

A Better Form of Business

Community-owned village shops



The community shop sector

Community shops: **273** (and counting!)

Space: **140,595 square feet**

People: **900 staff; 8,190 volunteers; 41,769 members**

Services: **174 Post Offices; 152 cafes; 5,187 suppliers of goods and services**

| Financial Performance | 2011 | 2010 | % Change |
|------------------------------|-------------|-------------|----------|
| Average* Gross Sales | £156,981 | £132,635 | +18.4 % |
| Total** Gross Sales | £43m | £32m | +34% |
| Like for Like Gross Sales*** | £16,041,889 | £14,637,819 | +9.6% |
| Average Net Profit | £4,724 | £3,654 | +29% |
| Total Net Profit | £1.3m | £917,154 | +42% |
| Total Community Contribution | £310,000 | £200,000 | +55% |

• *Average refers to the average figure for a community shop based on the financial data provided by 190 shops

• **Total refers to the value of all 273 community shops based on the average shop figures

• *** Like for Like sales compare trading figures provided by the same 90 shops who shared financial data the previous year

Foreword



Community-ownership works. It works in a variety of different communities in a multitude of different ways. 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. And it ensures that the enterprise is owned and run locally for the benefit of a community.

This report – the most comprehensive review of the community-owned shop sector ever to have been produced – clearly shows that community-owned shops are going from strength to strength. Average gross sales are up by 18.4% and like for like sales from 2011 show an increase of 9.4%, in an environment that has seen large retailers announcing losses in the UK.

Our founder, Sir Horace Plunkett, 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.



James Alcock

Community Retail Manager, Plunkett Foundation.

Average gross sales are up by 18.4% and like for like sales from 2011 show an increase of 9.4%, in an environment that has seen large retailers announcing losses in the UK.

An introduction

Community-owned village shops continue to be one of the leading success stories of the UK co-operative and social enterprise movement.

In 1992 there were 33 community-owned shops in the UK; 20 years on, there are 273, with a further 20 anticipated to open in 2012.

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 detailed telephone surveys undertaken with 269 out of the 273 community shops in England, Scotland and Wales between December 2011 and February 2012. These surveys were conducted by the Community Advisers employed by the Plunkett Foundation and Project Co-ordinator at Community Retailing Network (Scotland). It represents the most comprehensive and inclusive survey that has ever been undertaken with community shops.





1. The Plunkett Foundation and Community Shops

The Plunkett Foundation supports rural communities to take control of the issues affecting them through community ownership. We are the only national organisation supporting the development of community-owned village shops in the UK. Through a dedicated team, specialist support programme including 4 regional advisers, 16 regular mentors and over 50 specialist consultants, as well as online and telephone contact, we are able to support communities to open new community-owned shops and to help existing community-owned shops to thrive.

2011 saw the birth of a brand new service - the Plunkett Community Shop Network – a membership scheme providing community shops with access to a range of heavily discounted goods and services.

The benefits package was developed by the Plunkett Foundation with a steering group of shop representatives. This steering group continues to exist in order to provide Plunkett with insight into the wider interests of community shops, their issues, and in order to ensure their voice is heard on a national level. Fifty-one shops have joined the scheme since its launch in March 2011, with savings for each member estimated to be in the region of £550, or £28,050 collectively.

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

Growth

At the beginning of 2012, 273 community shops were trading in the UK – 240 of which have opened in the last 20 years. Figure 1 and 2 demonstrate accelerated growth throughout this period, which peaked in 2009 and 2010. The specific growth of shops in these two years can be partly explained as a result of funding that was made available by the Plunkett Foundation's Village CORE Programme, supported by the Esmée Fairbairn Foundation and Lankelly Chase, which has supported over 90 shops to open between 2006 and 2012.

