

## **Module 1 - Rural Grocery Ownership Models**

When it comes to rural grocery stores, there are a multitude of ownership options to be considered. From the traditional business models to “outside the box” ideas, each grocery store and each community is unique and thus requires an approach most suited to the individual circumstances. As you might expect, each grocery ownership model comes with its own strengths and weaknesses. In this section, we will explain the common and not-so-common approaches to grocery store ownership, as well as the pros and cons of each. We will begin first with the more traditional approaches, which are Sole Proprietorships, Partnerships, Limited Liability Companies (LLC), S-Corporations, and C-Corporations.

### **Sole Proprietorship**

According to Investopedia a sole proprietorship is “an unincorporated business that has just one owner who pays personal income tax on profits earned from the business” (Twin, 2024). Sole proprietorships are easy to set up and have minimal legal requirements. The tax structure is simplified, given that income earned passes through to the owner and is taxed as personal income. Sole proprietors must pay federal and state (if any) income taxes on profits, plus the employer and employee FICA taxes at 15.3% total. The employer portion of the FICA tax is deductible as a business expense.

Decision-making is also streamlined with sole proprietorships, given that one person has the final say on business direction. The biggest downfall of a sole proprietorship is unlimited liability. In other words, since the business and owner are essentially one entity, all legal liability falls onto the owner. If the business were to be sued, the owner, and even their personal, non-business assets, could be at risk. Additionally, sole proprietors often find it more difficult to raise funds for their business, with banks and other investors viewing them as high risk.

### **Partnership**

A partnership, according to the Internal Revenue Service website, is “the relationship between two or more people to do trade or business. Each person contributes money, property, labor or skill, and shares in the profits and losses of the business” (Tax Information for Partnerships, 2024). As in a sole proprietorship, income passes through to the owners according to the agreement of the partners. The partner’s income is taxed the same as in a sole proprietorship. Another strength of partnerships can be that more resources are available. The resources might be monetary or could be skill or knowledge-based. A good partnership can leverage the strengths of each of the partners to form a stronger business entity.

There are potential downsides to a partnership as well. As with sole proprietorships, there is unlimited personal liability. Beyond that, there is the potential that the partners will not always agree with the direction of the business and the decisions of the other partner(s). Tension created from disagreements can lead to stress on the business and even dissolution of the partnership. It is suggested that a great amount of thought be put into a strong partnership agreement that works through all issues that may arise within the business. There are attorneys who specialize in crafting such partnership agreements.

### **Limited Liability Company**

Another traditional approach to grocery store and small business ownership is a Limited Liability Company (LLC). Investopedia lists an LLC as “a business structure that protects its owners from personal responsibility for debts or liabilities” and “Limited Liability Companies are hybrid entities that combine the characteristics of a corporation with those of a partnership or sole proprietorship.” (Fernando, 2024) As mentioned in the definition above, possibly the largest advantage to an LLC is limited liability. In

other words, barring any negligence, the owners' liability extends only to the amount of equity they have in the business. Their personal assets are shielded. Regarding taxes, the owners have the option to treat earnings as personal income, which simplifies tax filings, and tax calculations are performed similar to sole proprietorships and partnerships.

There are downsides to an LLC as well. They require more paperwork to set up, both at the state level and with the federal government, and more record-keeping on an ongoing basis. More paperwork can result in more costs. Additionally, there is more record keeping that accompanies operating an LLC. It is also possible, maybe even likely, that any financing obtained will require a personal guarantee such as a second mortgage on the borrower's residence (this can be true regardless of type of business organization).

### **S Corporation**

Somewhat similar to an LLC is an S Corporation. The Internal Revenue Service defines S Corporations as corporations "that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates." (S Corporations, 2024) As with an LLC, an S Corporation passes on limited liability to shareholders and profits are taxed as personal income. The one tax benefit S corporations offer is that only the owner's salary is subject to the full 15.3% employer and employee FICA tax. An owner's share of profits, above and beyond salary, is subject only to the employee's 7.65% FICA. The corporation pays the remaining 7.65% and this is deductible as a business expense.

One of the tenets of an S Corporation that may be seen as a downside is that it requires a board of directors and regular meetings, as well as regular filings and fees, to remain in compliance with the IRS. Again, as with an LLC, more paperwork can mean more expense. Another downside can be less management flexibility, given the need for a board of directors.

