

Community SHOPS₂₀₁₄ A Better Form of Business



Community shop sector

309

Community shops trading
at the end of 2013

6%

growth in number of
community shops in
2013 alone

+1.9%

Like-for-like sales growth
in 2013

Foreword

Welcome to A Better Form of Business: Community Shops 2014, the Plunkett Foundation's annual report on the UK's community village shop sector.

2013 has been another good year for the community shop sector. The number of communities turning to community-ownership has continued to grow, with 17 opening through the year and a further 87 actively exploring. Trading performance of established shops has also continued to grow with like-for-like sales growth at 1.9% outstripping that of the major supermarkets for a third year running. However, not all of the story is good news. Fewer community shops have opened this year, and net profitability is slightly down. Two community shops ceased trading as community shops during the year, but both for positive reasons - being taken back into private ownership - and both are continuing to trade serving local needs.



We were delighted to see community shops celebrating the factors that make them different from other rural retailers; in particular, by taking part in the Community Shop Fortnight (15th to 29th June), and the Community Shop Awards. Additionally, Plunkett saw a significant growth in community shops becoming members of the Plunkett Community Enterprise Network, which is a way for community shops to become a formally recognised member of the community shop movement and to benefit from national representation and savings.

Our founder, Sir Horace Plunkett, believed that to succeed, a co-operative must remain engaged and connected with its local community. We are seeing community shops doing just that, particularly by adding additional services to shops that go beyond a core retail offering; services such as book swaps and libraries, cafés, meeting rooms for clubs and societies, recycling centres, parcel collection and delivery points, bakeries, and community gardens. As a result, community shops are no longer just seen as a solution for communities wishing to replace like-for-like retail services in rural areas when they are lost; communities are also looking to community-ownership to stimulate social and community activity and to address issues such as social isolation and loneliness, and for this reason, we see a bright future for community shops.

We would like to thank all our funders, partners and members who have supported our activities that benefit community shops throughout 2013, many of whom have been long term supporters of the Plunkett Foundation.

A handwritten signature in black ink, appearing to read "J. Alcock".

James Alcock
Head of Frontline, Plunkett Foundation

Contents

Introduction	4	People	14
Growth	6	Services	18
Legal structure	10	Impact	20
Finance	12	Membership	22

Introduction

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

In 1994 there were just 27 community shops trading in the UK; 20 years on there are 309, with a further 18 anticipated to open in 2014.

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 258 out of the 309 community shops trading in England, Scotland, Northern Ireland and Wales, supplemented with existing data supplied by the remaining 51 shops the previous year. This information was collected by Plunkett Foundation staff in February 2014 via detailed telephone interviews. It represents the most comprehensive and inclusive survey of community shops that has ever been undertaken.

NB. Throughout this report, averages quoted have been calculated as mean averages from the data provided.

Plunkett Foundation and our work with 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 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 15 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. To represent community shops in the market place and at a policy level, Plunkett co-ordinates the Plunkett Community Enterprise Network, a membership scheme providing community shops with access to a range of heavily discounted goods and services.

We are best known for our support to help communities save their local shop and pub and supporting a wide range of community-led food and farming enterprises. We operate a Co-operative Pubs Advice Line for rural and urban communities, supported by the Department for Communities and Local Government.

We also work to make it easier for communities to set up and run a range of co-operatives. We do this by working with policy-makers, politicians, funders and support organisations.

Over 40% of community shops have joined the Plunkett Community Enterprise Network since its launch in March 2011, with savings per member shop being in the region of £550, or £52,000 collectively. The Plunkett Community Enterprise Network 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.

www.plunkett.co.uk | www.communityshops.coop



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 2013 there were 309 community shops trading in the UK and they have been opening at an average rate of 27 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. It is commonly believed that village shops, for example, have an estimated closure 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 Esmée Fairbairn Foundation and supported by the LankelleyChase Foundation, which provided substantial advisory and financial support to directly help over 90 community shops to open between 2006 and 2012, and indirectly a further 82 that opened during 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 18 community shops will open in 2014. This is based on a past conversion rate of just less than 1 in 5 enquiries leading to an opening. At the start of 2014, for example, Plunkett was working with 87 communities exploring the possibility of opening a community shop (see figure 4).



