



grow

YOUR OWN GUIDE

ENTREPRENEURSHIP-BASED ECONOMIC DEVELOPMENT

federal reserve bank of kansas city

Foreword

THE FEDERAL RESERVE BANK of KANSAS CITY serves the seven states of the Tenth Federal Reserve District, which include Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri. As the regional headquarters of the nation's central bank, the Kansas City Fed participates in setting national monetary policy, supervises and regulates financial institutions, maintains stability of the payment system, and provides financial services to banks and other depository institutions.

To succeed in each of these mission areas, the Federal Reserve relies on numerous resources, ranging from the most current economic and banking data to the analysis and expertise of its staff. One of the Federal Reserve's resources is its Community Development function, created in the 1980s following Congress' approval of the Community Reinvestment Act.

Community Development professionals take policymakers to the front lines of community issues through a range of initiatives, including forums, conferences, directed research and advisory councils. These initiatives position the central bank to respond effectively to emerging economic developments, long-term needs and new challenges confronting rural and urban low- and moderate-income communities.

The Kansas City Fed's Community Development department focuses its research, resources and programming on five primary areas: community development investments, financial stability for the underserved, neighborhood stabilization, workforce development and small business development. The Kansas City Fed understands the vital role small businesses play in growing the economy by providing jobs, building communities and being key innovators of new technology and processes. This guide was developed to assist communities throughout the Tenth District and across the nation explore the benefits of a *grow your own* approach to economic development.



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WHAT IS GROW YOUR OWN?

Grow your own is an umbrella term for economic development models that use entrepreneurship and small business development as the tool to create local economic growth. The most familiar *grow your own* strategy is the economic gardening model that emerged in the late 1980s.

THE GOAL OF ECONOMIC DEVELOPMENT PROGRAMS

- Create Jobs
- Retain Jobs
- Grow Economies
- Improve Quality of Life

Grow your own is a ground up, community-based approach to economic development. Instead of putting resources into economic development strategies that reach outside of the community, it focuses resources on existing community strengths, small businesses and developing job-creating entrepreneurs. Communities using a *grow your own* strategy develop policies and activities to spur innovation, entrepreneurship and local business growth.

Both the traditional and *grow your own* models start with a basic question, but the question itself is very different. The traditional model asks what will attract large companies, corporate divisions or plants to a community. The *grow your own* model seeks to answer what entrepreneurs and small business owners need to start and grow to a sufficient scale to make a significant economic impact.

	TRADITIONAL MODEL	GROW YOUR OWN MODEL
Area of Focus	Bringing in outside corporate offices and plants	Building on local strengths, small business and entrepreneurs
Job Focus	Seeks to create a few big wins by bringing in companies to the community that provide many jobs	Seeks to create many small wins that achieve big job and community results over time
Resource Focus	Marketing and recruiting	Supporting entrepreneurs, innovation and access to markets
Policy Focus	Tax incentives, affordable land, discounted financing, retention of major companies	Developing support resources, creating a competitive environment, creating capital and credit pools
Model Strength	Attracting one major company can create many jobs at once	Building local businesses creates a stronger community and long-term stability

THE FIRST SPROUT OF ECONOMIC GARDENING

Facing a recession in 1987, Littleton, Colorado, recognized the challenge of recruiting companies to their town. This led Chris Gibbons, then director of economic development for Littleton, and Jim Woods, Littleton city manager, to search for a more effective economic development strategy. Using research by David Birch at the Massachusetts Institute of Technology that showed that small businesses created the majority of new jobs, they created the economic gardening model that officially launched in 1989. Their model focused on companies with 10-99 employees, also known as Stage 2 companies. The new model also eliminated the incentives for recruiting large companies. Littleton improved their community's economy greatly using this approach. Other communities soon began to use Littleton as a model of economic development. Since then, the *grow your own* movement has rapidly become a respected model of development.

For more information on Littleton visit www.littletongov.org/bia/economicgardening.

WHY A GROW YOUR OWN STRATEGY?

There are differing opinions about the economic value of using incentives, a core piece of the traditional model. State governments spend an estimated \$50 billion each year on economic development incentives with limited evidence that the practice is effective.¹ Research from the Federal Reserve Bank of Kansas City suggests that focusing on the growth of existing small businesses and entrepreneurs can be a more productive and cost-effective strategy than recruitment of new businesses.²

States spend an estimated \$50 billion on economic development incentives each year. A grow your own strategy can reduce job creation cost significantly.

BENEFITS OF A GROW YOUR OWN STRATEGY

Benefits of a *grow your own* strategy stem from its entrepreneurship focus.