Figure 1. Total Number of Community Shops Trading by Year

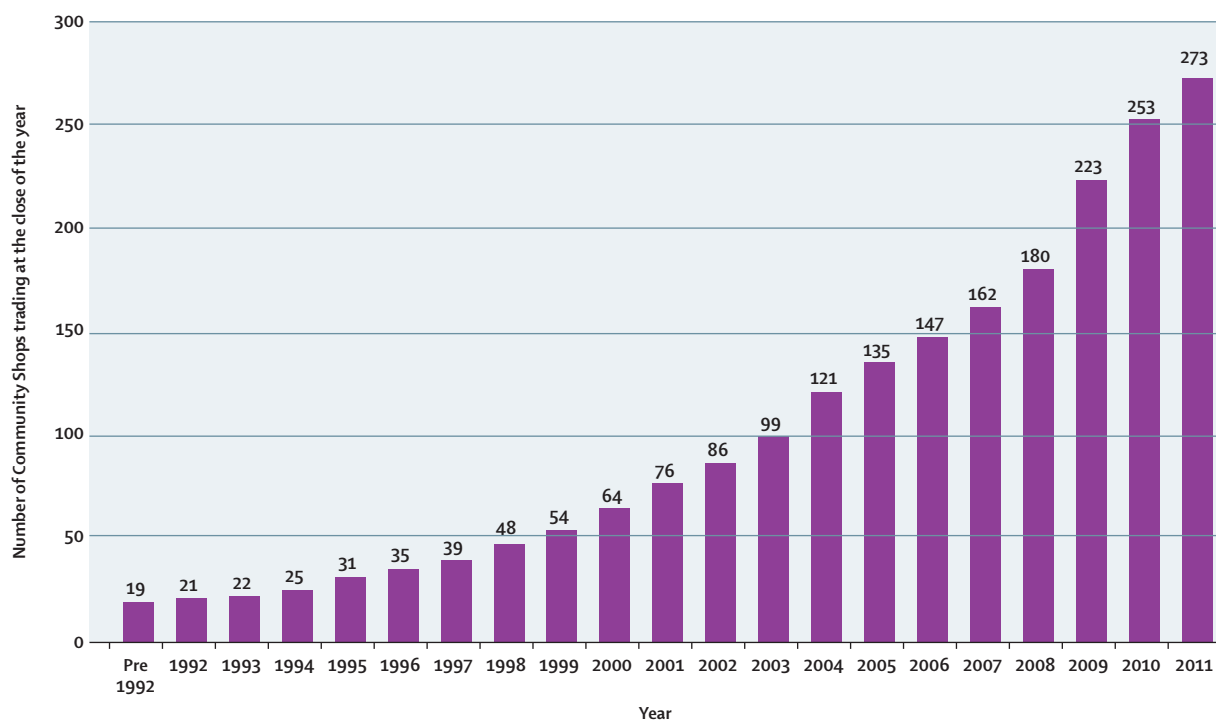
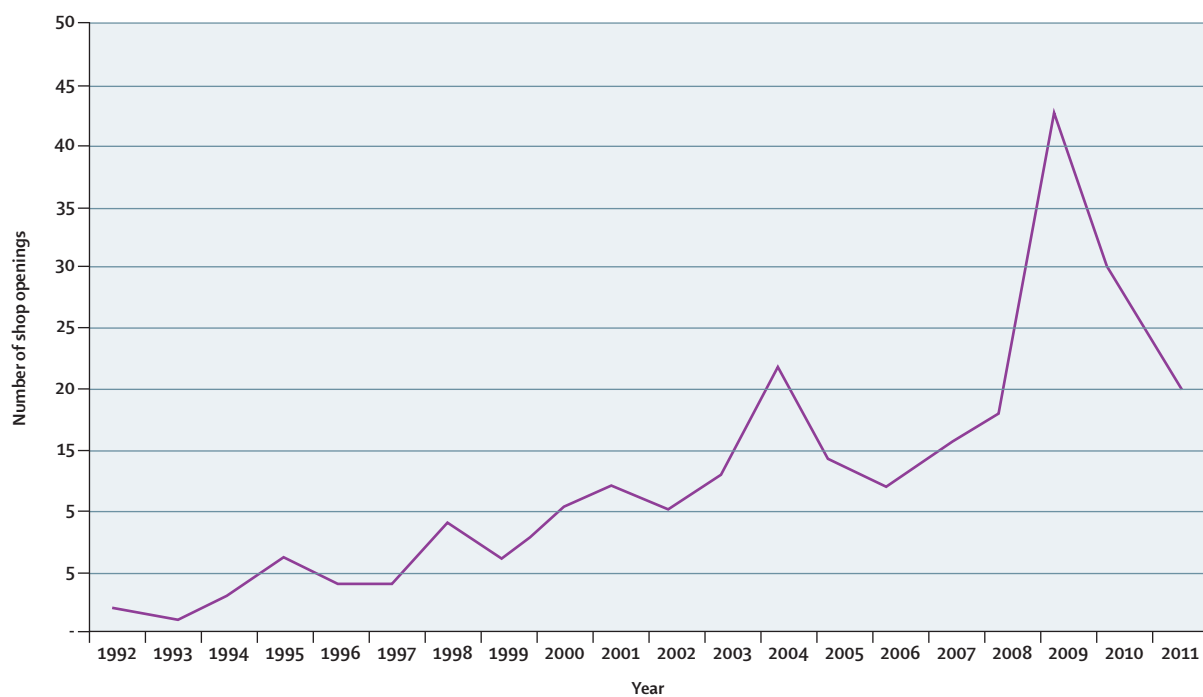