Figure 1. Total number of community shops trading by year

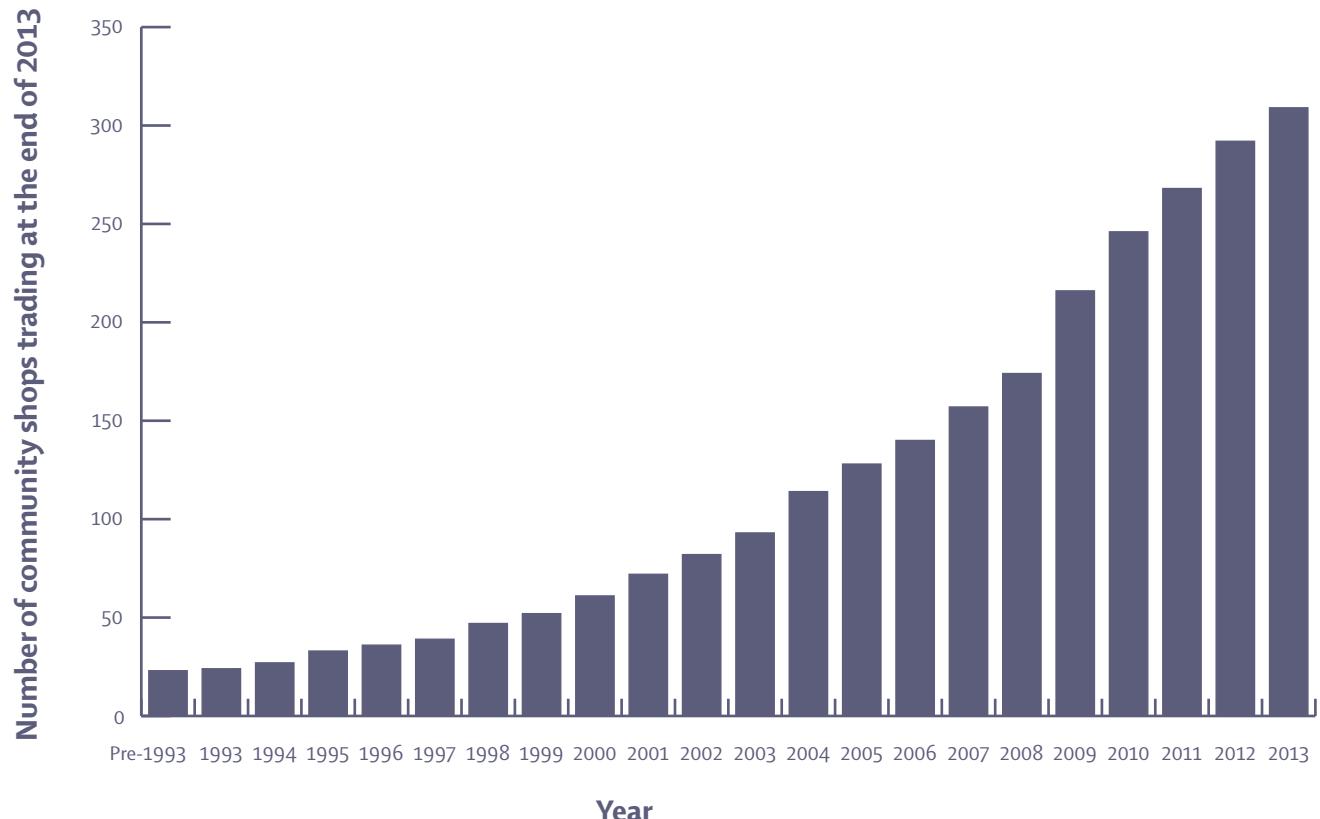
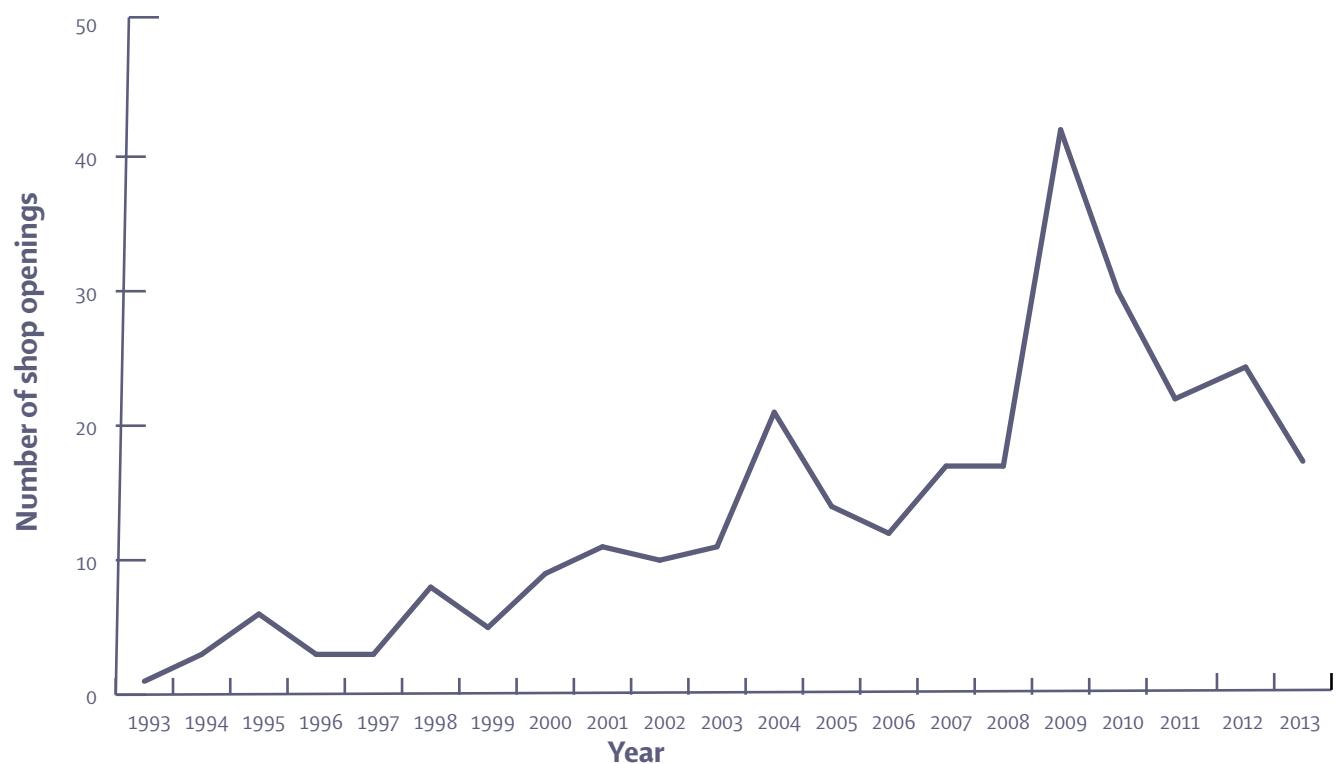


