	57%
Training staff to maintain produce quality	43%
Equipment challenges (such as coolers, compressor, equipment)	43%
Concise, produce-specific information on handling, storage, and display	36%
Finding time to maintain produce quality (misting, covering coolers, etc.)	29%
Having enough labor to maintain product quality	21%

Retail Potential

Survey and focus group participants described their business size. Survey respondents averaged weekly gross sales of \$34,000. The average store was 5000 square feet. Eighty-three percent operate a single location store, others have multiple locations. Twelve of fifteen operating respondents indicate it is at least a moderate challenge to maintain adequate margins. Store of an average 2372 square feet indicated a “minor challenge” to maintain adequate profit margins. Stores of an average 6044 square feet indicated moderate or major challenges with profit margins. Respondents who indicate they experienced minor challenges maintaining profitability are about a third of the size compared to those with moderate or major challenges.

Distance from population centers is a factor in getting lower inventory costs. One focus group participant said they have “no access to sales pricing available to others, like rebates which can be passed on to the customer.” Other communities that combine their shipments also risk the loss of these benefits. When asked whether the discounts one community received from their wholesaler were transferred to them, they replied “most of those go back to [community]... We’re just trickle down from that.” Most (60% of all multi-owner respondents) respondents think a community owned business would be viable if privately owned, suggesting business volume was sufficient from the community to support more than one legal structure.

Challenges to Maintaining Profit Margins

- Lack of Customer base and volume of sales
- Freights costs, unable to obtain ordered products
- Competition with big box and discount stores
- Minimum order requirements
- Inability to secure volume discounts.
- Local residents shopping in larger town
- Loss of customers
- Inventory turnover/spoilage
- Utilities
- Insurance
- Taxes
- Maintaining a variety of products.
- Competition for food dollars.

When asked how long the owners plan to own their grocery store, responses vary from one to five years on up to 50 years. One survey respondent said, *“not sure, barely hanging on.”*

Respondents are aware they need to match product offerings with customer demands. Focus group participants make a point to connect to other businesses, to order custodial supplies and concession items that make it convenient for other local businesses.

- A focus group participant said their store has *“made a point to connect to order supplies – concessions, paper towels. To be accommodating for the different businesses. So that it is way more convenient for the other businesses. We keep alive for the community. We are proud that we can give service to community.”*
- Another said [We are] *“an asset to the community. People do not stop and think about that they would not have access if they were not there.”*

Even services like a deli counter were described as *“build[ing] community”* and that *“we will order what they want.”* Even non-grocery items were mentioned, *“It was something simple, the staff bought t-shirts for themselves, and the community liked them so now they sell them.”* Local items were also mentioned, *“Community involvement selling local honey, lady in town makes soap, one makes crafts. Cool to see local business stuff for sale.”*

Other stores satisfy demand for locally grown produce. A store’s ability or interest to source local foods was related to its size. Smaller stores, averaging 5,300 square feet, make no local food purchases whereas larger stores, averaging 6,005 square feet, purchase local foods. Of these, local food purchases were less than 10 percent of all produce value. The smallest stores, of 2,400 square feet or less, experience minor challenges in profitability when purchasing local produce. This suggests that stores between 2,401 to 6,000 square feet chose to forego local food purchases to meet wholesale purchasing requirements.



Financial Incentives

Ownership exit decisions can be influenced by an owner’s desire to have the business continue to create certain benefits for the new owner or owner group. Typical respondents with an ownership stake in the store have typically been involved in their stores for 16 years; operate 5300 square foot stores, on average; remodeled their locations within the last 16 years; and typically own their store building.

We asked survey respondents what personal financial benefits they thought they received from the grocery business. Thirty-four percent of the survey respondents state they chose the business for personal financial benefits. Survey respondents rank the top five financial benefits by level of importance, ranking self-employment as the first reason, followed by profit and return on investment, tax advantages, and maintaining property values. When the respondent indicated they are a shareholder in the grocery store, self-employment is the highest ranked benefit 83% (49 of 59 who answered these two questions) of the time. In contrast, survey respondents that work at cooperatives rank these financial benefits as 2nd, 3rd, or 4th in importance.

