

# COMMUNITY SUPPORTED ENTERPRISES AS A LOCAL INVESTMENT STRATEGY

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*This article describes municipal experiences with the creation of Community Supported Enterprises (CSEs) to maintain access to goods and services considered essential to the quality of life and to the viability of the community. Using the results of research involving several major universities, it explains the rationale for CSEs and describes how these organizations have fared in Illinois, Iowa, Vermont and Wisconsin. The concluding section explores how the concept can be applied in rural communities facing long-term decline.*

## INTRODUCTION

Many smaller municipalities in Illinois, facing a slow post-recession recovery, have experienced population declines to levels below the threshold needed for certain private businesses, such as grocery stores and restaurants, to be viable. Others retain these businesses but have concerns that, due to growing online buying, changing demographics and the continued outmigration of residents, they will eventually close. Adding to the anxiety is the concern of a snowball effect: once core businesses close, the community's ability to attract and retain both residents and employers can be limited.

Communities working to retain these types of businesses often recognize that several trends work in their favor. Most notably, interest in "buying local" is growing; this means increased motivation for supporting local merchants, promoting local entrepreneurship and stabilizing current local business conditions are growing. Shuman (2012) and Cortese (2011) make the argument that communities can promote buying local by calling attention to the positive economic impact it has on the local economy. Similarly, when residents buy local products, rather than standardized merchandise made for mass distribution, they are helping to expand the market for local producers, and in many instances, providing consumers with higher-quality goods.

This article describes the experiences of small communities that have created Community Supported Enterprises (CSEs) to maintain access to goods and services considered essential to the quality of life. The analysis draws from a project funded by the North Central Regional Center for Rural Development

at Michigan State University. As part of this project, the Northern Illinois University (NIU) Center for Governmental Studies led an effort with extension services at both Michigan State University and the University of Wisconsin to gain perspective on these enterprises. The discussion begins with an explanation of the CSE concept and brief case studies, and concludes with ideas about how this concept could be applied more broadly in communities facing long term decline.

## **THE CONVERGING FORCES FACING SMALLER COMMUNITIES**

Many communities seeking to retain local businesses must grapple with the reality of gradual population declines. In 2010, almost 60% of Illinois' 849 municipalities with populations of less than 2,500 had fewer residents than during the previous decennial census. Nearly half of the 133 communities with populations between 2,500 and 5,000 at the time had similarly lost residents over this 10-year period. There are few indications that the trend has reversed.

Pending retirements of business owners also add to concerns about store closures. In many communities, these concerns are magnified by aging populations, which result in diminished mobility. This makes ready access to groceries, pharmacies and places to convene with other residents even more critical to a high quality of life.

At the same time, new communication platforms make it relatively easy for consumers to expand their knowledge of local producers, who often work on a small scale and sometimes only as an extended hobby. The growth of *Etsy*, *Pinterest*, and other web sites offering unique goods or services exemplify some of the shifts in consumer interests and preferences that are underway. The idiosyncratic character of local business can also promote tourism, especially among young adults and Baby Boomers who seek memorable experiences when buying goods or services.<sup>2</sup>

Communities can also take comfort in the fact that elderly long-term residents of small communities often have significant financial resources at their disposal and are willing to invest in preserving and rebuilding the viability of their community for themselves or for their families. Although perhaps not interested in or able to actively own, manage or volunteer at a business venture, they are interested in staying involved (perhaps on a limited basis if for no other reason than to socially engage with peers) in a worthwhile endeavor.

As a result of these converging forces, there are two main driving forces behind local investment in CSEs: the need to maintain access to essential local goods and services; and the desire to retain or enhance social capital in the community. Such motivations have triggered small groups of local investors to pool funds and invest in a business venture considered important to the future of the area (Walzer and Sandoval).

