8-8-2017

# Community Ownership of Essential Businesses in Small Nebraska Towns

Jim Crandall
*University of Nebraska-Lincoln*

AGRICULTURAL ECONOMICS

August 9, 2017

agecon.unl.edu/cornhuskereconomics

# Cornhusker Economics

## Community Ownership of Essential Businesses in Small Nebraska Towns

| Market Report | Year Ago | 4 Wks Ago | 7-28-17 |
|---|---|---|---|
| **Livestock and Products, Weekly Average** | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . . . . | 117.50 | NA | * |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . . | 167.07 | NA | 180.04 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . .. . | 152.52 | NA | 161.18 |
| Choice Boxed Beef, 600-750 lb. Carcass. . . . . . . . . . . . . . | 198.78 | NA | 206.96 |
| Western Corn Belt Base Hog Price Carcass, Negotiated . . . . . . . . . . . . . .. | 66.74 | NA | 80.34 |
| Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . . . . . . . . . . . . . . . . . | 82.65 | NA | 99.67 |
| Slaughter Lambs, wooled and shorn, 135-165 lb. National. . . . . . . | 167.15 | NA | 177.67 |
| National Carcass Lamb Cutout FOB. . . . . . . . . . . . . . . . . . . . . . . . . . | 346.84 | NA | 430.71 |
| **Crops, Daily Spot Prices** | | | |
| Wheat, No. 1, H.W. Imperial, bu. . . . . . . . . . . . . . . . . . . . . | 2.96 | NA | 3.70 |
| Corn, No. 2, Yellow **Columbus**, bu. . . . . . . . . . . . . . . . . | 3.08 | NA | 3.37 |
| Soybeans, No. 1, Yellow **Columbus,** bu. . . . . . . . . . . . . . .. . . | 9.68 | NA | 9.19 |
| Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . . . . . . . . . . . . . . . | 4.63 | NA | 5.64 |
| Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . . . . . . . . . . . . | 2.55 | NA | 3.14 |
| **Feed** | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . . . . . . . . | 165.00 | NA | 165.00 |
| Alfalfa, Large Rounds, Good Platte Valley, ton. . . . . . . . . . . . . . . . . | 70.00 | NA | 85.50 |
| Grass Hay, Large Rounds, Good Nebraska, ton. . . . . . . . . . . . . . .. . . . | * | NA | 90.00 |
| Dried Distillers Grains, 10% Moisture Nebraska Average. . . . . . . . . . . . . . . . | 120.00 | NA | 109.00 |
| Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . . . . . . . . . . . . . | 34.00 | NA | 39.00 |

*** No Market**

Some communities in rural Nebraska are facing the closure of what many would consider an *essential business* in their community. Grocery stores, cafés and restaurants, clothing, hardware, gas/service stations, and variety stores often top the lists of businesses calling it quits. Most of the time the business is the only one of its kind in town.

The decision to close a store can be attributed to a variety of reasons. Oftentimes in the case of local owners, longtime owners are retiring with no succession plan or someone to take over the *family business*. Sometimes a store closes due to health reasons of the owners. The volume of business, or lack thereof, may contribute to the decision to close as well.

Whatever the reason, the closing of a primary business in a community can have far reaching effects. It is likely to affect every other business in town in some fashion with a reduction of customer traffic and economic activity. The closing of the business certainly affects the current residents in that they now have no choice but to travel out of town to buy what used to be available locally. Over the long term, business closures may affect the property values of homes and businesses in the community. It may affect the attractiveness of a community for people who may be considering moving to the area. That affects schools and churches as well as other businesses.

Finding a buyer who is willing to keep that small business open is a challenge. Many businesses, although small in comparison to similar businesses in urban areas, can be capital intensive investments. Expertise in operating a specific kind of business in a small town may be lacking. Questions about long-term viability may linger.

When options for keeping the store open seem to be waning, some community leaders have created an opportunity for a group of local people to keep a store open or to reopen a closed store. This ownership group may be small or large in number. New owners might be 5-10 people in a limited liability company or 175 or more people in a cooperative or anything in between. The cooperative business model or *shared ownership* model can be an effective way to keep that essential service open, as a *community owned* business. The Nebraska Cooperative Development Center has worked with several communities across rural Nebraska on this concept.