Figure 2. Community Shop Openings by Year



Community shops have opened at an average rate of 22 per year during the last five years. With an estimated 400 village shop closures each year, community shops are effectively replacing almost 6% of all commercial village shop closures. Community shops now represent a rational and achievable alternative for communities who have lost or are at risk of losing their village shop.

Based on the current pipeline of 184 communities that Plunkett is actively working with to open a community shop (see Figure 4), it is anticipated a further 20 shops will open in 2012.

Geographical Spread

There is a higher number of community shops trading in the South West and South East of England, and a greater number of communities exploring community ownership in these two regions. The most likely explanation for this is that rural communities are being inspired by the achievements of their neighbouring communities and want to replicate their success. Additionally, communities will visit and lean significantly on other local shops whilst they are in development, which gives communities in the South West and South East an advantage.

Figure 3. Coverage of Community Shops across the UK

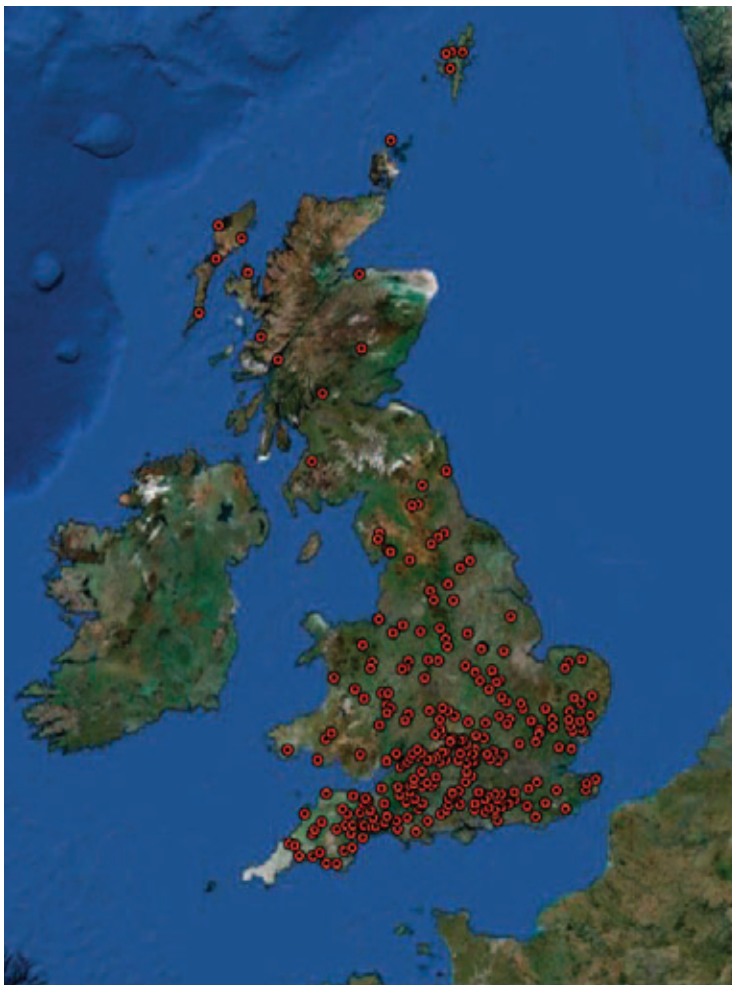