## **PRINCIPLES AND APPROACHES OF CSEs**

Community support for local businesses has existed for many years, but it has often had an impromptu character. Since the Great Recession and passage of the Jumpstart Our Business Startups Act (JOBS) in 2012, however, this support has become more pervasive and systematic. The JOBS Act and subsequent Security Exchange Commission rules made it easier for groups with less wealth to invest in businesses. The subsequent growth in the use of crowdfunding techniques (which can involve raising funds through the use of websites such as gofundme.com and kickstarter.com) enhance the ability of organized local groups to raise money for favorite local business ventures.

The CSEs described below involve active investment by local residents with a specific intent to start or continue an ongoing business viewed as crucial to the livability of the area. These financial investments are often relatively small and are used to leverage funds from financial institutions. However, the investments go beyond financial contributions, with residents also committing time and effort to participate in the business operations on an in-kind basis. This support lowers operating costs and involves residents directly in the success of the venture. The expected return to the financial investment is not always monetary; rather, the goal is to provide local access to basic services.

CSEs can take several forms. A Social Enterprise may involve an organized effort to accomplish a social purpose, e.g., minimizing the amount of construction material waste that goes to a landfill. In this example, a local group can organize a nonprofit that purchases construction waste and then operates a sales outlet where consumers can purchase and reuse the materials. While the organization uses a business to accomplish its ultimate purpose, the main intent is not necessarily to make a profit. Some initial investment was made to start the venture, but the main focus involves the social motivation.

A Community Supported Enterprise (or Community Supported Business) differs from a social enterprise insofar as the primary motivation is to provide a product or service as well as preserve or enhance social capital in the

community to strengthen its long-term viability. Community investors pool their funds, purchase a business venture and then patronize it to promote its success. Because investors are not expected to continue to make financial contributions to the venture (other than perhaps as customers), the CSE must be economically viable with a sound business model.

Organizations should be regarded by municipal officials as CSEs if they have three basic characteristics. First, they have a social motivation such as providing access to goods or services that are key to promoting social capital, which often involves engagement by residents. Second, although they are not always intended to provide a financial return to investors, they involve a business venture designed to be profitable and sustainable without continued subsidies. Third, they involve local voluntary investments of money and time from individuals who may or may not expect financial remuneration.

Recently, some businesses have appropriated the “CSE” term for various efforts to involve customers in business management decisions. For instance, a brewery with a membership club that selects the type of brew for the next month may claim to be a CSE on the basis that membership dues have been instrumental in shaping the product. However, such an endeavor would not qualify as a CSE using the definition previously provided, due to the fact that it lacks a clear social purpose.

## **NOTABLE EXAMPLES FROM FOUR STATES**

Communities interested in CSEs can benefit from considering brief case studies from Illinois, Iowa, Vermont and Wisconsin. A more detailed discussion of these enterprises is available in Walzer and Sandoval (2016) and Keyser (2015).