Seems like a simple solution? It's not! It takes a significant amount of time on behalf of the community by a volunteer steering committee to go through the process of asking some hard questions and assessing what risks there may be along the way. Why did the former store close? Are the physical facilities for the business available or do we have to build from the ground up? Do community residents believe this business is important and will they patronize the business if it opens? Can the business sustain itself financially over the long term? Are residents of the area interested in being a part of the business financially, emotionally, and socially?

The power of the cooperatively owned business model starts with a steering committee that has at its core a mix of skills and talents from all parts of the community. The background and experience of all potential committee members, both young and old, is the foundation for a successful project. The process begins with the blending of those skills and talents into a cohesive group of 8 to 10 volunteers who share a common vision.

Oftentimes, the steering committee begins by seeking input from the community in the form of a simple survey. Community involvement in the whole process is essential. We need to know what area residents think is important about this business. Is this business important to our community? How much does your household spend on this kind of goods/services? If we had a new business with a reasonable supply at reasonable prices, how much of your spending would you honestly intend to do here in our local store? What kinds of services are missing in our community that this store might be able to offer?

With answers from the survey, the committee takes the data and begins to divide and conquer the work ahead of them. Subcommittees work on things like facilities, financial and written plans for the business, legal components and requirements, as well as marketing, advertising, and communications. Each subcommittee is tasked with finding the appropriate solution for the new business and coming back to the full committee with their best recommendation. The full committee needs to trust their fellow volunteers and accept the recommendation knowing it has been well researched and studied by their peers. This process works well to keep the project moving. The alternative is that each detail of every decision is looked at and discussed by the full committee over and over and the process will take years instead of months to complete.

The subcommittees work independently but simultaneously. Information gathered by one subcommittee becomes a needed part of the information for another committee. For example, the cost of building or renovation becomes a part of the start-up budget required by the financial subcommittee. Marketing and advertising ideas may impact how the facilities committee envisions the store layout. The type of business incorporation will affect the accounting and software needed. Accounting and software costs are placed in the financial needs for month-to-month operations, and so on.

Each step of the way, the full committee is addressing opportunities and roadblocks, and making go/no-go decisions based upon the information gathered. Along the way, the committee will need to share their findings with the community. A community meeting where the committee shares the direction they are headed, what they are finding out, what opportunities and obstacles are being encountered along the way, and the work yet to be done is laid out. Sharing information with everyone at the same time helps keep the community involved, helps keep the rumor mill quiet, and lets people know that progress is being made. Open meetings may be held two or three times during the process.

When all the information has been gathered and studied, the committee makes their final recommendation to everyone in the community. They have either decided that we should not proceed further, or they recommend incorporation of the business. If the recommendation is to move forward, the committee members are saying that they believe the business is viable and they are committed to be a part of the business. The committee will recommend how to best capitalize the start-up of the business and begin operations. In the case of a cooperative or a limited liability company, the majority, if not all, of the capital formation is accomplished through the sale of shares in the business to local residents. The committee incorporates and offers shares to others in the community. If the capitalization goals are reached, the business plan is implemented and plans become reality! If the capitalization goal falls short, the money is returned to the potential investor minus some minor expenses.

The incorporating board puts the business plan into action and hires management, prepares the facility and all of its operational components, stocks inventory and opens for business!! The shareholders are often involved in getting *their* business ready to open. The business will be open to everyone not just shareholders. The new business serves the needs of the community. The community is now part of the business.

"User Owned, User Controlled, User Benefited" are the three principles of cooperative ownership. The community members **own** their store. They elect a board of directors to **control** and manage the business on their behalf. Owners and the community in which they live **benefit** from keeping an essential business in their community. They also come to the realization that one of the best parts about this new business is…….the owner will never retire!

Jim Crandall
Cooperative Business Development Specialist
Nebraska Cooperative Development Center
Department of Agriculture Economics
Nebraska Extension
University of Nebraska-Lincoln