



Community-owned Businesses: HOW COMMUNITIES BEC

Throughout the nation, in a movement too small to be called a trend, engaged community members are organizing themselves in new ways to become community entrepreneurs. Often motivated more by mission than capitalistic ambition, community groups are opening new businesses.

By Joshua Bloom

COME ENTREPRENEURS





Community-owned businesses differ from traditional businesses in that they are motivated by a *purpose*. They usually arise to fill a void where the marketplace is too slow to act on its own, or the risks appear too high (think decayed downtown). Founders of community-owned businesses don't just see an opportunity that the market failed to see, but in times when capital for funding new ideas is scarce, they can give life to new business ideas. In many ways, a community-owned business is the same as any other mercantile endeavor: it must satisfy a market need and it must offer the potential to generate a profit.

They are a tiny niche among alternative ownership structures, yet community-owned businesses span a wide range, from a doughnut shop in Clare, Michigan, to the Green Bay Packers. (More on the doughnut shop in a minute.) Did you know that the Green Bay Packers, after an informal start, were financed by a group of Green Bay small businesses? The Packers (named after the Indian Packing Company, where they played their early games) established themselves as a nonprofit corporation in 1923 and the franchise remains so today. The ownership structure, with shares sold as non-appreciating investments in a community corporation, means the Packers can never leave Green Bay, Wisconsin. (If the team is sold, all of the money must go to charity, leaving the shareholders with nothing.) As a city of 100,000, Green Bay is by far the smallest market among professional football teams.

Any viable business begins with a market opportunity. (Despite Green Bay's size, the Packers have a season-tickets waiting list of 81,000 people.) When that need isn't recognized by traditional investors or entrepreneurs, or is seen as having too much risk, the community-owned model presents an alternative path to business development. And, in disinvested commercial districts, a community-owned business can prove to the market that a good idea can be profitable.

Community-owned businesses fall into four broad categories:

- **COOPERATIVE:** A *communally* owned and managed business, operated for the benefit of its members;
- **COMMUNITY-OWNED CORPORATION:** A traditional, for-profit corporation that integrates social enterprise principles;
- **SMALL OWNERSHIP GROUP:** A small, ad-

hoc investor group that capitalizes and/or operates a business as a partnership or closely held corporation; and

- **INVESTMENT FUND:** A community-based fund that invests debt or equity in local business ventures.

Cooperatives

PCC Natural Markets (formerly Puget Consumers Co-op) started in 1953 as a food-buying club for 15 families in the Seattle area. Today, it is the largest consumer-owned natural food cooperative in the United States, with nine stores and 40,000 members. As with many cooperative groceries, it formed to provide a consumer option not available from traditional supermarkets. Co-op grocers used to have the natural and organic foods category virtually to themselves. Today, they compete with Whole Foods, traditional supermarkets, and even Wal-Mart, all of which offer natural and organic foods – either exclusively (Whole Foods) or in addition to their standard grocery lines.

PCC Natural Markets is the largest in the category, but co-op markets come in every size, with different motivations, and with different consumer markets. Local citizens founded Township Grocery in Bonaparte, Iowa (pop. 458), in 1986 to offer a local grocery option after the town's general store closed.

In many ways, cooperatives are the essence of a community-owned business. Cooperatives are democratic organizations where each member has an equal vote, and they typically operate as not-for-profit businesses. (Unlike a typical nonprofit, co-ops often distribute surplus revenues as "patronage dividends" to members.) From their origins to modern co-op enterprises,

and from rural electric co-ops to grocery co-ops, they embrace socially progressive ideals to use the power of the marketplace to meet an under-served need.

Cooperatives are a special breed of corporation and most states have statutes governing them. (State statutes regulating cooperatives differ from place to place and may not apply to the type of cooperative you are considering.) The concept of a cooperative – people organizing a business activity for their mutual benefit – is ancient. But most histories credit the modern cooperative model to the Rochdale Society of Equitable Pioneers, a consumer cooperative founded in England in 1844 by a group of hand weavers who found themselves unable to afford basic food items during the Industrial Revolution. They created the Rochdale Principles, which first codified the philosophy behind modern cooperatives. The principles promulgated by the International Cooperative Alliance, the National Cooperative Business Association, and others, though slightly modified and expanded over the last 150 years, derive directly from the Rochdale experiment.