Figure 4. Community Shops in the Regions

| Region | # of Shops Trading | # of communities in Pipeline |
|--------------------------|--------------------|------------------------------|
| South West | 82 | 59 |
| South East | 67 | 39 |
| East of England | 29 | 17 |
| Scotland | 22 | 13 |
| West Midlands | 21 | 14 |
| East Midlands | 16 | 10 |
| Wales | 14 | 12 |
| North West | 11 | 4 |
| Yorkshire and the Humber | 8 | 14 |
| North East | 3 | 1 |
| Northern Ireland | 0 | 1 |
| Total: | 273 | 184 |

Resilience

Out of 286 community shops that have ever opened, only 13 have closed, indicating a 95% survival rate. This compares extremely positively with estimations for UK small businesses nationally, which are estimated to have a 5 year survival rate of 46.8% (Office for National Statistics).

3. Legal Structures and Membership

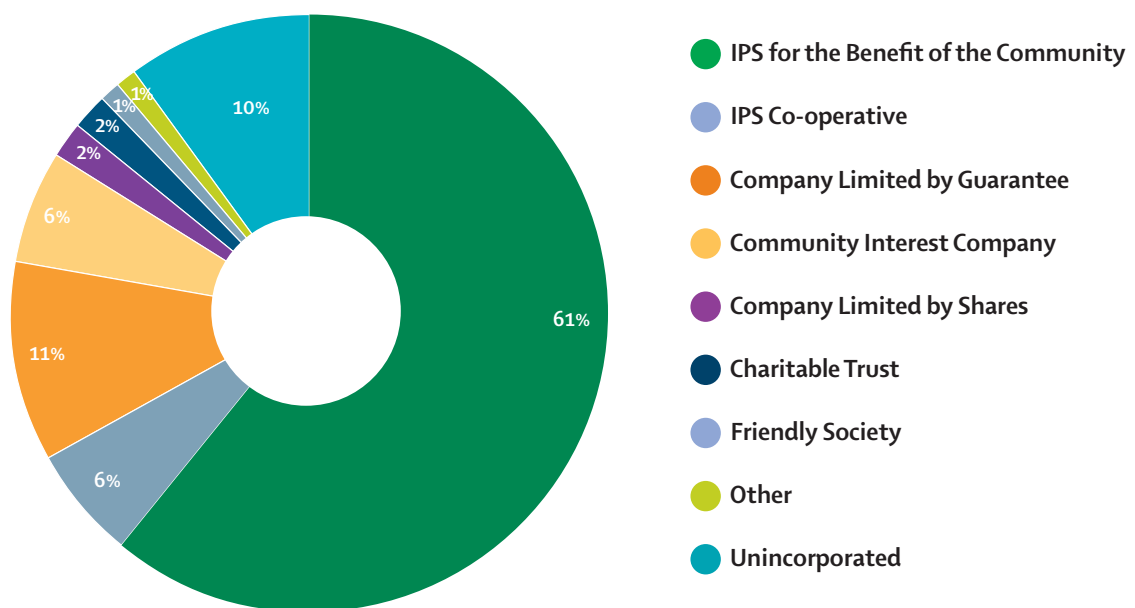
Range

Community shops trade, employ staff, manage volunteers, and enter into contracts and financial arrangements; they therefore require a legal entity to ensure that they are compliant with legal necessities such as tax, insurance, trading standards and employment rights. Legal structures also reduce the risk for the individuals running the business by creating a corporate body giving limited liability.