### **C Corporation**

C Corporations are the last of the five traditional types of grocery business models. According to Investopedia, a C Corporation is "a legal structure for a corporation in which the owners, or shareholders, are taxed separately from the entity. C corporations, the most prevalent of corporations, are also subject to corporate income taxation. The taxing of profits from the business is at both corporate and personal levels, creating a double taxation situation." (Ancheta, 2024) As with both the LLC and S Corporation, the C Corporation possesses limited liability for the owners. C Corporation regulations tend to make it easier to raise funds, since these corporations can issue an unlimited number of shares and are viewed more favorably by banks and other investors. A C Corporation can also exist in perpetuity. In other words, beyond the lifespan(s) of the business' founder(s).

Paperwork for a C Corporation can be complex and lengthy, which can lead to additional expenses. Another downside is the management-board of directors' dynamic can be a challenge when it comes to decision-making and direction of the business. From Investopedia we also learn that "C corporations are mandated to hold annual meetings and have a board of directors that is voted on by shareholders." (Ancheta, 2024) As with all the traditional approaches listed above, a qualified attorney and accountant should be consulted when deciding among the business models.

## **Alternative Business Models**

To overcome some of the challenges in setting up and operating a grocery store in a rural area, individuals and communities have explored a variety of business models beyond the traditional approaches listed above. Every community is unique and will require a different approach to starting, reviving, or maintaining a grocery store. There are examples of non-profit and public/private partnerships, school-based and city-owned grocery stores, as well as cooperative approaches and community-supported enterprises. We will explore these, with examples, in the paragraphs that follow.

Grocery stores generally must be profitable to survive. That said, subjugating the profit motive for things like community vitality, sustainability of the venture, and providing access to fresh and nutritious food can be a valid strategy. This is a primary reason why most of the non-traditional approaches can be lumped into one of several “non-profit” grocery models.

## **Cooperatives**

Let’s first look at grocery cooperatives as an example. Cooperatives (co-ops) are nothing new in rural areas. Agricultural cooperatives have been a staple in rural communities for quite some time. Grocery cooperatives leverage the same core tenets in that the business is owned primarily by the people who use it. Shares are often sold to the community members. Those shareholders then come together to determine the direction of the grocery co-op. The business may or may not be run by a professional manager, although research seems to suggest those that employ a manager with grocery experience are more successful.

The Illinois Institute for Rural Affairs at Western Illinois University published a report entitled “The Cooperative Model of Grocery Store Ownership”. To paraphrase, the report explains that the very nature of cooperatives gives them increased odds for success. Since there are many small investors who buy in, there is instantly a group of community members who have a vested interest in the success of the store. These “members” then become regular customers of the store, and become advocates for the store within the community. In most cases the community members who have bought into the cooperative will do what they can to help the store survive and even thrive. (The Cooperative Model of Grocery Store Ownership, 2014)

As an example of the growing interest in grocery cooperatives, several Montana communities have embraced the cooperative model. One of them is the [Community Food Coop](#), in Bozeman, Montana This store specializes in organic foods and Montana-produced meats and produce.

## **School-Based**

In some communities, schools step in to fill the gap left by a departing, or departed, grocery store. As such, profit is not the primary motive for operating the store. In addition to providing groceries to the surrounding community, students receive real-world experience in such things as customer service, inventory management, and financial decisions. In addition to the real-world experience, the students receive school credit for various classes.

An example of a school-run grocery store can be found in a story by Nebraska Public Media that focuses on the Circle C Market, in Cody, Nebraska. The story starts off by highlighting the real-world experience the students are gaining – from checking produce inventory, to ordering “family-sized turkeys”, to entering data into QuickBooks. Prior to opening the school-run grocery store, the small town of Cody was without a grocery store for about a decade. As for how it works, according to the story, “A board of

*community members oversees the non-profit operation. During the school day, students take on tasks at the store as part of different classes, with a paid adult employee and educators on hand to help train and supervise. The rest of the time students are paid to work at Circle C.” (Tobias, 2016) A school-run grocery store can be a win-win scenario for the students and the larger community.*

### **Public-Private Partnership**

At times, a city will step in to save or revive a rural grocery store. This is because they see it as a necessity, a public good, and/or a way to retain and attract residents. This was the case in St. Paul, Kansas, population 614. According to a story by the Rural Grocery Initiative at Kansas State University, the town’s grocery store closed in 1985. 20 years later the threat of losing the school prompted the city leaders to act. Rick Giefer, former mayor of St. Paul stated *“I think it was ’05 and St. Paul had been without a grocery store for 20 years. We almost lost our high school and as a committee we realized, in order to draw people to town, we needed a food source other than a convenience store.”* (St. Paul Supermarket, 2020) A zero-interest USDA loan was obtained to build the store, which was to be city-owned. When the business first opened in 2008 the managers (Joe and Sue Renfro) agreed to purchase the inventory and were “owners” of the business.