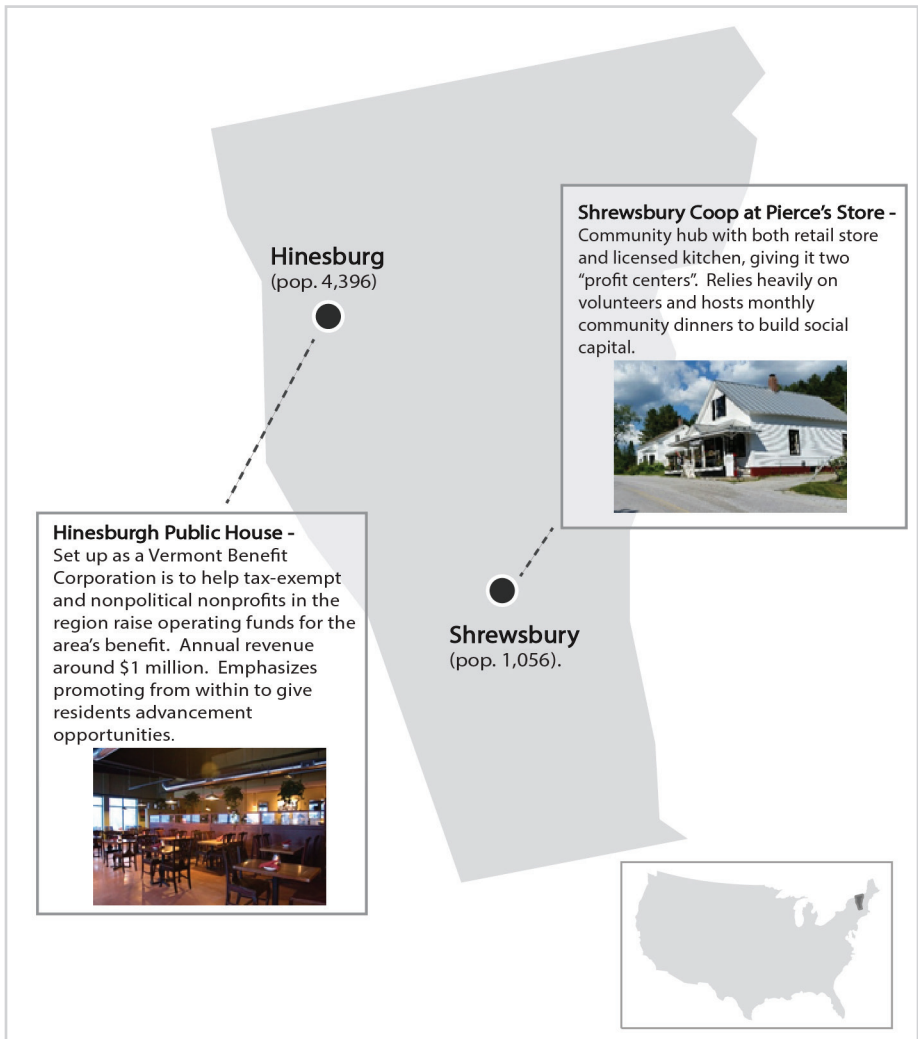
### **SHREWSBURY COOP AT PIERCE’S STORE, SHREWSBURY, VERMONT (POP. 1,056)**

A general store had been part of community life since 1865 and operated by the Pierce family since 1918. In 1993, however, the last surviving Pierce family member reached retirement age and closed the store. This caused considerable concern among residents, who now lacked both a convenient place to buy basic grocery items and a gathering place.<sup>3</sup> For generations in this remote community, the store had been the source of considerable social capital.

The Pierce family made bequests to the Preservation Trust of Vermont (PTV) to “draw the community together” while encouraging it to find ways to reopen the store and support other rural development strategies. The store had been

**FIGURE 1**

Notable Community Supported Enterprises in Vermont



closed for nearly a decade. A \$15,000 bequest in 2001 was sufficient to allow an operator to pay taxes and meet other expenses to reopen the store. In 2007, the PTV requested proposals from local groups to reopen the store in the building that had been vacant since 2001.

A local group responded and raised \$125,000 in contributions from area residents in amounts as little as \$25. The organizing group wanted to incur as little debt as possible. A feasibility study by a local small business development

center claimed that at least 325 patrons within three miles of the store had to spend an average of at least \$15 weekly to make the store viable. Using this information and other market research, the group formed the Shrewsbury Cooperative, and by June 2009, had sold 175 family memberships at \$25 per year. Members receive a 2% discount on purchases but no dividends, although the cooperative is open to anyone.

The business model involves selling products, including fresh meats, cheeses, vegetables, maple syrup and artisan crafts on consignment, mainly from the surrounding area. The store also contracts with a local baker to provide pastries. This approach not only strengthens local ties with townspeople and builds loyalty among patrons, but it also creates a unique shopping experience that attracts tourists and visitors. Tobacco and liquor products were initially not available but have recently been added.

Partly because of the specialized skills needed to operate this type of establishment, the store experienced some employee turnover. This turnover has been largely rectified, as the current operator is a local resident trained in business management practices and familiar with operating a cooperative. The business has also encountered marketing challenges. The cost of stocking merchandise is higher than that of competitors due to the lack of economies of scale in purchasing. This disadvantage, fortunately, is partially offset by coop members volunteering time, which lowers staffing costs. Such volunteerism also reinforces the community's commitment to the store and builds social capital.