Figure 2. Community shop openings by year



Geographical spread

There is a higher proportion 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, giving communities in the South West and South East of England an advantage.



Figure 3.
Distribution of
community shops
across the UK

Figure 4. Community shops in the regions

Region of the UK	New shops in 2013	Number of shops trading	Number of communities in the pipeline
South West of England	5	96	21
South East of England	3	74	13
East of England	2	33	12
East Midlands	0	16	9
Wales	3	17	7
North West of England	0	9	7
Scotland	4	30	6
West Midlands	0	21	6
Yorkshire and the Humber	0	9	4
North East of England	0	3	1
Northern Ireland	0	1	1
Total	17	309	87

Resilience

Although 2 community shops closed in 2013 only 15 have closed since records began in 1992 indicating a long term survival rate for community shops of 95%. The 5 year survival rate of community shops is 99%. This compares extremely positively with estimations for UK businesses which have an estimated 5 year survival rate of 45% (Office for National Statistics).

Legal structure

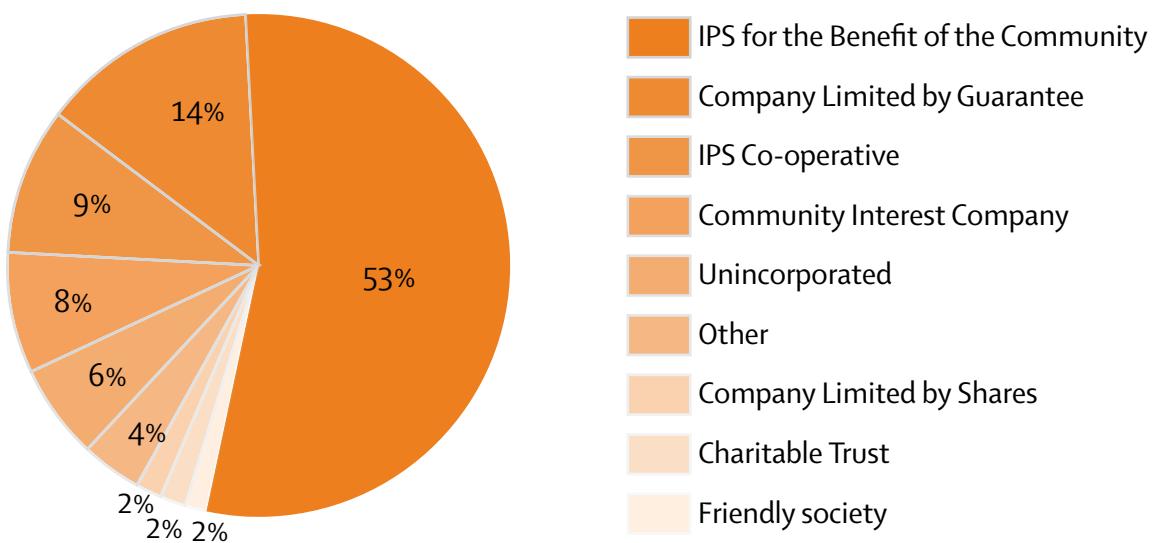
Community shops trade, employ staff, manage volunteers and enter into contracts and financial arrangements. They therefore require a legal entity to protect the individuals running the business by giving them 'limited liability', and they also require a legal structure to ensure that they are compliant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

Plunkett recommends 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 (IPS) 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).

Figure 5. Legal structures adopted by community shops



The IPS for the Benefit of the Community legal structure tends to be the preferred model 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



emphasis on members and member involvement. Community shops with an IPS structure have an average 184 members, in comparison with 126 for other structures and the average number of members across all legal structures is 168.

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.

Although a Company Limited by Guarantee or a Community Interest Company can include membership, the majority of community shops adopting those structures have a significantly smaller membership base than IPS for the Benefit of the Community. This potentially 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 2013 were responsible for raising an average £35,200 towards set-up costs of community shops.

Financial performance

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

Turnover

Turnover in 2013 ranged from £6,500 to £1,103,653, averaging at £154,687 per shop (based on the data from 163 shops). This indicates a total combined turnover for the 309 community shops in the UK of £48 million. This represents a decrease of -2% from 2012 (previously £49 million).

Like-for-like sales for 2013 increased by +1.9% (comparison of this year's sales to last year's sales for community shops that were trading in both years). This is a significantly better trading performance than the major supermarkets:

- » Tesco¹ -1.3%
- » Sainsbury² +0.2%
- » Morrisons³ -2.8%
- » Co-operative⁴ -0.2%
- » Community shops +1.9%

¹ Tesco PLC Annual Report and Financial Statements 2014

² J Sainsbury PLC Annual Report and Financial Statements 2014

³ WM Morrison Supermarkets PLC Annual Report and Financial Statements 2013/2014

⁴ The Co-operative Group Annual Report 2013

Turnover by floor area

The average annual turnover by floor area for 2013 was £242.91 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 very different stocking and merchandising agenda than a larger shop. Figure 6 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.