Job Creation

Developing entrepreneurs and growing small businesses are two of the most effective tools to create jobs. Small business owners create the majority of all net new jobs in the United States.

While the Small Business Administration considers any businesses with less than 500 employees a small business, many *grow your own* economic developers focus on the development of much smaller businesses, known as Stage 1 and Stage 2 companies. These two stages include companies that employ 0 to 99 employees and represent 98 percent of all firms.

Stage 2 businesses, which have 10 to 99 employees, represent 8 percent of all businesses and provide close to 35 percent of jobs nationally.³ Between 1998 and 2008, these companies were responsible for the creation of an estimated 2 million jobs, while large companies lost 3.7 million jobs.⁴

SMALL BUSINESSES

- Represent 99.7 percent of all employer firms
- Employ half of all private sector employees
- Pay 44 percent of total U.S. private payroll

NUMBER OF FIRMS BY EMPLOYMENT SIZE

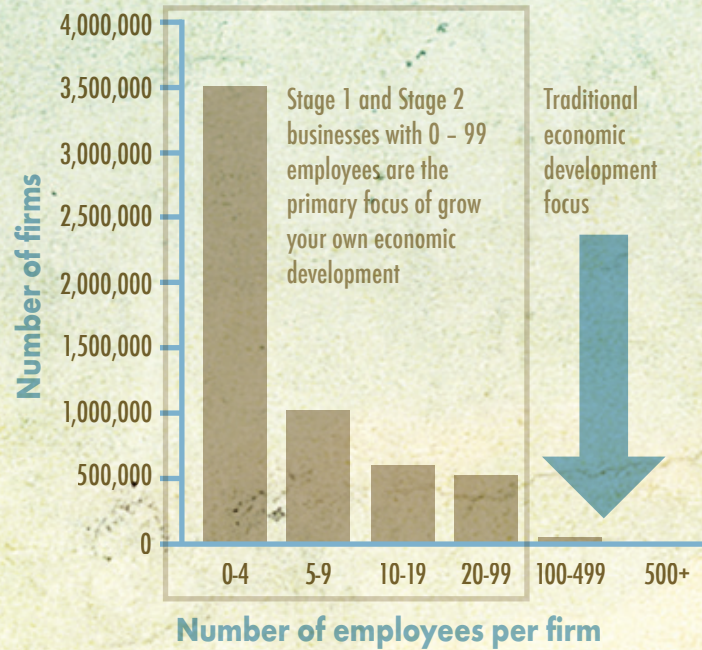


Figure 1 - Source: U.S. Census - Statistics of Business

Economic Growth

By forming new firms and creating jobs, entrepreneurs and small business owners create economic growth. Nations with more entrepreneurship have a higher gross domestic product. The same is true at the regional and local level. Entrepreneurship helps raise incomes and improve the quality of life of citizens.⁵ Research has demonstrated that regions and local economies with strong entrepreneurship bases achieve faster and more sustainable economic growth.⁶

1) Peters, A., & Fisher, P. (2004). "The Failure of Economic Development Incentives." *Journal of the American Planning Association*, 70(Winter), pp. 27-37.

2) Edmiston, K. (2007). "The Role of Small and Large Business in Economic Development." *Economic Review*, Federal Reserve Bank of Kansas City. Second Quarter. <http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/2q07edmi.pdf>

3) McFarland, C., & Kathleen, M. C. (2010). "Small Business Growth During a Recession: Local Policy Implications." *Federal Reserve Bank of Atlanta Conference on Small Business, Entrepreneurship and Economic Recovery*, October 26-27. http://www.frbatlanta.org/documents/news/conferences/10smallbusiness_mcfarland.pdf.

4) McCabe, L., & Schroeder, T. (2011). "Are You Ready to Be Gardened?" *Small Business Association of Michigan*, pp. 7-8.

5) Henderson, J. (2002). *Building the Rural Economy with High-Growth Entrepreneurs*. *Economic Review*, Federal Reserve Bank of Kansas City. Third Quarter, <http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/3q02hend.pdf>

6) Barth, J. R., Yago, G., & Zeidman, B. (2006). "Stumbling Blocks to Entrepreneurship in Low- and Moderate-Income Communities." *Proceedings - Community Affairs Dept. Conferences*, Federal Reserve Bank of Kansas City, issue Jul, pp. 91-155.