According to interviews with store management, the store has not only remained competitive, it has at times achieved profit margins that exceed expectations. In addition, having a licensed kitchen in the store allows residents to make and market food products, giving it a second "profit center." Consideration is being given to hosting wine-tasting events, adding sliced meats and cheeses, and offering other specialized activities in the region. The store currently hosts monthly community dinners and is evaluating opportunities for purchasing adjoining facilities that would allow it to hold larger community events.

#### HINESBURGH PUBLIC HOUSE (HPH), HINESBURG, VERMONT (POP. 4,396)

In late 2012, two former Ben and Jerry's franchise employees started a community-supported restaurant at a former cheese-processing site in this community. This was legally set up as a Vermont Benefit Corporation to serve residents in nine surrounding communities, all of which were relatively small.

The intent was to provide healthy meals at a reasonable price and to build social capital in the region.

Many stakeholders, including local food producers, restaurant guests, the business' staff and employees, local community building organizations, area producers and investors, had an incentive to make the CSE succeed. Initially, two owners cumulatively invested \$250,000 and obtained a bank loan of \$100,000. They then pre-sold meals to the public for \$500 with an expected return in purchases of \$550 (a 10% return) with the ability to renew their subscription at a later time. The business has a five-member board of directors, and holds regular meetings with the stakeholders (i.e., the initial investors).

While the business must be profitable to survive, it is set up as a Vermont Benefit Corporation (an option under Vermont law that allows a for-profit corporation to incorporate a social mission with its financial goals). The organization's specific mission is to help tax-exempt and nonpolitical nonprofits in the region raise operating funds for the area's benefit. To this end, the HPH regularly hosts local events devoted to assisting these nonprofits, including hosting a monthly dinner with a special menu provided at a fixed price (\$20). A partnering local nonprofit receives half of the revenues generated from the event. These events provide opportunities for nonprofits to increase awareness of their services as well as promote healthy lifestyles. Another regular event, "Burger Night," features hamburgers that are sold at a reduced price for the benefit of low-income populations. Both of these events are built into the enterprise's marketing plan.

Having annual revenues of more than \$1 million, HPH is, by industry standards, profitable. Its business strategy involves managing the venture professionally while promoting staff from within, thereby giving area residents access to quality jobs and advancement opportunities. Management metrics and customer evaluations show that the restaurant is meeting its performance targets. By supporting many community organizations, the cooperative is seen as important to the creation of social capital.

#### SUPERVALU STORE, TOULON, ILLINOIS (POP. 1,292)

This enterprise came into being following the closing of the only grocery store in this community in late 2006. In response, four local leaders organized a community effort to create a replacement store that would preserve local access to essential items while also instilling a sense of community among residents. At the initial meeting, approximately 50 residents committed a total of \$30,000

to launch the process of purchasing the building and finding an operator. Subsequent efforts raised more than \$80,000, setting into motion the process of purchasing and renovating the store. Considering that the main objective was to provide local access to groceries and help stabilize the Toulon economy, these investors understood that they were not guaranteed any financial return.

The small size of the operation and management turnover delayed the path to profitability. In 2012, however, a store operator in neighboring Wyoming, Illinois, agreed to operate the grocery, which reduced the cost of merchandise (quantity discounts) purchased through the Super Valu grocery distribution franchise.

The SuperValu store, unfortunately, burned in 2014, forcing residents to decide if, or how, they could replace the store, preferably at the same location. At a community meeting, residents decided to replace and reopen the store at a cost not to exceed \$520,000. The necessary capital would be raised in several ways, including the proceeds from fire insurance and \$310,000 in Toulon Tax Increment Finance (TIF) funds paid over a 10-year period. In addition, there was a short-term bank loan, and investors contributed additional funds by buying shares in the venture.

After raising nearly \$500,000, the investment group rebuilt the store using as much local labor as possible. When the new facility reopened in March 2016, the operator had a \$500 monthly lease for the first six months, and then it increased to \$1,000 with a provision for the lease arrangements to be revisited in three years. The ultimate goal is to sell the business to the operator.