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 was £1,468.20 per shop. Community shops are increasingly finding innovative ways to reduce wastage, including Thorncombe Community Shop and Café, Dorset who utilise unsold bread from the shop to make bread pudding which is then sold in the café.

Figure 6. Turnover by floor area

Area of premises	Average turnover / sq ft	Lowest total turnover for bracket	Highest total turnover for bracket
100 sq ft - 400 sq ft	£344.68	£22,755	£263,183
400 sq ft - 750 sq ft	£235.41	£33,000	£345,811
750 sq ft - 1,000 sq ft	£220.76	£95,200	£318,219
1000 + sq ft	£113.10	£12,788	£950,000

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 2013 was 23%, with a range between 15%-50%. The average net profit recorded for the 2013 financial year was £3,220 and ranged from -£21,000 to +£72,222, suggesting a collective net profit of about £1 million in 2013. 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 £3,220 in 2013 shows a decrease in profitability of 38.9% compared to £5,267 in 2012 and £4,724 in 2011.

- » In 2013 average net profit was £3,220.
- » In 2012 average net profit was £5,267.
- » In 2011 average net profit was £4,724.
- » In 2010 average net profit was £3,654.

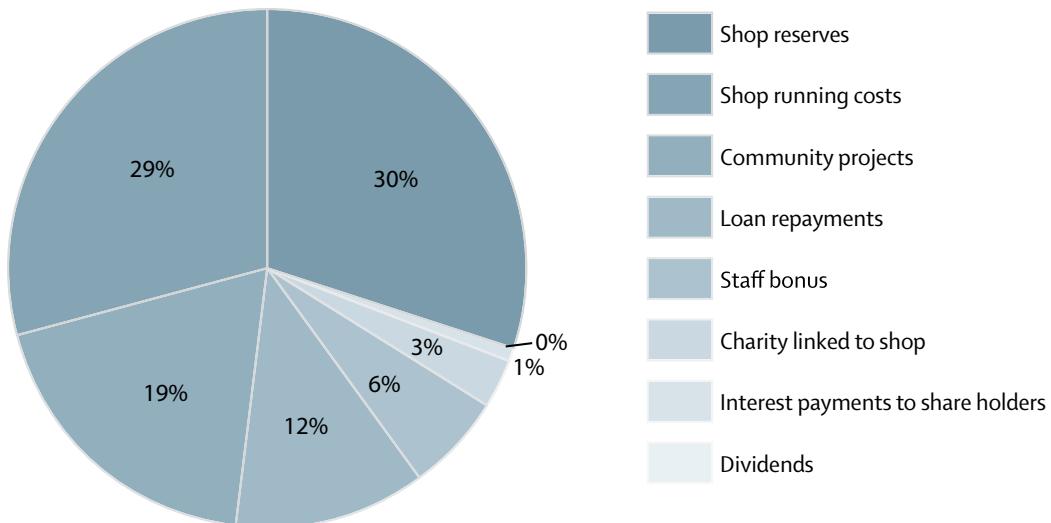
Distribution of net profit

The largest share of net profit - 30% - was invested into shop reserves, followed by 29% which was 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, around £189,046 was distributed for community use and benefit in 2013.

Reserves

At least 63% of community shops indicated having reserves of varying amounts. Of those holding reserves, the average held was £25,619. 7% of shops stated they had no reserves at all.

Figure 7. Distribution of net profit



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 168 members and 7 representatives of members on the management committee.

Tenure

The majority of community shops are run by the community. Figure 8 illustrates that only 6% of community shops are managed by a private tenant, with the majority, 94%, being managed by a management committee – who themselves will recruit either paid staff, or volunteers, or a combination of the two.

Figure 8. Management structures

Management structure	Percentage
Managed by management committee	94%
Leased to a private tenant	6%





Staffing

At one end of the spectrum, there are community shops that are entirely run by paid staff (11%) and, at the other end, there are those entirely managed by volunteers (24%). However, the majority (65%), 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.