Five years later the Renfros were ready to retire, and the city assumed complete operation of the store. Since then, the St. Paul Market has been a “municipally owned building” and “full-time employees were city employees with city-funded benefits”. (St. Paul Supermarket, 2020) So, this store initially opened as a public-private partnership, but since 2013 has been 100% city-owned. The store remains open today, and their web page can be found at <https://www.stpaulmarketks.com/>.

One other example of a public-private partnership is the Garden of Eden store in Little River Kansas. In this case, the store and equipment were aging, and the needed repairs were going to be costly. In 2017, the city stepped in and purchased the building and fixtures with the help of a Community Foundation grant. The city was then able to make the necessary repairs and upgrades. The business owners now lease the building from the city but have been relieved of the burden of the expensive upkeep of the building and fixtures. They retain ownership of the business and the inventory.

### **City-Owned**

Sometimes the only way for a rural grocery store to survive is for the municipality to step in and purchase the store, whether it be permanently or until another buyer can be found. There are a few examples of this happening. One such example happens to be in the town of Erie, Kansas, a town of approximately 1,000 residents. As is often the case in a rural setting, the proprietors of Stub’s Market in Erie, Kansas were looking to retire. When they put the market up for sale, no one was interested.

In August of 2019, the owners of Stub’s approached the Erie City Council to see if they were interested. The City polled the residents and over two-thirds said that the City should purchase the market. At the start of 2021 that is exactly what happened. The City purchased Stub’s Market and changed the name to Erie Market. The market is run like a utility. If the enterprise were to be less than profitable, a surcharge would be added to the residents’ utility bill. As of September 2022, this has not been needed. A full story detailing the Erie Market’s transition can be found here: [thehustle.co](http://thehustle.co).

### **Community-Supported Enterprise**

Another approach to saving or reviving rural grocery stores has begun to emerge. This approach is called a community supported enterprise (CSE). Just like it sounds, a community supported enterprise begins with a group of concerned citizens raising money and directly funding an enterprise, in this case, a rural grocery store. CSEs are not a new phenomenon. What has changed, however, is the reason behind forming them. Now it is just as much about saving or providing a business that is integral to a community's well-being, as it is about return on investment for the investors. CSEs are difficult to define due to the multitude of circumstances that exist across the communities that employ them.

Another report by the Rural Grocery Initiative at Kansas State University entitled, "Emergence and Growth of Community Supported Enterprises," highlights some of the more unique approaches to CSEs. According to the report, *"perhaps what distinguishes these new approaches is the direct participation by residents in both the financing and management aspects of the business venture or enterprise"*. (Sandoval, 2016) The report also highlights some of the reasons for the rise in CSEs: population declines, slow business startups, and local foods movements and initiatives.

Highlighting this approach is "Community Owned Stores: New Anchors for Older Main Streets" published by the National Trust for Historic Preservation in its May/June 2008 edition of Forum News. According to the story, an early adopter of the CSE approach is Township Grocery in Bonaparte, Iowa. When a major downtown retail center closed in 1986, the community responded. As stated in the article: "Four residents decided to take action. They formed a nonprofit corporation, Township Stores Inc., and raised over \$100,000 in capital by selling \$2,000 shares to more than 50 local residents. They used the capital to renovate the five 19th-century buildings that (the previous retail center) had occupied and launched several new businesses, including a grocery store and a hardware store." (Mitchell, 2008) That grocery store still operates today. If not for the community coming together and supporting the enterprise, it is likely that this would not be the case.

### **Summary**

As we have seen, there are a multitude of approaches, both traditional and non-traditional, that exist to address the challenge of keeping or reviving a rural grocery store. This is important, as each community is unique, as are the challenges that face these communities. A thorough examination of all facets of the community, its strengths, and its challenges, should be completed prior to selecting the most appropriate strategy.

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