Social Impact

Entrepreneurs serve a critical role in the social development of communities, especially in rural areas and the urban core of inner cities. Entrepreneurs are committed to their community's long-term growth and viability. Local entrepreneurs are likely to remain in their community and be committed to philanthropy and community service.⁷

Bringing People Back to Communities

One of the greatest challenges to rural areas and urban core inner cities is the loss of talented, educated youth to other cities or the suburbs due to the perceived lack of opportunity. The *grow your own* model can provide an effective way to reduce population decline and brain drain by creating an environment that supports entrepreneurship and increases business opportunities.

1990 TO 2010 PERCENTAGE CHANGE OF TOTAL US POPULATION BY COMMUNITY SIZE

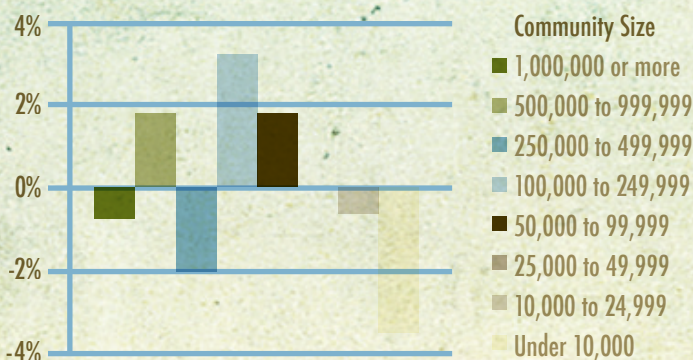


Figure 2 - Source: US Census Bureau - The 2012 Statistical Abstract

BRING GROW YOUR OWN TO YOUR COMMUNITY

Implementing and following a *grow your own* approach to economic development requires a long-term view of achieving economic stability and growth. The following are important considerations for putting a *grow your own* development strategy into practice.

*"It is a long-term strategy. It is not a fad diet; it is a lifestyle change. It takes a while to put the infrastructure in place and to get to a scale large enough to make a difference. It also takes a while for a company to start to grow and add jobs. However, with patience and commitment it has proven to be a viable alternative to the traditional practices of economic development."*¹

Chris Gibbons, founder of economic gardening

1) Gibbons, C. (2012). "Economic Gardening." *Economic Development Journal*, 9 (3), pp 5-11.

7) Henderson, J. (2002). Building the Rural Economy with High-Growth Entrepreneurs. *Economic Review*, Federal Reserve Bank of Kansas City. Third Quarter, <http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/3q02hend.pdf>

8) International City/County Management Association. (2010). "Seven Steps to Developing an Economic Gardening Implementation Strategy." *Local Government Matters*. International City/County Management Association.

9) Edward Lowe Foundation. (2012). "Economic Gardening: An Entrepreneur-Oriented Approach to Economic Prosperity." <http://edwardlowe.org/edlowenetwp/wp-content/themes/implementprogram/downloads/infosheets/EconomicGardening.pdf>

Gain Support for a Grow Your Own Strategy

Community-wide commitment is essential to establishing a successful *grow your own* strategy.⁸ This is especially true because, at times, the *grow your own* approach may not be as flashy as the traditional economic development model. When successful, the traditional model can provide vivid and public victories, such as during a ribbon cutting at a major factory or a news announcement of hundreds of new jobs for the community. Local officials and stakeholders must understand and be committed to the model for the long haul. They must recognize that growing small businesses within the community will take time but can result in long-term economic growth.

Key stakeholders include local economic development board members, policy makers, philanthropic leaders, existing key business owners, and other people of influence in the community.

Assess the Current Condition

Perform a comprehensive assessment of the local community's economic condition to uncover opportunities, as well as challenges, to implementing a *grow your own* strategy. Some key areas to evaluate include the number, size and types of businesses in the community, key local and regional industry clusters, workforce data, availability of industrial, retail or office space, community demographics and local amenities. Additionally, consider evaluating comparative communities as well as the various *grow your own* approaches.

Identify and Communicate with Targeted Businesses

Because of their job creating potential, the most popular business targets of *grow your own* strategies are Stage 2 companies. With 10 to 99 employees, Stage 2 companies can generate about \$1 million to \$50 million in annual revenue.⁹

Since *grow your own* considers quality of life in addition to the development of jobs, some communities also include businesses other than Stage 2 companies in their strategy. This provides support for both growth companies as well as local companies that create community identity and culture.

A *grow your own* strategy cannot succeed if potential clients are not aware of the programs that exist within it. For this reason, marketing of the program to potential businesses, as well as the community, should begin as soon as the program is ready to implement.

