

Entrepreneurial Rural Communities National Case Studies Series

Eight case studies of entrepreneurial rural communities and a summary report have been developed from presentations and discussions at a National Entrepreneurial Rural Communities Workshop held in Fairfield, Iowa, on June 3, 2005. The series includes:

Report 1: The Appalachian Center for Economic Networks (ACEnet) in Athens, Ohio

Report 2: Northern Initiatives in Michigan's Upper Peninsula

Report 3: *Tapetes de Lana* Weaving Center, Mora, New Mexico

Report 4: Douglas-Coffee County, Georgia: An Entrepreneur-Friendly Community

Report 5: The IDEA Center Incubator of Tupelo, Mississippi

Report 6: North Iowa Area Community College Entrepreneur and Capital Networks

Report 7: AgVentures Alliance: An Entrepreneurial Value-Added Agriculture Network

Report 8: Fairfield, Iowa: The Emergence of a Serial Entrepreneurial Community

Report 9: Reflections on Local, State and Federal Policies to Support Entrepreneurs

Supplement: *"Entrepreneurial Community Ecosystems..."* by Sohodojo

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The National Entrepreneurial Rural Communities Workshop and Case Study Project was sponsored by Farm Foundation. The case studies were edited by Sue Lambertz, Sandra Burke, Becky Johnson, and Mark Edelman of the Community Vitality Center, Iowa State University. The workshop was organized by Burt Chojnowski, past President of Fairfield Entrepreneurs Association. Companion PowerPoint presentations are available for download from the CVC web site: www.cvcia.org. Video excerpts recorded by Fairfield Public Access Community television (FPAC) and are being made available at <http://www.brainbelt.com>.

Report 2: Northern Initiatives in Michigan's Upper Peninsula

by Dennis West, President, Northern Initiatives

The Upper Peninsula (UP) of Michigan is 92% forested and underdeveloped relative to the rest of the state. The population of 316,000 is much the same as it was 100 years ago. Mackinaw Bridge connects the Upper Peninsula to Lower Michigan. The geography, combined with having the population spread throughout the region, means that the population is sparse and people are often isolated. By 1985, due to mine closures and lay-offs, unemployment was at 20%. In response to these challenges, Northern Michigan University created the Northern Economic Development Initiative. In 1992, the Initiative partnered with Shore Bank of Chicago to create the Northern Initiatives (NI). NI adopted several of the business development concepts that had previously been used by Shore Bank in underdeveloped low income metro areas and applied the lessons learned to the more sparsely populated UP region. Northern Initiatives is now organized as a Community Development Financial Institution (CDFI) which allows access to special CDFI programs of the U.S. Treasury Department.

“The Northern Initiatives model is like a funnel for ideas,” says Dennis West, Director, “Entrepreneurial inspiration is poured into the funnel. We add technical assistance and go along with them through the enterprise development process. We gradually wean the new business off of our resources as they get off the ground and grow.”

Northern Initiatives focuses attention on new business start-up enterprises by identifying capital and access to specialized expertise to get the new venture up and running. Northern Initiatives uses its \$8.5 million in capital to provide loans – 59% to start-ups – and the rest to fledgling businesses and other activities. Loans are made in cooperation with 20 community banks. In 2004, NI's territory expanded to cover 51 total counties with some in northern lower Michigan and five in Wisconsin. NI's loan fund capital is expected to reach \$12 million in 2007. NI's 3-year plan emphasizes financial services, information services, and work in three sectors: manufacturing, secondary wood processing, and nature tourism.

“One in ten Americans has the capacity to start a business,” says West. “Our challenge is to connect the entrepreneur with staff consultants or special outside expertise to flesh out ideas and test their marketability.” He then related several examples:

Jacquart Fabric Products, a local cut and sew business, was facing hard times. Working with NI, they researched a targeted market – pet-owners – and learned that pet owners spend a lot of money on their pets for accessories, such as beds, blankets, etc. They determined that their expertise and assets could be used to create customized dog beds. Today, they offer dog beds in 95 styles with a personalized embroidered name of the pet. Internet marketing opens up global markets. They deployed a just-in-time customization strategy that allows them to keep inventory low with delivery anywhere in the U.S. within 48 hours. The combination of high quality product, personal customization, and 48-hour delivery generates a premium value in the market that company leaders see as being less vulnerable to replication by more generic offshore mass-produced lines offered by large discount retailers.

