

# Emergence and Growth of Community Supported Enterprises

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Local public officials and community leaders, driven by a need to revitalize their economies in the post-recession years, help finance local ventures in new and interesting ways. Low-cost loans and other financial inducements still support business startups and expansions. However, local groups also raise funds invested directly in local ventures called Community Supported Enterprises (CSEs). When these activities sell a product or service, they are called Community Supported Businesses (CSBs).

CSE approaches involving direct local investment in businesses are not entirely new but their motivation increased during the slow post-recession recovery. Now they are often driven by a perceived need to start, or retain, essential businesses at risk of closing. Grocery stores and restaurants are common examples, especially in small and remote areas. The need for these basic services caused residents to explore new financing tools and approaches.

The growing engagement by local residents in promoting community sponsored businesses came about partly because of difficulties these businesses had in accessing capital for either startups or expansions. Likewise, long-term economic declines, plus pending retirements of community members without local heirs, threatened long-standing businesses considered vital to the future of communities.

At the same time, the advent of crowdfunding platforms and other changes in financing alternatives brought options for financing public and private ventures with relatively small contributions by residents. In some instances, residents contribute to local ventures with little, if any, expectation of financial return but value the contributions of the activity to local quality of life or see it as a charitable contribution plus an investment. This scenario offers new alternatives for local leaders to team with business or social entrepreneurs in exploring ways to create, or otherwise reshape, services that make the community a more attractive place to live for current and prospective residents.

Thus, community supported enterprises are both community and economic development approaches. A more complete understanding of factors driving the increased use of CSE financing methods and how they are changing, along with innovative approaches followed in organizing local investors, can help policymakers and practitioners address local concerns more successfully.

The Center for Governmental Studies (CGS) at Northern Illinois University (NIU) partnered with Michigan State

University and the University of Wisconsin-Extension, with funding from the North Central Regional Center for Rural Development (NCRCRD) at Michigan State University, to examine how communities finance and promote small businesses. The study is a first step in helping outreach agencies design programs to address local needs. The practices change over time deepening our understanding of strategies as well as successful practices.

The NCRCRD report (<http://cgs.niu.edu/reports/Emergence-and-Growth-of-Community-Supported-Enterprises.pdf>) provides background materials explaining various types of CSEs along with local approaches used to launch them with mini-case studies selected to show differences in purpose and financing practices. Since literally hundreds of different types of CSEs exist, the group included is neither exhaustive nor representative of all CSEs. Many examples are from the Midwest as well as Vermont, Washington, and Wyoming. The sample CSEs illustrate a broad profile of approaches based on information gathered from the internet, phone interviews, and/or on-site interviews to learn about motivations for organizing, involvement by key individuals, and outcomes. Efforts to obtain more complete information are underway and the importance of candid discussions with principals in these efforts cannot be overstated because they are directly involved with on-going operations.

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The report examines in some detail the roles played by social capital in small rural areas as a motivational factor for investment by residents. Major difficulties and obstacles were overcome in starting and maintaining the businesses.

The main purpose of this research is to help economic development practitioners such as university Extension personnel or other outreach groups learn ways to use CSEs in working with community leaders and business entrepreneurs on revitalization efforts. In addition, understanding the different resources available is key to implementation. The use of CSEs will increase in the future as residents engage more and more in local financing efforts.

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## Defining a CSE

Community Supported Enterprises are difficult to define precisely due to their diverse purposes and approaches but a common characteristic is direct community support and involvement in addressing a social need or to enhance quality of life. In some instances, CSEs provide a product or service but the main impetus is not profit although they must follow sound business principles in order to continue operating. They are funded mainly through direct contributions or donations

from local groups often with no expectations of financial remuneration.

Some CSEs, labeled as Social Enterprises in this project, have clearly defined products or services with limited or no financial support from the immediate community where they are located. They have a social mission or purpose and are funded by: (a) direct contributions or donations from stakeholders without financial remuneration; and (b) revenues from product sales.