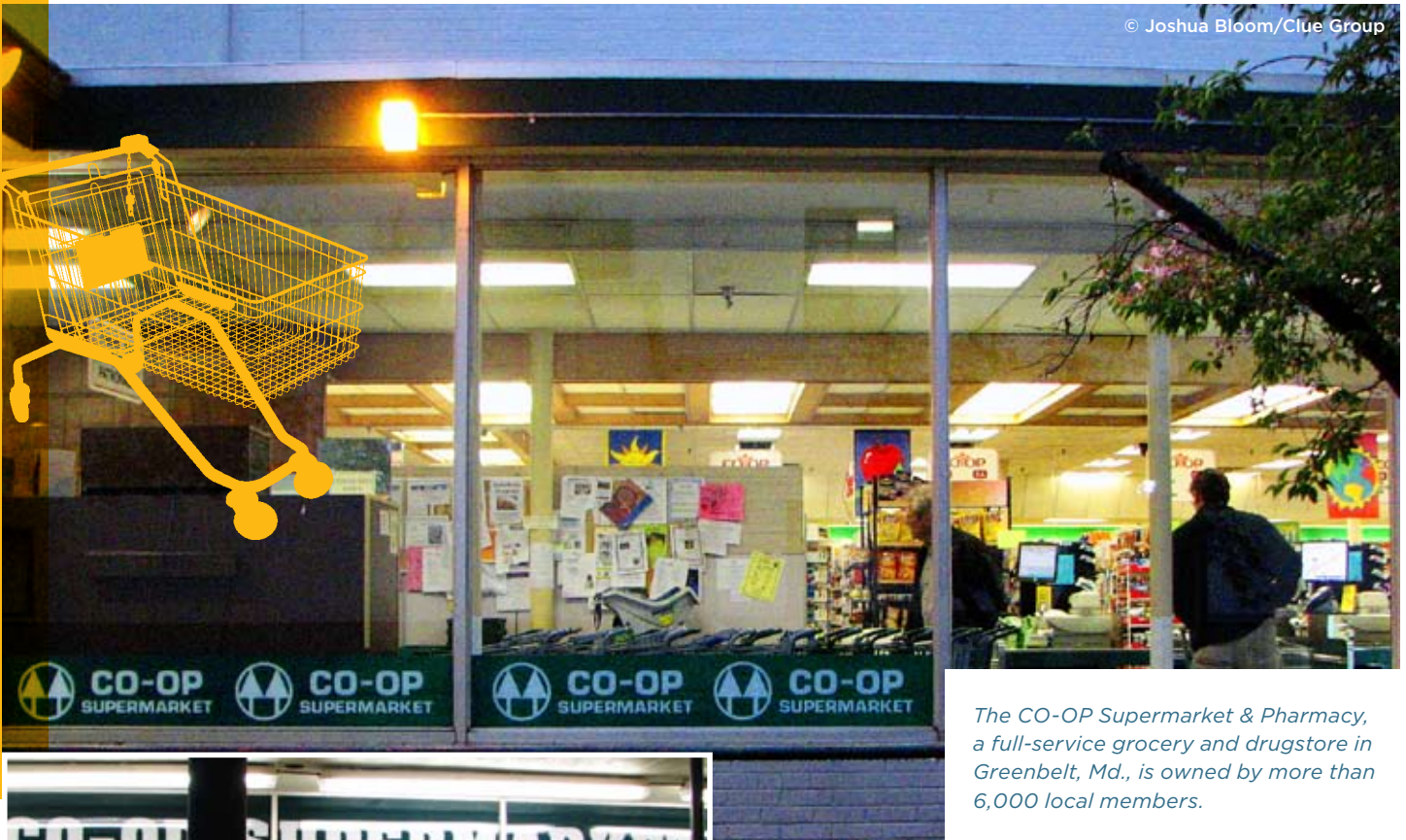
Principles of Cooperative Businesses

According to the International Cooperative Alliance, "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise." The original Rochdale Principles were based on the following ideas:

1. Open Membership
2. Democratic Control
3. Dividend on Purchase
4. Limited Interest on Capital
5. Political and Religious Neutrality
6. Cash Trading
7. Promotion of Education

The principles have been expanded slightly over the past 150 years to include reinvestment in the cooperative, sustainable development, and a responsibility to strengthen the cooperative movement as a whole.