These owners understand the role having an ownership group can play when sustaining a business. Of the survey respondents that have an ownership stake in the store, fifty-three percent (N=8) of operating respondents are in groups of 1 or 2 shareholders, while 33% are in groups of 11 or more shareholders.

Personal Financial Benefits (Corporation Respondents)		Personal Financial Benefits (Cooperative Respondents)
1	Self-employment	Other
2	Profit	Self-employment
3	Return on investment (ROI)	Profit
4	Tax advantage	Tax advantage
5	Maintain property values	Return on investment (ROI)
	Other	Maintain property values

Among those who list profit as the primary personal financial benefit from store ownership, most (N=15) respondents say it was at least a *moderate challenge* to maintain adequate profit margins; a few report it is a minor challenge. Some owners indicate they expect to sell the business for more than their investment, suggesting the buyer will find future business operations profitable.

Respondents indicate they make financial investments in the store to meet community needs. Among

incumbent grocery owners with particular interest in community needs (N=38), they identified the importance of convenient access to food (82%), access to retail (61%), and need for community amenities (26%). The most common motive for aiding the community through their shareholder activities is to sustain community growth.

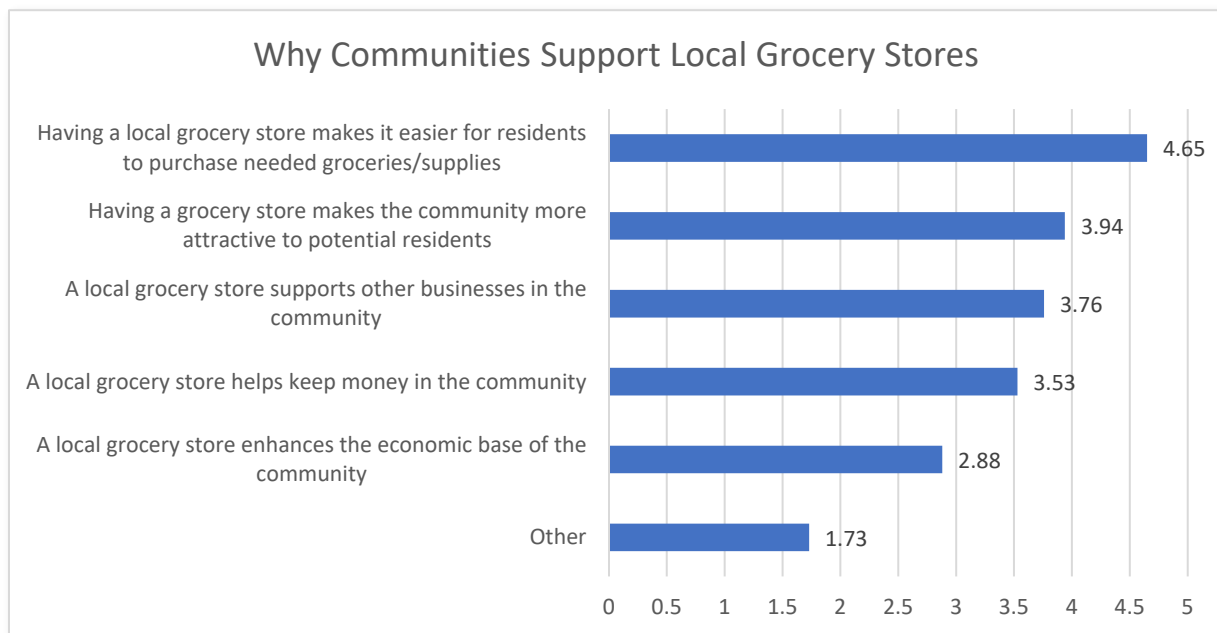
The Common Good

Incumbent owners may not only be interested in seeing financial services continue but may also in seeing community benefits continue. Independent grocery stores are often perceived as important to community wellbeing as sources of access to nutritious food and other community amenities. In addition, concern for the community is one of the seven internationally adopted cooperative principles. Affinity for this principle may affect the incumbent owner’s willingness to communicate with a multi-ownership group.