NI also researched the “Stormy Kromer,” a wool blend classic fleece cap with uniquely recognizable flaps that was no longer available in the UP region. A Wisconsin company had discontinued the line citing that sales were down. However, their research indicated that 30

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percent of the sales were coming in from the UP region. The business was not for sale, but Jacquart was able to buy the pattern and royalty rights, along with royalty rights with different universities, Harley Davidson, etc., and now they produce the Stormy Kromer line. The Jacquart Fabric Product successes have been in “mass- customization” and not mass-production, turning a struggling industry for which the market had declined, into a niche company meeting a targeted market demand for an affluent market segment.

“Sometimes the rural business needs are not about marketing,” West said, “but more about hiring qualified employees.” Pettibone, for example, lost their material purchasing manager, which was critical to their operation. Northern Initiatives offered a staff person until a new person was hired 6 months later.

With virtually all of the copper mines closed, Northern Initiative helped develop SubTerra, LLC, an emerging biotechnology company focusing on the production and refinement of plant-based therapeutic proteins. The empty mines became a perfect space to provide “biosecurity.” The mines provide a controlled environment with favorable growing conditions that are constant and isolated from the outside environment, free of physical contamination, pests and pathogens. SubTerra operates out of the former White Pine copper mine, which provides in excess of 20 acres of underground space for the development of a biosecure growth chamber. SubTerra also owns a 35,000 square foot building located at the entrance of the mine. The company targets biotech pharmaceutical markets, which require the ability to produce large quantities of pharmaceutically active plant material at an accelerated rate.

In addition to producing transgenic plants, SubTerra provides some processing activities to provide its customers with a semi-finished product and an environmentally friendly product for transportation.

About 80 percent of the UP region is accessible to the public and there are hundreds of lakes, streams, waterfalls, and trails. Historically, when a tourist would stop in a local shop and ask them what activities were available in the region, the locals didn’t know the answer. Northern Initiatives worked with a number of communities to promote the tourism market through attractions, promotion infrastructure, etc. “Soft-Adventures,” such as bird watching, biking, hiking, cross country skiing, kayaking, etc...are popular with baby-boomers. And, the training of local shop owners, cross-promotion of businesses, and improved marketing of the area have created a new tourism sector for the UP. (See: www.greatwaters.net).

West concludes, “The largest customer is often confused with the best customer. Sometimes meeting the demands from the largest customer is not as profitable or sustainable long term compared to other customers. What is important for local entrepreneurs is to work together on the three shortages rural communities face – access to capital, information and larger markets.” He adds, “NI adheres to the Jane Jacobs theory of Rural Development. Jane Jacobs’ theory states that rural areas need connections to urban centers to overcome these three shortages.”

New efforts to cultivate future entrepreneurs are being introduced in grades K-12. An Entrepreneurs Institute was sponsored by NI that trained 100 teachers on how to build a curriculum around entrepreneurship, and interest is growing. Social studies classes put a business plan together working with local mentors and then the students present the plan to local leaders. The plan is tested, and students sell their products or services in one night at the local mall. Two

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ideas from the students have been “stolen” by other entrepreneurs, in that a new mini golf course has opened up and a manufacturer has commenced production of a “snowboard carrier.”

“Collaboration, relationships, networks and partners are critical for facilitating entrepreneurial outcomes,” says West. “The technical assistance provider must establish a practical theory of practice, charge market rates for the services whenever possible, and remember that relationships matter in rural areas. It is also important to regularly evaluate your performance and track record.”

Some of the best practices of Northern Initiatives include: quarterly loan reviews, sound underwriting, good risk management practices, technical assistance in support of borrowers, accounting firms under contract, marketing expertise, website developers, and an annual board retreat. NI has strong intentions to be in the relationship business, and to sell customers based on what they need--not who they happen to employ. NI encourages its business clientele to maintain consistent customer evaluations, participate in peer reviews, and development of networks.

Of the lessons learned, West stressed three primary factors that contribute to failure: lack of leadership, inability to heed advice, and refusing to adapt to the addition of more complex systems that new products, services, or markets require. Models matter--when someone is seen as doing something successfully, others become willing to try. “Entrepreneurs are important drivers to social change,” West says. “They often hold the key strategies to transform communities.”

For more information on the Internet see:

www.niupnorth.org

www.greatwaters.net