For more information about cooperative principles, visit www.ica.coop.



The CO-OP Supermarket & Pharmacy, a full-service grocery and drugstore in Greenbelt, Md., is owned by more than 6,000 local members.



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some cooperatives have created different classes of shares. These vary from business to business, but they may include “annual members,” who pay a yearly fee but are not owners, and “equity members,” who make a larger investment. In addition, some co-ops issue

“preferred shares” to outside investors. These shares allow a larger investment than a standard equity share (and may pay a small annual return), but may come with restrictions on voting rights. At the core, the co-op model strives to preserve an egalitarian structure.

Co-ops in the Main Street universe generally take one of four forms:

- **CONSUMER (OR RETAIL) COOPERATIVES** (e.g., grocery stores) sell retail goods or services to their members. In practice, many consumer cooperatives today allow anyone to be a customer, but they provide certain benefits (such as voting and patronage dividends) only to members. A consumer

cooperative often hires professional management, although in some cases members serve as a supplemental workforce.

- **WORKER COOPERATIVES** are owned and operated by the owners of the business. There is no professional management, and the workforce consists primarily of the owners. All owners are equal and they usually run the business through a democratic or consensus process.

- **PURCHASING COOPERATIVES** allow member businesses to aggregate their buying power. By acting as a wholesaler, they often form the support structure that allows many modern retail cooperatives to exist. In addition, they may provide marketing and financing assistance to their member businesses. For example, the National Cooperative Grocers Association is a “co-op of co-ops,” serving cooperative grocery stores. TrueServ is a buying cooperative that serves as a wholesaler and brand manager for independently owned True Value hardware stores (each of which is a member of TrueServ).

- **PRODUCER COOPERATIVES** unify individual manufacturers or producers to give them access to larger wholesale and retail markets. They are common in agriculture (e.g., in the citrus and milk industries), but also exist among artisans and other makers of goods.

In a cooperative, there are no outside investors and, usually, every member owns an equal share – an equity investment in the corporation. A share generally entitles the member to voting privileges and patronage dividends, but shares do not increase in value like other investments. (Depending on the co-op’s own governing rules, a member may be able to redeem his or her shares, although there may be timing or other restrictions on redemptions.)

The “one member, one share” structure can limit the capital a cooperative can raise. If, for example, shares cost \$100, the co-op would have to sell 10,000 shares to capitalize a new \$1 million grocery store. In order to make it easier to raise capital,



Examples of Cooperative Businesses

While cooperatives may serve different membership types, each fills an unmet market need.

CONSUMER COOPERATIVES: In addition to PCC Natural Markets in Seattle and Township Grocery in Bonaparte, there are hundreds of food co-ops across the country, many responding to consumers' interests in sustainable supply chains and innovative ap-

proaches to how we buy and consume food.

The Park Slope Food Coop in Brooklyn strives to source all its grown and raised food within a 200-mile radius of New York City during the growing season, and within 500 miles at other times of the year. Weavers Way Co-op, with two locations in Philadelphia, has taken "local" one step further: it operates an urban farm in Philadelphia from which it gathers and sells produce. (Consumer-based grocery cooperatives can even benefit traditional farmers. As the "locavore" movement grows, grocery co-ops can foster more predictable demand for products than other direct-to-consumer channels such as farm stands and farmers markets.)

The Mercantile ("The Merc"), in downtown Powell, Wyoming, is a cooperatively owned department store that was created by community members after a downtown anchor business closed. It was inspired by two other community-owned clothing stores in nearby Montana:

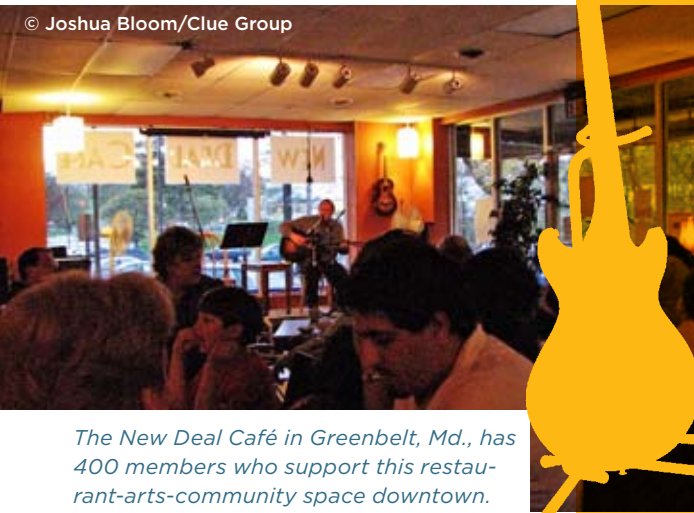
Little Muddy Dry Goods in Plentywood, and Family Matters in Malta. See "The Merc" sidebar below for more details.