Figure 9. Staffing structures

Staffing structure	Percentage
Paid staff and volunteers	65%
Volunteers only	24%
Paid staff only	11%

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 3 members of staff, many of whom will be part-time, which equates to 871 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, and allows all those involved to feel a sense of ownership and contribution. In total, 89% of community shops use volunteers to support the running of the business. These community shops engage an average of 30 volunteers regularly. This equates to 8,250 people nationally and it is estimated that community shops generated just under 791,831 volunteer hours throughout 2013. Applying this to the minimum wage of £6.31 gives a total saving of £5 million, or £18,388 per shop.

Community shops and assets

Community shops are difficult to define on size, premises type or ownership – the range is significant! As figure 10 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 10. Tenure of community shops

Tenure	Percentage
Freehold	27%
Leasehold	19%
Rent free / peppercorn rent	21%
Rented	33%

The largest proportion of shops are based in the former village shop premises (38%) but 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 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 2013 we saw the opening of a shop in a working church.

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 approximately £103,000. 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 717 sq ft.

Figure 11. Typical premises for community shops

Premises type	Number of shops
Previous shop	38%
Converted premises	20%
New build	17%
Village hall	12%
Portacabin / pre fab	8%
Church / chapel	4%
Pub / pub car park	1%



Services and facilities

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 24 different suppliers in total, 14 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.

Figure 12. Most profitable lines

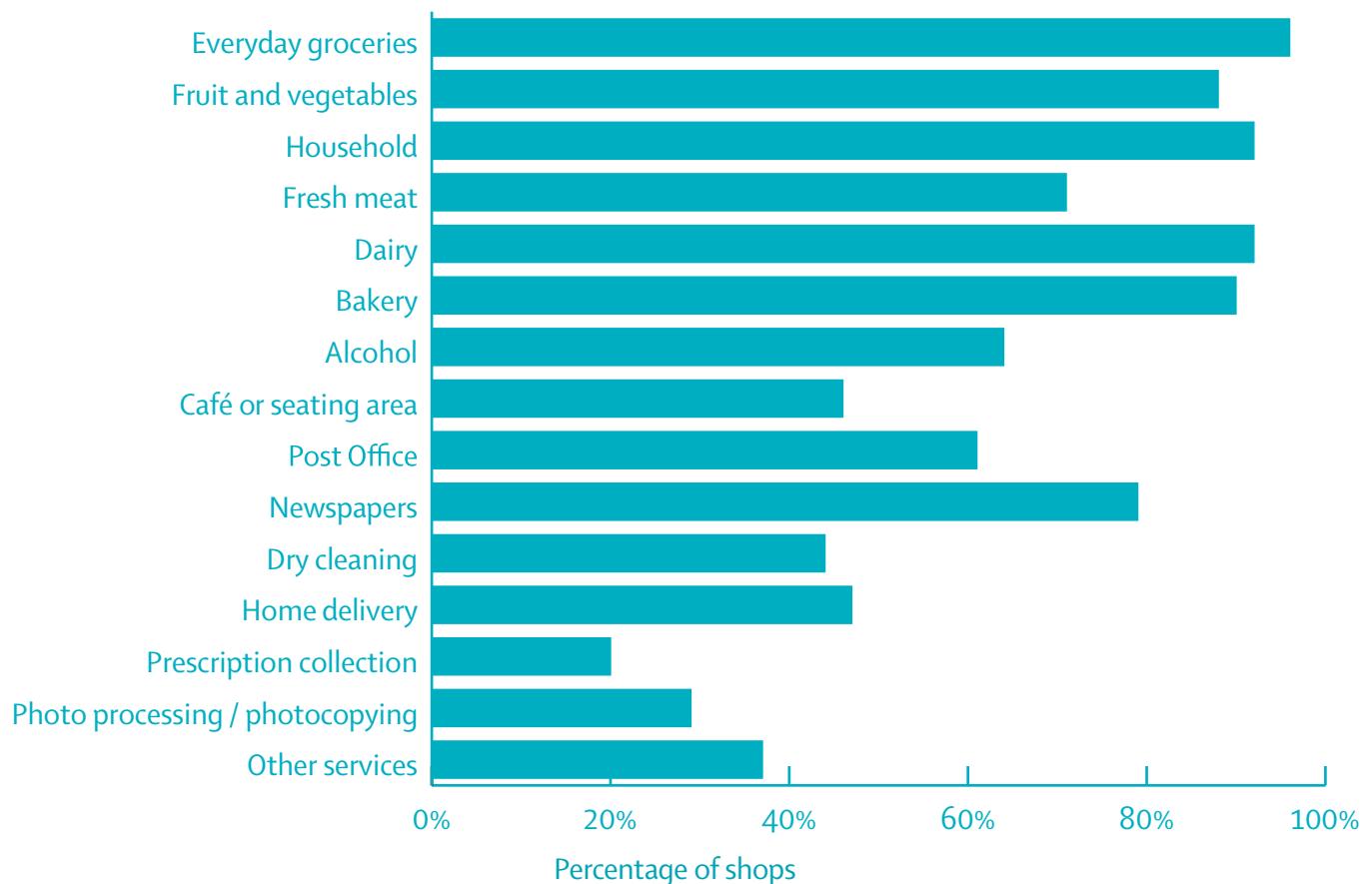
Most profitable line	Number of shops
Cards and stationery	43
Confectionery	38
Soft drinks	24
Dairy and eggs	21
Local food and produce	20
Café services	18
Fruit and vegetables	15
Alcohol	9
Wholefoods and groceries	7