To promote local engagement, the store offers complimentary coffee and has a microwave in an area where groups can meet. Customers will find basic staples and numerous carry-out items as well as a small liquor department. Consideration has been given to establishing a delivery service to accommodate the community's aging population and large-group orders.

As in previous examples, an important motivation for this enterprise is to build on (or at least maintain) social capital that augments Toulon's quality of life. The involvement of residents in rebuilding, restocking and returning the store to operation brought the community together around a common goal. The store has been profitable thus far but, as with many small businesses, must compete with larger more established stores, which are particularly easy for the many Toulon residents working outside of the community to patronize. At the same time, the intent of Super Valu was never to provide access to a full



line of grocery items. Rather, it provides staples, a place where residents can congregate and an opportunity for residents to collaborate and invest in the future of their community.

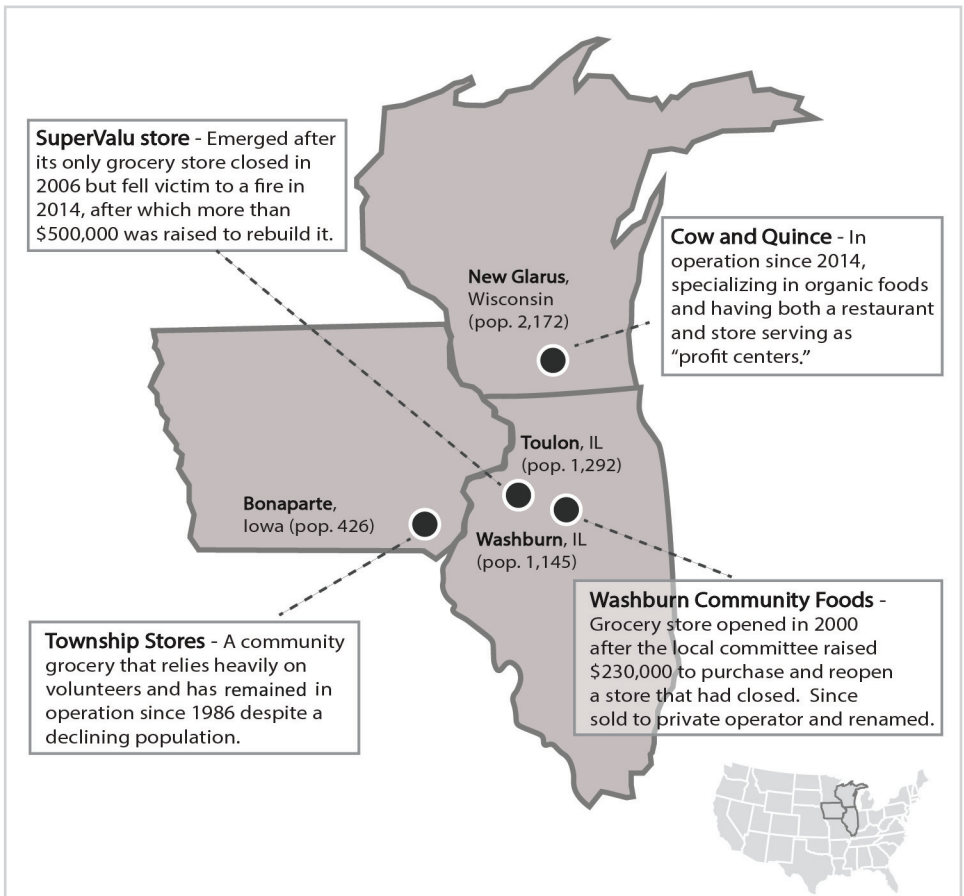
### WASHBURN COMMUNITY FOODS, WASHBURN, ILLINOIS (POP. 1,145)

When the owner of the grocery store in this community decided to close in early 2000, a group of residents organized a 16-member committee to consider the alternatives.<sup>4</sup> The decision was made to raise capital to buy the store from the owner and create a community corporation.