Plunkett recommends that community shops adopt legal structures which enable genuine community ownership and democratic control. Over 60% of communities have chosen to register as an Industrial and Provident Society for the Benefit of the Community (IPS for the Benefit of the Community). Other suitable structures communities have adopted include Community Interest Companies, Companies Limited by Shares or Guarantee, and IPS Co-operative.

Out of 286 community shops that have ever opened, only 13 have closed, indicating a 95% survival rate.

Figure 5. The range of 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 who 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 153 members; shops with the IPS for the Benefit of the Community structure have an average of 181 members, in comparison with 71 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 IPS for the Benefit of the Community



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

4. Community Shop Management Structures

Governance

Community shops are membership organizations; 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 153 members and 7 representatives of members on the management committee.

Tenure

The majority of community shops are run by the community - Figure 7 demonstrates that only 8% are managed by a private tenant. The remaining 92% of shops either employ staff or rely solely on volunteers, or a combination of the two.

Figure 7. Management Structures for Community Shops

| Management Structure | Percentage of shops |
|----------------------|---------------------|
| Staff and Volunteer | 53% |
| Volunteer only | 29% |
| Paid Staff Only | 10% |
| Private Tenant | 8% |



Staffing

Most community shops (53%) are run by a combination of staff and volunteers. Plunkett advises that this is the ideal situation for a community shop, i.e. to have a paid manager with volunteer assistants, as this can give a greater sense of control, organisation and stability to the business. Whilst volunteers will be at the heart of most community shops, especially in the day-to-day running of the shop, a paid manager will be able to provide the overall continuity and ensure the shop is meeting the performance targets set by the management committee.

On average community shops will employ 3.3 staff and 30 volunteers. In other words, community shops employ 900 people nationally, and 8,190 volunteers.

An average of two people will cover the store at any one time, and this will often be boosted by Post Office staff where appropriate.

With most volunteers working 2-4 hours per week, it is estimated that community shops generated 1.28 million volunteer hours throughout 2011. Applying this to the minimum national wage, this represents a £7.8million saving to those shops in staff time, or £28,454 per shop.

5. Community Shops and Assets

Community Shops are difficult to define on size, premises or ownership – the range is significant!

The greatest tenure type suggested is Freehold (33%) and Leasehold (33%), and the largest proportion of shops are based in former village shop premises (35%).

Figure 8. Tenure of All Community Shops

| Tenure Type | Percentage of Shops |
|-------------------------|---------------------|
| Freehold | 33% |
| Leasehold | 33% |
| Rented | 26% |
| Rent Free / Pepper corn | 8% |



Figure 9. Premises Type:

| Premises Type | Percentage of Shops |
|---|---------------------|
| Original Shop | 37% |
| Converted Premises | 20% |
| New Build | 17% |
| Village Hall (internal/annexe/extensions) | 14% |
| Church/Chapel | 3% |
| Pub/Pub car park | 2% |
| Portable/Pre-fabricated | 7% |



Increasingly, communities have been establishing shops in converted premises (20%), and turning to new build properties (17%). These have the advantage of more bespoke retail space, improved parking and access facility, 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 anticipate the opening of a shop burrowed underneath the 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 £116,000 in 2011.

