Let's Talk Business

Ideas for Expanding Retail and Services in Your Community

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Community-Owned Stores Provide Alternative to Chains

by Stacy Mitchell*

When Ames, a chain of discount department stores in the northeast, went belly-up last year, closing all of its 327 stores, towns like Middlebury, Vermont, were left with no place to buy many basic housewares like sheets and shower curtains. Residents began driving north to Burlington or south to Rutland to shop.

Concerned about hemorrhaging retail sales, city officials called in RKG Associates, an economic consulting firm. RKG concluded that Middlebury consumers are spending nearly $7 million elsewhere each year. The firm recommended that the city stem the leakage by enticing Wal-Mart to build a supercenter in this town of 8,500.

But many Middlebury residents refuse to accept the inevitability of the low-wage retailing giant. They have their own ideas about solving Middlebury's dilemma. They want to open a community-owned department store in the center of town.

It may sound far-fetched at first, but there are in fact a growing number of successful community-owned retail enterprises operating around the country. The Middlebury Business Association has begun hosting meetings to explore the idea.

There are three ways to structure a community enterprise. Consumer cooperatives, which have a long and successful history in food retailing, are one possibility. Another involves the community putting up the start-up capital for a businesses that is owned and operated by a local entrepreneur. The Bobcat Café in Bristol, Vermont, is a good example of this. It was financed entirely by three dozen Bristol residents, who saw a need for a local watering hole and put up $5,000 each, which was paid back over two years with a modest return and a dining discount.

Finally, there are community corporations. These are capitalized through stock shares sold to local residents (bylaws typically stipulate that stockholders must live in the state) and are run by an elected board of directors. Investors generally expect that much of their return will be in the form of community benefits, rather than financial gains.

A small but growing number of community corporations are operating stores and restaurants around the country. In Swanville, Minnesota, for example, some sixty families share ownership of the town's only restaurant, Granny's Café, which opened three years ago financed by more than $300,000 in community capital. When the general store and lunchtime gathering spot in Hebron, New Hampshire, closed a few years back, more than half of the village's four hundred residents chipped in to buy and re-open the store as a collective enterprise.

Perhaps the most relevant examples for Middlebury are community-owned department stores that have opened over the last few years in about half a dozen towns in Montana and Wyoming. Much like Middlebury, these communities faced a gaping hole in their local economies when a regional department store chain called Stage pulled out in the late 1990s. Rather than allow their towns to decline, residents got together and launched their own homegrown stores.

Take The Mercantile in Powell, a town of 5,500 in northwestern Wyoming. After Stage closed, a group of residents hit on the idea of a community-owned store. They drew up a business plan, filed incorporation papers with the state, and began selling shares priced at $500 each. Within a few months, they'd sold over 800 shares, raising more than $400,000 in capital.

Powell Mercantile in Wyoming. Photo by the Powell Tribune

The Merc opened in July 2002. The store sells affordably priced clothing and shoes for the whole family. With a Wal-Mart Supercenter just 20 miles away in Cody, some Powell residents predicted that The Merc, like most small town stores focused on basic needs, would fail.

But so far the store has been remarkably successful. It's met vital local needs, boosted sales at other downtown businesses, and even turned a profit. During its first year, The Merc took in $500,000 in revenue, outpacing projections, and generated a profit of $36,000. The earnings were reinvested and used to expand the store from 7,500 to 10,000 square feet.

Founders cite several factors in The Merc's success, including top-notch customer service and a board made up of experienced local businesspeople. With no debt to service or stockholders demanding high rates of return, prices can be kept relatively low. "We're probably not quite as low as Wal-Mart," said store manager Paul Ramos, "but we're close and we usually do better than the mall up in Billings."

Another significant factor in The Merc's success, according to board member Ken Witzeling, is the community's sense of ownership. "When you walk down the street and talk to people about the store," he said, "they all refer to it as 'our store.' Not 'the store,' or 'that store.' It's 'our store.'"

Back in New England, Middlebury is not the only community struggling with the loss of Ames and weighing the merits of a homegrown solution. In Greenfield, Massachusetts---which rejected Wal-Mart ten years ago in a voter referendum that drew national notice---a committee has formed to explore the idea of a community-owned department store.

Although modest in scale and few in number, these models deserve wide circulation. As the consequences of Wal-Mart and other big chains become ever more apparent, communities must not only counter their growth, but offer viable alternatives by expanding established local businesses, supporting new entrepreneurs, and, where necessary, stepping in to fill the gaps.

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