The Harvard Coop ("The Coop") was founded in 1882 by a group of Harvard students to sell merchandise to the academic community at competitive prices. While anyone can shop there today, membership is open only to the Harvard and MIT student, staff, and faculty communities. Membership still costs \$1 – the same as it did in 1882. Last year, The Coop returned a hefty 7-percent patronage dividend to its members, as a proportion of their individual purchases.

Responding to the need for a downtown café and community space, the New Deal Café in downtown Greenbelt, Maryland, operates as a restaurant, music performance venue, art exhibition space, and gathering spot. Appropriately enough, Greenbelt was founded as a utopian, cooperative residential community during the New Deal era. The Café, which got its start in 1995, was originally operated entirely by volunteers. It now has professional management. Its 400 members buy shares at \$50 and renew annually at \$15.



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The New Deal Café in Greenbelt, Md., has 400 members who support this restaurant-arts-community space downtown.



The Merc

The Merc in Powell, Wyoming, opened in 2002 with a goal of offering basic clothing to fill the needs of the rural area's residents. Powell's population was 5,373 in 2000, but the store serves several small towns with a combined population of about 25,000 people.

Sharon Earhart was one of the early leaders. She recalls the organizing committee meeting every week during the start-up phase. Their business plan required \$400,000 in capital, and the committee decided to raise it in \$500 increments. They looked at the business model in Plentywood, Montana, which had priced shares at \$10,000, but Powell wanted to sell its shares at a more accessible price. Still, \$500 was out of reach for some. Earhart said some of the committee's most gratifying moments came when community members pooled their resources to buy a single share, or when one retiree withdrew savings to buy a share so he could help create a future for his grandchildren and his community.

The board threw fund-raising parties and set up speaking engagements in front of every possible community organization, from students groups to farmers. Since it opened, The Merc has paid one dividend to its member owners and anticipates being able to do so again.

Today, The Merc is governed by a five-member board and is operated by a paid general manager. Volunteers help out occasionally, particularly with gift wrapping during the holiday season. The store has deviated only slightly from its original plan, including adding athletic footwear a few years ago.

The store's manager, Paul Ramos, reports he still uses a revolving portion of The Merc's original capital to purchase inventory. (The business has never had to borrow.) Three years ago, with the help of a grant from the Wyoming Business Council, The Merc doubled in size, acquiring a 7,000 square-foot former drug store next door. While the store is affected to some extent by the broader economy, and by Walmart 22 miles away, Ramos says, its fortunes are more directly linked to the cycles of the area's agricultural industries.



WORKER COOPERATIVES: The Moosewood Restaurant in downtown Ithaca, New York, quickly became one of the most renown vegetarian restaurants in the country when it was founded in 1973. Operated as a “collective” (Moosewood’s term), its 19 worker-owners manage the business and cook in the kitchen, and together they have published 12 cookbooks. (The cookbooks are all authored by “The Moosewood Collective.”)

The Bicycle Kitchen in Los Angeles and the Bike Kitchen Coop in San Francisco are volunteer-run bicycle repair shops. They don’t sell bikes. They don’t even fix bikes. They teach members how to fix their own bikes, and the co-ops provide the tools and space to do it.

A few antiques marts around the country provide retail space to independent vendors in a managed “mall,” but allow the vendors to help with the sales counter, cleaning, and inventory management in lieu of paying rent.