The size of shops also vary significantly. The largest community shop recorded is 3000sq ft, and the smallest 90sq ft. The average, however, is 515 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 30 volunteers, each working 2-4 hours a week
3. The difficulty of finding and affording suitable premises can be overcome by co-locating within existing community buildings such as the village hall, pub or church building. Often the ownership or long term lease of premises is covered by funds raised from grant sources or from shares or loans from within the community
4. Community shops can take advantage of rate relief for small rural businesses and can apply for favourable tax conditions with HMRC. 97% of shops, for example, receive discretionary rate relief.
5. Community shops are also able to tap into knowledge and expertise provided in-kind by residents of their community and more likely to acquire free of charge second hand goods and services from other retail stores.

Turnover

Based on the data from 190 shops that were prepared to share financial information, turnover for the 2010-11 financial year varied from £7,000 to £1,000,000, averaging at £156,981 per shop. This represents growth of 18.4% based on figures recorded for the 2009-10 financial year which was an average of £132,635.

Taking the average turnover of £156,981 per shop, the collective turnover for the 273 community shops in the UK is in the region of £43million. This represents growth of 34% based on collective turnover in 2009-10 (previously £32million). This increase takes into account; inflation, the increase in number of shops trading, and a growth of sales.

Looking at Like for Like sales i.e. comparing only those 90 shops who provided financial data this year and the previous year, sales are up by 9.6%. This is a significantly better trading performance than three of the major retailers.

- Tesco 0%
- Sainsbury +2.1%
- Morrisons +1.8%
- Community Shops +9.6%

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 margins achieved in 2011 was 23%, with a range between 10%-35%.

Net profit recorded for the 2010-11 financial year ranged from -£9,000 to +£65,000, averaging at £4,724. This compared with £3,654 in 2010, representing an increase in profitability of 29%.

This suggests a collective Net Profit nationally of about £1.3 million in 2011.

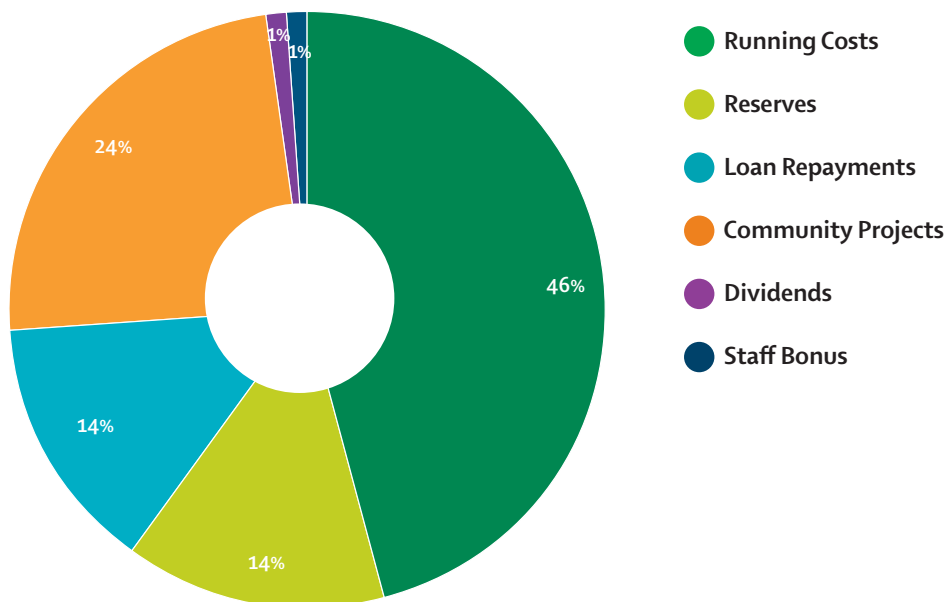
The potential for Net Profit was much higher, however, as many shops indicated that they had been aiming to breakeven, spending and reinvesting predicted surpluses back into the business throughout the year, in order to avoid taxation.

Distribution of Net Profit

The largest share of Net Profit, 46% was reinvested back into the running costs of the business and allocated towards general improvements.

24% of Net Profit was distributed for community use and benefit – based on the value of average Net Profit generated, this suggests that at least £310,000 was distributed for community use and benefit in 2011.