Successful incumbent and transitioned grocery stores provided community benefits through services to the community or as an outcome of entrepreneurship. Forty-two percent of the survey respondents (25 of 59 respondents answering this question) stated community improvement was the primary reason for choosing to be in the grocery business. These respondents ranked the ways they believe their store improves the community in order of importance. In order, from most to least important, these are to provide retail service/food access for the community, sustaining/growing the community, providing a community amenity, improving community quality of life, and creating local jobs. Furthermore, 100% of respondents believe it is at least somewhat important to retain a community store, and 25% believe customers shopped at their stores to support local businesses.

Community Improvement Benefits	
1	Access to retail service/food access for community
2	Sustaining/growing the community
3	Provide a community amenity
4	Enhance the quality of life
5	Save/create local jobs

Incumbent owners form opinions of how valuable the community thinks the grocery store benefits are. Survey respondents indicated how much they perceive, on a 1 to 5 scale, how important several community benefits are.



The perceived absence of community support for these benefits affects whether multi-owner groups are even a part of the transition planning process. Survey respondents express reluctance to transition into a multi-ownership when they perceive community commitment inadequate. Half of the survey respondents agree there is insufficient knowledge or experience with community-owned business formations. Six respondents indicated they would not consider an Employee Stock Ownership Plan (ESOP), cooperative, or multi-owner organization if they were currently a privately owned grocery store. Several survey respondents consider there to be a lack of potential business buyers.

Although half of the survey respondents indicate that a challenge of community-owned businesses is lack of community members' engagement, other responses indicate they believe there is sufficient community commitment to do it. Among focus group participants who agree that there is enough support, they say that:

- *“Steering committee has a strong support from of a variety of people, you need an array of people to help.”*
- *“We have a supportive board. Without the [community] development group and an [interested group] it wouldn't have been possible.”*

Focus group participants who think there is a lack of community engagement made comments about education and the effort required to court interest. They said:

- *“People were eager to come and hear what is going to happen, they, however, didn't necessarily want to be involved in the steering efforts.”*
- *“The biggest struggle is making sure new board members understand the issues. [We're] working on training board members.”*
- *The leadership “learned through mistakes, and the board celebrates small successes.”*

In summary, these statements indicate that incumbent grocery store owners respond to customer needs, and they believe it can generally be currently done in ways that create value. When communities understand the role of the grocery in generating that value, and are interested in ownership transitions, they must demonstrate to the incumbent owner that they believe that value is worth paying for and that they can work with the incumbent to accurately gauge whether existing human, financial, and physical capital will continue to generate value.

Conclusion and Recommendations

This study of Nebraska's grocery industry cannot be generalized to all rural grocery operations. It provides insights into the challenges of operating a rural locally owned grocery as well as opportunities for pursuing models for multi-owner, community-owned operations that help to secure food access for our many rural communities. We analyzed responses from surveys of grocery store owners and employees, and responses from focus groups of individuals participating grocery stores owned by community groups and found three major themes related to lessons and challenges rural grocery stores are likely to face when they transition ownership into the hands of community groups. One, communities needed to be aware that multi-ownership was possible and

how to plan for it. Two, communities needed to identify a need in their community that the store could meet and that the need was large enough to justify planning and executing an ownership transition into a multi-ownership legal structure. Three, the incumbent owners needed to believe a multi-ownership transition was valuable enough to them and the community before participating in the transition process.

The major themes of our observations suggest several steps a community should take when changing business ownership. Communities need time to prepare for ownership transition. Discussion about a planned sale allows community leadership to have the time to identify reasons to keep the business going, educate themselves about legal structures for the new business, and obtain community financial support. Discussion about a planned sale, between incumbent owners and community representatives, sends an accurate message to both parties about what the level of interest in in assuring business continuity and allowing maximum information to be exchanged during transition. A planned ownership transition also allows communities to prepare the physical assets of the company to meet existing community needs.

Each of these steps requires substantial consideration and planning. A detailed resource to guide communities through the transition process, based the observations of these survey and focus group responses can be found in “Business Transition Models”, from the University of Nebraska-Lincoln Nebraska Cooperative Development Center, at <https://ncdc.unl.edu/Business%20Transitions%20Models%202023.pdf>.

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