## Distinctions Among CSEs

Type	CSE	Social Enterprise	CSB
<b>Similarities</b>	<ul style="list-style-type: none"> <li>Financed by community methods</li> <li>Relationship between business &amp; community</li> <li>Combines corporate &amp; social goals</li> <li>Can be any legal form</li> </ul>	<ul style="list-style-type: none"> <li>Combines corporate &amp; social goals</li> <li>Can be any legal form</li> </ul>	<ul style="list-style-type: none"> <li>Financed by community methods</li> <li>Relationship between business &amp; community</li> <li>Combines corporate &amp; social goals</li> <li>Can be any legal form</li> </ul>
<b>Differences</b>	<ul style="list-style-type: none"> <li>Includes other non-business ventures</li> <li>Main goal is to improve social goals</li> <li>Social impact drives strategy</li> <li>Exact nature of business centers around local community need</li> </ul>	<ul style="list-style-type: none"> <li>Double or triple bottom line drives strategy &amp; operations</li> <li>Seeks relationships with political, economic, &amp; often government forces</li> </ul>	<ul style="list-style-type: none"> <li>Main goal is earning profits for owner/investor</li> <li>Revenue goals drive strategy</li> <li>Management structure</li> </ul>

In still other cases, CSEs operate closer to a traditional business model and may even have operated as a business in the past but are now reorganized as a CSE to raise additional capital or financing. These operations, called Community Supported Businesses (CSBs), represent a different approach from Social Enterprises or general community support provided to businesses. A CSB can have community investors who may, or may not, be directly involved in managing the business venture that, typically, sells a product or provides a service. In some CSEs studied, local groups converted a struggling private business to a CSB to retain it in the community and then sold it to private owners as an on-going business.

CSEs are organized and financed in many ways, including both equity and leverage models, depending on local conditions and opportunities. Sample CSEs in this project were selected to illustrate the differences. Distinctions and arrangements for financing CSEs are described in more detail in <http://cgs.niu.edu/reports/Emergence-and-Growth-of-Community-Supported-Enterprises.pdf>.

## Financing Approaches

Ways to finance CSEs range from donations to crowdfunding platforms that have gained popularity in recent years and will likely increase in the future. Pre-sales or subscriptions, such as used in Community Supported Agriculture efforts, increase market stability for the products or services. Investors often receive a return in discounts or future services under a specific agreement.

Success of the financing approaches depends on unique local circumstances under which a business venture starts. Therefore, generalizations about best practices are difficult to make. In addition, some approaches (described as Hybrids in this study) are used by private businesses as marketing tools to directly engage customers in product decisions such as forming clubs or groups to vote on future products. These businesses are sometimes

## CSE Financing Approaches

<b>Donations</b>
Donate money with nothing expected in return
<b>Subscriptions</b>
Money paid up front with promised goods received at a later time. Viewed as an ongoing service
<b>Gift Certificates/Pre-Sales</b>
Store credit is bought initially with a higher amount than purchase value redeemable in goods after the business opens
<b>Sale of Shares/Equity</b>
Members invest and have an ownership stake in the business
<b>Memberships</b>
Services, goods, or privileges given in exchange for investment, sometimes ownership is awarded as well
<b>Community Loans</b>
Residents or Community Development Finance Institutions (CDFIs) loan money (often below market rate) to business and are then repaid at a later time
<b>Crowdfunding</b>
Goods, services, or social impact promised as an incentive to investment

marketed as “community supported efforts” making it difficult to separate them from the CSEs described in this project. However, absent an identified social purpose or goal, they are not included in this study.

The increased use of crowdfunding techniques to finance both social enterprises and business ventures further blurs distinctions between CSEs and CSBs. In both cases, residents are offered opportunities to invest in a local activity that, in some way, is important to the community either as a business or a social endeavor. Residents can donate or invest in local projects using relatively simple internet platforms. Common to the CSEs studied in this project is that participants typically motivated by the potential of a business or social enterprise to improve the community.

The passage of the Federal Jumpstart Our Business Startups (JOBS) Act in 2012 brought new avenues to engage smaller investors in local ventures. States responded by creating statutes that expand these initiatives to encourage non-qualified investors (those with smaller assets) to become involved. Consequently, statewide and local efforts such as Community Sourced Capital (Washington State), Milk Money (Vermont), The Local Crowd (Wyoming) and Hatch Oregon (Oregon) now work with businesses on financing efforts.