Shares were sold, starting at \$50, to community members and businesses, including a local bank, which bought \$10,000 in shares. Altogether, despite

## FIGURE 2

Examples of Community Supported Enterprises in Illinois, Iowa and Wisconsin



having no guarantee or expectation of a financial return, approximately 300 people, a majority of whom were local families, bought shares, raising \$230,000 for the store's purchase and reopening.

After Washburn Community Foods opened in late 2000, however, interest in the project gradually dwindled. In 2006, it was reorganized using the cooperative model, with annual memberships costing \$100 and members receiving 5% cash back on cooperative rebate cards. The cooperative had approximately 40 members, and the store had a paid manager plus several paid staff. In addition, volunteers from the community supported day-to-day activities such as stocking shelves, cleaning and unloading supplies. The volunteer hours could be used to buy memberships in the cooperative.

Despite bringing in locally produced goods and making home deliveries to offset the declining interest in the cooperative, the store barely broke even. Increased competition with retailers in surrounding communities and the high costs of stocking merchandise – a common problem for small operators – took their toll on the profit margin.

The store was then sold to a grocery store owner who briefly operated it before reselling it to the current owner, who has scaled back the inventory so that it has largely taken on the character of a convenience store. Part of the building is leased to a person who operates a café. The store's diminished role is partially attributable to the loss of several key employers in the community during this period. Although neither the goals nor the business approach were flawed, the relatively small size of the Washburn economy remains limiting, making a self-sustaining grocery store a difficult proposition.

## OTHER EXAMPLES FROM NEIGHBORING STATES

An example from neighboring Iowa also exemplifies the potential of following a CSE approach to finance local ventures (Walzer and Sandoval). One of the longer-running ventures is Township Stores in Bonaparte, Iowa (pop. 426), which has been in operation since 1986. Even though this rural community declined significantly in population, Township Stores continues to operate while grappling with the costs of maintaining freezers and other installations needed to stock certain types of merchandise. Nevertheless, it provides access to basic groceries and supplies for residents and, in recent years, several antique stores have located in Bonaparte, which should increase downtown traffic.

In New Glarus, Wisconsin (pop. 2,172), Cow and Quince specializes in organic foods raised in the surrounding area. This CSE-financed venture, which opened in 2014, seeks to provide healthy foods through both grocery and restaurant sales while also selling locally-made merchandise. The enterprise offers several membership options, with community members receiving a 10% discount and full members receiving a 15% discount. All are invited to an annual members' dinner as well as monthly prix fixe dinners that feature local and organic foods. Local producers can take some of their payments in trade, meaning that they receive credit for future meals or merchandise. As with other examples, a common feature is involvement and investment by residents, not purely for financial gain but also to promote community engagement, which is seen as a way to enhance social capital and the quality of life.

## **LESSONS LEARNED**

Local economic conditions certainly loom large over the performance of any business. Although the examples show that CSEs can succeed, no single business venture is likely to reverse the fortunes of a community or prevent long-term declines. In some instances, though, the CSE approach may be one of the few logical alternatives available to retain essential services.

Like other business ventures, CSEs cannot always anticipate adverse economic trends that may be on the horizon. As a result, it is important for these enterprises to be integrated into a broad economic development strategy. CSEs can be instrumental to helping a community achieve a wide range of social and economic goals that extend well beyond access to goods and services.

The review of CSE experiences in Illinois and in other states revealed several key factors that are important to success, some of which are common in most local-development initiatives while others are unique to particular communities.

1. Perhaps the most important factor contributing to successful CSE ventures is the identification of a crucial and viable local business enterprise around which local residents can organize. In small towns and sometimes in urban neighborhoods, grocery stores are obvious candidates for community support, but other types of enterprises, such as restaurants or gathering places, are also options. Crucial to these efforts is ensuring that the business venture is sustainable and financially viable, as well as effectively communicating its importance to the community.

At the same time, effective demand for the goods or service is the main determinant of success. Enough interested customers with the financial means to make the venture viable must be found. Although this is, of course, true for any potential business venture, one main difference is that the CSE business model typically involves local contributions of time in the daily operations of the venture to reduce operating costs, which, as previously noted, provide opportunities for social capital development. Likewise, the business venture can operate with a lower profit margin than a purely private business due to the patience of those involved in its financing.