Figure 13. Most sold item

Most sold item	Number of shops
Dairy and eggs	113
Newspapers and magazines	51
Bread and bakery	47
Confectionery	20
Cigarettes and tobacco	17
Fruit and vegetables	10
Soft drinks	10
Alcohol	9
Café services	6



Figure 14. Range of products and services



Local food

One of the growing trends demonstrated in Figure 12 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 one of the most profitable lines. Of community shops that sell local produce, it represented an average of 23% of their total sales. Stocking and selling local food helps engagement with the local community, promotes the local economy, and benefits the environment through lower food miles.

Café facilities

46% 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. 7% 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

70% of community shops offer postal services via Post Office Limited and 2% 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.

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 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).



Conclusion

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.

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 with around 18 expected to open in 2014.
- » Community shops operate with a 95% success rate, compared with a national UK business survival rate of 45%.

2. Better Governance

- » All shops adopt robust structures promoting genuine community-ownership and democratic control.
- » Community shops have an average of 168 members and 7 elected committee members.
- » 53% of community shops adopt the IPS for the Benefit of the Community structure which significantly boosts member engagement: 184 over 126 for other structures.

3. Better Finances

- » Turnover for community shops range between £6,500- £1 million pa.
- » The collective turnover for community shops in 2013 is estimated to be at £48 million or £154,687 per shop.
- » Average net profits were recorded to be £3,220 per shop or £1 million collectively.
- » Community shops were operating at average gross margins of 23%.
- » Volunteering saves shops an average of £18,388 per year in staff time.



4. Better Services

- » 95% of community shops sell local produce.
- » 46% of community shops have cafés.
- » 70% of community shops host Post Offices.

5. Better Communities and Lives

- » 19% of net profits are reallocated to community projects representing £189,046 nationally.
- » Shops typically employ 3 members of staff and create 30 volunteer placements.
- » 89% of shops use volunteers regularly; in 2013 using 791,831 hours.

Plunkett Membership

Plunkett membership enables community-owned enterprises to come together as a national movement, influence our policy work, and achieve strategic input into the services that we provide. Membership also allows community-owned enterprises to collaborate in the market place and reduce running costs via a growing package of membership benefits.

Membership benefits include:

- Access to competitive rates on electricity.
- Discounted rates on accountancy services and software for community enterprises.
- Access to insurance tailored for community enterprises.
- Reduced rates on card payment services.
- Competitive rates on telecoms.
- As well as access to additional Plunkett support at all stages of setting up and running a community enterprise.

By becoming members, community-owned enterprises are directly helping the Plunkett Foundation to sustain our essential service to the rural co-operative sector, which helps new community-owned enterprises to open and existing ones to thrive. In 2013, 56 community shops became members of the Plunkett Foundation.

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PICNIC
TIME

"Sand in the sandwich
Water in the tea"





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