The state of Vermont has aggressively led efforts to revitalize rural areas and consequently has a large number of CSEs. Discussions with local experienced groups reinforce the importance of a positive local climate and supportive state legislation in successful endeavors. The enabling legislation in Vermont is described in more detail and can be a model for use in other states, especially those with large rural contingents. In the end, however, local commitment and follow-through are key to success in these ventures.

The diversity and variations found in the CSEs examined are testimony to the versatility of the approaches used. Perhaps most common were efforts to retain or expand businesses that provided groceries and other basic items. Examples in Illinois, Iowa, Vermont, and several other states are analyzed. Restaurants and bookstores are also businesses in which residents seem likely to invest. In addition, entertainment facilities are seen as crucial in a high quality of life and residents are often willing to invest in them. Public agencies will finance even more special projects using funds from crowdfunding types of efforts.

### **Growing Roles of Intermediaries**

While crowdfunding platforms are becoming more common and easier to navigate, small businesses will still need help marketing their products to residents. In response, several firms have started to work with local agencies in Vermont, Washington, and Wyoming.

Milk Money (<https://www.milkmoneyvt.com>) started in Burlington, Vermont to help small businesses raise capital using crowdfunding platforms. It guides entrepreneurs through the fundraising process and then provides management expertise to help the business prosper. This intermediary program currently operates only in Vermont but the model is suitable elsewhere. Milk Money holds events where businesses can

present their projects or operating model and interact with potential investors. The fees to the businesses are relatively small and potential investors obtain the necessary information needed to evaluate investment opportunities. Similar services will expand in other states.

The Community Sourced Capital initiative (<https://www.communitysourcedcapital.com>) provides somewhat similar services to businesses in the state of Washington. However, in this case, existing businesses can raise funds through a no-interest loan for a designated time from pooled funds of local investors. The businesses start repaying the loans immediately but receive management assistance to increase their success. The zero-interest loans are then repaid to the investors. This approach helps investors fund local projects and provides low-cost loans to businesses in which they are interested. The focus is on local involvement that can build social capital and engagement in a community.

### **Keys to Success**

1. Establish the Need for a CSE to Build Local Support
2. Create a Suitable Organizational Structure
3. Have a Local Champion
4. Understand the Local Economic Climate.
5. Identify Funding Opportunities for CSE Efforts
6. Communicate to Keep Momentum

The Local Crowd ([www.thelocalcrowd.com](http://www.thelocalcrowd.com)) in Ralston, Wyoming, is a relatively new program (started in 2012) targeted to startups in rural areas. The program provides a toolkit for local development agencies and other groups to organize crowdfunding or similar fundraising efforts that can help businesses in their communities. Started with USDA-RD support and after several national competitions, the program now works in seven states providing training programs and local tools. A relatively important aspect is that it accepts in-kind contributions including professional services as an investment in the business. Other businesses can make awards to investors contributing to another business venture.

### **What Have We Learned?**

A literature review and study of the sample CSEs identified several important elements to consider in evaluating use of CSE approaches in local development efforts. These approaches are not hard and fast rules; instead, they are common in many of the efforts and personnel involved identified them as instrumental in local successes. Some of these principles also apply to other community or economic development initiatives.

First and foremost, establishing and documenting the need for a community supported enterprise is critical in building local interest and support. Timing is important and organizing an initiative when the purpose is highly visible can help in the efforts. Announcement of a store closing or the fact that it is up for sale has been an important motivating factor in the sample CSBs.

Second, a suitable organizational structure whether cooperative, LLC, or sole proprietorship is key to the ultimate

success of the venture. Most important to understand is that a CSE faces the same market tests as any other small business and, in some instances, even more so when the initial stimulus was that a previous business failed or closed. Thus, restarting the business may require a serious evaluation of the products or services delivered as well as possible markets which can increase the information needed by the local organizing groups.