Coordinate the Service Delivery Process

When it is time to implement the programs within a *grow your own* strategy, it is important that the delivery methods of the program are created with the business owners in mind. Because many businesses require just-in-time assistance, the ability of the community to coordinate and centralize key services is vital. Developing one-stop shops, referral systems and easy access to data, resources, training and individuals is essential to an effective *grow your own* strategy.

Measure the Strategy

A measurement process is critical to determining business growth, employment growth, economic growth and other success factors of a *grow your own* economic development plan. Ongoing assessment is necessary to receive feedback on the effectiveness of the strategy, as well as insight into potential service gaps, areas for adjustments or additional opportunities for growth. In addition, the measurement process can provide justification for the *grow your own* strategy, further supporting the initiative.

Create an Entrepreneurship Ecosystem

Grow your own developers have borrowed the term ecosystem from biology to illustrate the interaction and coordination necessary to instill and support a successfully growing entrepreneur community. Many communities make the mistake of choosing a single entrepreneurship program as the mechanism to spur all entrepreneurship and small business growth in the community. The reality is that successful *grow your own* models require a diversity of programs, networks and relationships to create a thriving small business climate and community.

An ecosystem is a system in a defined area, such as a community, in which all the pieces supportively interact together to keep the community healthy and growing.

Successful environments serve the needs of entrepreneurs at all levels; from the small coffee shop on Main Street to the growing technology company. Developing a community that believes in small business growth fosters innovation and encourages business investment, which is essential to creating a vibrant small business economy.



ELEMENTS OF AN ENTREPRENEURSHIP ECOSYSTEM

FEATURE	PURPOSE
Banks	Banks are the primary source of small business credit in local communities. Banks provide entrepreneurs with information, credit and help advise business owners on appropriate credit management for growth.
Chambers of Commerce	The primary goal of chambers of commerce is to increase business and economic development. They provide networking, information on local business trends and the economy and work to create business opportunities for local businesses.
Coaching & Consulting	Business coaches and consultants support small business owners and provide information and advice specific to the size and type of businesses they are working with.
Community Colleges & Universities	Community colleges and universities provide research, education and training for local entrepreneurs. Many universities now have entrepreneurship programs and business programs to provide high-level education to small business owners.
GIS Mapping	GIS mapping provides businesses with specialized maps that show demographic, market and other data to help the owner determine profitable markets and locations.
Government Agencies	Many government agencies focus on the development of local businesses. Two of these agencies are the United States Small Business Administration (SBA) and the United States Department of Agriculture. Both of these agencies provide loan support and training to local business owners.
Incubator Space	Incubator space provides entrepreneurs with low cost, shared space, which provides a variety of shared support services and resources such as administration, accounting and marketing.
K-12 Education	Many communities are adding entrepreneurship courses to the public school curriculum. This curriculum aims to create a future pipeline of local small business owners.
Libraries	Local libraries are rapidly growing as a support tool for small business owners. Librarians can provide marketing research, business data, industry analysis and other forms of research for entrepreneurs.
Major Companies	Major companies can provide access to their supply chain opportunities, supplier development training and provide networking and support opportunities to local business owners.
Market Research Support	One of the primary features of grow your own strategies is market data and research. Programs that support entrepreneurs in this fashion provide just-in-time market research to help local business owners understand and access new markets.

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ELEMENTS OF AN ENTREPRENEURSHIP ECOSYSTEM *continued*

FEATURE	PURPOSE
Micro-Finance Lenders	Micro-finance lenders are non-traditional credit sources for small business owners. These funds generally are less than \$50,000 and fund businesses that grow in disadvantaged communities.
Non-Profit Support Agencies	There are many non-profit agencies that exist exclusively to support small businesses. These organizations typically provide education, training and consulting to new small business owners.
State & Local Economic Development Agencies	State and local economic development agencies help small business owners access government incentive programs, provide data and research and help small business owners export their products outside of the state.
Support Professionals	Accountants, bankers, attorneys and other support professionals can provide key information and support for entrepreneurs.
Technical Assistance	Technical assistance providers offer support to small business owners in key aspects of their business such as accounting, marketing, operation design, inventory management and other needed areas.
Trade Groups	Trade groups create industry-specific support groups that help business owners improve industry knowledge, increase awareness of business opportunities and create partnering possibilities.
Utility Companies	Utility companies have increasingly played a role in local economic development. Many of these companies have economic development divisions that support local business growth.
Venture Capitalist	Venture capitalist and angel investors seek to create local business growth by investing in local businesses that can provide a good return on investment.

For additional information on grow your own, including information and links to programs and communities practicing entrepreneurship-based economic development, visit www.kansascityfed.org/community/resources.

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