2. By their nature, CSEs are unique local investment opportunities that require sound plans to educate and attract investors. While CSEs are not social enterprises with a mainly altruistic goal, some investors are willing to commit small amounts of funds in order to start or expand crucial local services without expecting financial return. The ability to obtain adequate financial investment depends partly on the business model used and how it is marketed to the community. Since CSEs can involve several different types of organizational structures, including LLCs, nonprofits and cooperatives, it is important that organizers correctly assess the potential of each model for use in a specific setting. Differences in tax treatment can be especially important for certain types of investors.

3. As with most local initiatives, the chances of success are higher when a local champion or leader is willing to spearhead the effort. In the case of CSEs, it is especially important that this person or group has credibility within the community and can convince investors of the soundness of the venture and its potential contributions to the area. Selecting and supporting this local champion is especially important for the credibility of the project.

4. The experiences of CSEs, especially those in Vermont, show the importance of access to technical assistance in addition to private and public financial support. A group of local investors is not likely to generate sufficient capital to launch an enterprise without additional support either from a state agency or local financial institutions. In Vermont, the Preservation Trust provides local groups with both technical assistance and financial support. In the other examples considered, however, most financing was arranged locally. Regardless, the institutions involved may offer financing on more favorable terms and accept lower returns but, in any event, it must still follow appropriate lending practices.

5. Since CSEs involve both human and financial investment, it is especially important to stay in touch with investors and offer continuing engagement opportunities to retain their commitment and keep operating costs low. Successful enterprises usually have multiple profit centers to maintain their economic viability. These may include marketing locally-produced products, hosting community dinners or related activities, and organizing community-wide events. In other words, “investors” in the project receive returns in several ways to ensure their continued involvement.

## **IMPLICATIONS FOR ILLINOIS**

CSEs are not proposed as a panacea for small or declining areas. At the same time, experience demonstrates that, under the right conditions, CSEs can offer ways to retain or improve the residents’ quality of life. While no one would claim that the CSE approach is anything more than one part of a broader local-development or enhancement strategy, it provides a low-cost and low-risk opportunity to directly engage residents in investing in a place where they may have lived for a long time. Thus, small towns may be in a position to help stabilize populations, engage retired residents and raise funds to help make their communities more attractive to potential incoming residents along with enhancing their attractiveness for tourists.

Although the main impetus can, and should, come from residents, experiences in Vermont show the importance of state or regional involvement in providing expertise, guidance, and in some instances, loans or seed money for specific ventures. In Illinois, a variety of agencies are also available to guide and lend support to local initiatives such as those described here. For instance, the Illinois Ventures for Community Action is a not-for-profit organization of community-action agencies that invests in projects that can reduce poverty. Improving the quality of life and building social capital in rural communities can help stimulate local investment opportunities and create jobs that align well with poverty reduction.

Our research revealed no apparent reason why a CSE approach cannot be used to finance agencies that provide human or social services. For instance, funding a building or organization that provided part-time medical and counseling services might help a small community currently without those services. The time to find new ways of sharing these types of expertise is here.

Many parts of rural Illinois with long-term population declines must find and try new approaches to community and economic development. Certainly,

attracting large employers and promoting local entrepreneurship are crucial, but it is also important to find ways in which residents can collaborate and invest to make their community a better place to live and work. Some local groups have found the CSE approach a useful tool toward that end.

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*Norman Walzer is Senior Research Scholar in the Center for Governmental Studies at Northern Illinois University and directed the CSE project.*

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<sup>2</sup> Tourism in Illinois has increased substantially and is now a significant source of local revenues in rural areas blessed with natural resources and creative residents but without a large industrial base.

<sup>3</sup> For more information on the Pierce Store, refer to <http://www.piercesstorevt.com/contact.us.html>.

<sup>4</sup> For more information on this organization, refer to <http://washburnillinois.org/resources.html>.

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