Third, a local champion, or spark plug, with previous related experience and credibility in the community is an asset, or even a necessity, in successful CSE startups. Finding this person(s) can be difficult as is retaining local enthusiasm in the face of setbacks in the business venture. In the CSEs studied, retirees and long-standing members of the community often were a source of this motivation and talent. Likewise, they had invested time and money in the community so had a strong incentive and desire to see the community prosper.

When this champion is not readily apparent, community leaders can sometimes rely on external sources such as consulting agencies but they may not have the same ability to motivate local investment as long-time members of the community. In the case of several Vermont CSEs, the Preservation Trust of Vermont served as an intermediary and stimulus to local action. This state agency had the resources, contacts, and credibility to help local groups organize and start a CSE. As a neutral third party, the Preservation Trust has access to a broad resource base and, in several instances, used money from bequests to revive closed businesses. Given the large transfer of wealth currently underway in rural areas, this approach could be attractive in other states.

Fourth, the economic climate in which a CSE is launched is critical, especially when the motivation is to bring back an important social institution such as a restaurant where residents regularly congregate. Declines in population or economic status can present a situation where the CSE becomes a last resort if it is an outcome of continued deterioration in the local environment. Those situations place added pressures on CSE startups and they may have to be part of a broader community-wide development strategy to succeed and make an important contribution to overall development efforts.

The contributions of state and federal agencies in launching and maintaining CSEs must also be recognized. Often, state agencies encourage traditional incentives or low-cost loans but do not pay as much attention to working with local investors. As the CSE approach gains popularity, its value as a local development tool will be recognized.

Finally, CSEs can pose special difficulties in maintaining long-term backing as the initial supporters pursue other opportunities. This is especially true in rural areas with stagnant population and residents working outside the community. Likewise, greater reliance on the internet to communicate and maintain social contacts may lessen the need for physical places where people regularly congregate and build social capital. This may mean that CSEs will hold more outreach events such as the community dinners hosted by Vermont country stores.

### **Importance of Social Capital**

The need for long-term support and persistence in implementing a CSE strategy, even when difficult to sustain, cannot be

overstated. In several case studies, the organizers were frustrated at several times with setbacks. However, they were able to reorganize their efforts and retain continued support from local investors.

CSEs, for reasons discussed, will likely increase in use as crowdfunding platforms and other legal, organizational, and financing mechanisms emerge. They represent a direct and relatively low cost way to participate for residents interested in engaging in local community development initiatives. Depending on how the organizing group is structured, investors may also receive tax breaks. The experiences with CSEs have been varied with some doing well and others going out of business after a period of time but the same is also true of private businesses. The information gained in this research helps inform community leaders and practitioners about past experiences.

While many aspects of starting a CSE resemble those involved in starting traditional businesses, there are several important considerations for CSEs, including a need to work with the public as investors without a financial return. While, initially, the public can become caught up in the excitement of making a commitment to their community, they can lose interest without continued communication about the contributions and successes of the venture. In other words, maintaining a relationship and communicating with investors is especially important.

Financing arrangements are changing and CSEs are only one of several approaches available. The increased use of crowdfunding platforms and relative ease in reaching residents means that this financing approach will grow in popularity especially in areas with sparse or declining populations and relatively small markets. Community and economic development practitioners can explore the examples presented in the report and determine whether the models used, or some variation, can work in their area.

The need to preserve social capital is of special interest in this project since it came up as a motivating factor many times in local discussions. The “community store” concept in Vermont has played an important role in stabilizing rural areas and is valued highly by residents. While private businesses provide basic goods and services, they are more driven by a profit motive so that when a business is no longer profitable, it closes. Likewise, small businesses typically have paid staff and handle a specific selection of merchandise and services.

The Vermont experiences differ from traditional for-profit businesses. In the community stores model, residents invest (donate) both time and money to keep them going. Some CSEs rely heavily on donated labor in store operations and carry a large selection of locally-produced goods or services including food, crafts, arts, and other items. In some cases, a store had closed and remained vacant for several years until it was revived by a local group pooling their resources, both time and money.

The findings in this report pose the question of whether a community store model will become more common in small communities such as in the Midwest as a way to preserve quality of life and social capital during population and economic declines? The community store approach has many elements that are attractive in small communities and their use is worthy of additional research. This report is a start and offers guidance for some of these initiatives.