Figure 10. Distribution of Net Profits



Reserves

63% of community shops suggested they had reserves of varying amounts. Of those who disclosed, the average reserve held was £9,863. 8% of shops did not have reserves and the remaining 29% did not know, or did not confirm either way.

7. Community Shop Products and Services

One of the key characteristics of a community shop is that no one shop will look the same as another, or sell the same goods and services. After the 'everyday essential goods', additional goods and services available differ from shop to shop, depending on the market demand and the local area. Having on average 19 different suppliers, also contributes to this variety in range of goods available.

Figure 11. Typical Products and Services available in Community Shops

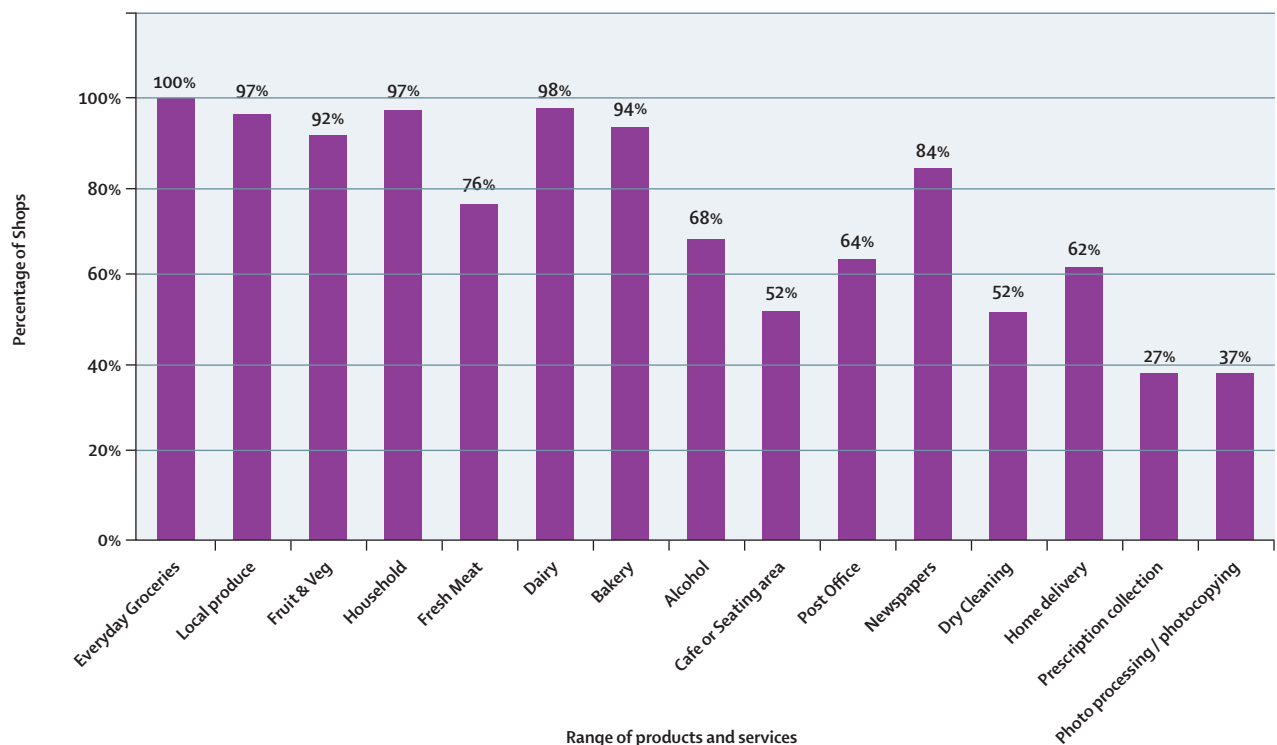


Figure 12. Most Profitable Lines for Community Shops:

| Most Profitable line | Number of Shops |
|----------------------------|-----------------|
| Local Foods | 65 |
| Cards and Stationery | 32 |
| Confectionery | 22 |
| Fresh Fruit and Vegetables | 18 |
| Cafe | 16 |
| Soft drinks | 16 |
| Alcohol | 15 |

Local Food

One of the growing trends demonstrated in Figures 11 and 12 is the importance of Local Food to community shops. 97% of community shops stock and sell local food to some extent, and this was rated by shops as their most profitable line. Of those who do sell local food, local food represents an average of 27% of total sales.

Café Facilities

56% of community shops offer café facilities – from a fully serviced tearoom to a self service coffee machine with a small seating area - and this appears to be a growing trend.

This will add to that point of difference from other stores, and promote the social and community aspects of the shop's purpose.

Postal Services

64% 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.

Reducing Isolation

Regardless of the products and services sold in community shops, an overwhelming message coming from interviewees was the important role the shop played in stimulating community and social activity.

Community shops also offer a vital source of retail provision within rural communities, regardless of their distance to neighbouring towns and villages; particularly so for the elderly and less mobile, and for all in times of bad weather.

On average, community shops are an 8-mile round trip away from the next nearest food store. The furthest was a 25-mile round trip – Welcombe in Devon. There are also other examples such as Allenheads and Nenthead in the Northern Pennines whose communities can be cut-off for long periods by snow; and even more isolated examples like those in the Highlands and Islands of Scotland such as Papay, who are a ferry and a car journey away from the nearest food store. Even those in less isolated lowlands have highlighted how being off the beaten track can make their community feel remote, and who are near suburbs can feel engulfed by the city if they are not within walking distance to a local store.

Environmental Impact

Community shops save alternative journeys to other retail outlets – on average an 8-mile round trip to the next nearest food store. Each shop will be able to calculate their own contribution to 'saved journeys' and this will depend on their offering, and the loyalty of their customer base.

But even if a community shop only saved one journey per month for each of their members, this would be saving 4 million miles per year in car journeys. This is equivalent to 8 return trips to the Moon and back from earth!

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 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 the following better ways of doing business:

1. Better Resilience



- Community shops operate with a 95% success rate, compared with a national UK business survival rate of 46.8%
- Community shops are set to continue their growth at around 20 new shops per year
- With an estimated 400 commercial village shop closures each year, community shops replace 6% of all village shop closures
- Financially, community shops have increased their financial performance in 2011 from 2010. Individual turnover is up by 18.4%, and net profitability by 29%. As a sector, collective turnover has increased from £32m to £43m – itself an increase of 34%.

2. Better Governance



- All shops should adopt robust structures promoting genuine community ownership and democratic control
- Community shops have an average of 7 directors and 153 members
- 61% of community shops adopt the IPS for the Benefit of the Community structure which significantly boosts member engagement: 155 over 48 for other structures



3. Better Finances

- Turnover for community shops range between £7,000 - £1m pa
 - The collective turnover for community shops in 2011 is estimated to be at £43million or £156,981 per shop
 - Average Net profits were recorded to be £4,724 per shop or £1.3million collectively
 - Community Shops were operating at average gross margins of 23%
 - Volunteering saves shops an average of £28,454 per year in staff time
- 
- 

4. Better Services

- 97% of community shops sell local produce
 - 56% of community shops have cafes
 - 64% of community shops host Post Offices
- 
- 

5. Better Communities and Lives

- 24% of Net Profits are reallocated to community projects representing £310,000 nationally
- Shops typically employ 3.3 members of staff and create 30 volunteer placements
- 90% of shops use volunteers regularly, in 2010 using 1.29 million hours

A Better Form of Business

Community-owned village shops

www.plunkett.co.uk



Plunkett Foundation

The Quadrangle
Banbury Road
Woodstock
Oxford
Oxfordshire
OX20 1LH

01993 810730
info@plunkett.co.uk
www.plunkett.co.uk

Registered company number: 00213235 (England and Wales)

Registered charity number: 313743