PURCHASING COOPERATIVES: TruServ and Ace Hardware are purchasing cooperatives that serve thousands of independently owned True Value and Ace Hardware member retailers. The Independent Purchasing Cooperative, owned by Subway restaurant franchisees, was organized to buy supplies and services for its member owners; and the United Foodservice Purchasing Co-op provides a similar service to franchisees

“Cooperatives vary widely as a species, both in type and scale. But they all embody similar ideals or aspirations: to serve their members in an egalitarian system.”

of Yum! Brands restaurants (A&W, KFC, Long John Silver’s, Pizza Hut, and Taco Bell). In all of these cases, the member businesses believed they could reduce their inventory costs by acting together.

The National Cooperative Grocers Association assists its members with marketing, operations, and purchasing. Food Co-op 500 is a national organization that helps communities organize and launch grocery cooperatives.

Another example is the Bike Cooperative (formerly Mobeus and the Biking Solution) which provides financing, marketing, credit card processing, and private-label bicycle products to independent bicycle shops, helping them compete against larger, more powerful retailers.



The C'Ville Arts Cooperative Gallery in Charlottesville, Va., is an artisan-owned and operated shop that returns a higher percentage of sales to artists than most galleries.

PRODUCER COOPERATIVES: The C'Ville Arts Cooperative Gallery in Charlottesville, Virginia, is an artisan-owned and operated retail business in downtown Charlottesville, with membership by juried application. The co-op creates a retail venue for producers to sell their wares, and it returns 92 percent of actual sales to the artisans – a much higher rate than traditional galleries.

In a variation on the “producer cooperative” concept, the Independent Restaurant Collaborative in Colorado Springs, Colorado, provides group marketing for member independent restaurants.

For additional examples of cooperative businesses, visit communitybusinesses.blogspot.com.

How a cooperative is incorporated may confer some benefits or impose some restrictions on its operation, depending on state laws. But it’s really the cooperative’s governance documents (e.g., articles of incorporation, membership agreements, and bylaws) that determine how a cooperative operates and the benefits and obligations of its members. Cooperatives vary widely as a species, both in type and scale. But they all embody similar ideals or aspirations: to serve their members in an egalitarian system.

For more information, sample organizing documents, and cooperative resources, visit www.mainstreet.org.

Community-owned Corporations

While cooperatives have a set of principles and a codified movement, the term “community-owned corporations” more loosely describes a wide range of traditional businesses with a social-enterprise component. In this spirit, several communities are currently developing community-owned stores that are not technically cooperatives.

The Adirondacks community of Saranac Lake, New York, (pop. 4,800) stopped a 120,000 square-foot Walmart from opening in 2006 by preventing the commercial rezoning of several key parcels. Gail Brill, a local businesswoman and community activist, noted while the anti-Walmart campaign was successful, Saranac Lake still needed more retail options. “We couldn’t just be ‘anti,’” said Brill, “we had to say ‘yes’ to something.” So they formed a committee to investigate ways they could create retail alternatives downtown – and avoid creating sprawl outside the community.

Ames, a chain of small, discount department stores, had closed in 2002 and nothing had filled its place. The committee was inspired by The Merc in Powell and invited one of its organizers to come to Saranac Lake. Fired up with enthusiasm, Saranac Lake quickly formed an interim board, retained a local corporate attorney, and registered their venture with the New



York attorney general's office. As a first step, they developed a business plan, and in June 2007 they launched a stock offering. To maximize the project's feasibility, they decided from the outset to lease a property, instead of building new. Brill describes the people involved as "serious": they wanted a "real corporation" that included democratic principles, but was not a cooperative. Alan Brown, the group's treasurer, observed that members of the organizing group felt a for-profit corporation "would have broader appeal" than a nonprofit. Brill added that they wanted a for-profit store that would be "as American as apple pie."

Shares were priced at \$100 and the capital needs were \$500,000. In order to foster broad community ownership, the prospectus stipulates that investors may purchase a maximum of 100 shares, or \$10,000 of company stock. As of December 2009, they had raised \$415,900 – an accomplishment that surprised even Brill and Brown.

The money was raised entirely through grassroots efforts: the group organized house parties where a local host invited 20 guests to hear a presentation and pitch. Residents were encouraged to buy shares as gifts. People with summer homes in the area bought shares. The group sent direct-mail appeals and sold shares at the local farmers market.

The organizers cannot do much besides selling shares until they have reached the \$500,000 goal specified in the prospectus. (In fact, because shareholders' money can only be used to capitalize the business, the interim board has had to organize additional fund-raising activities to pay for the costs – like printed materials, postage, etc. – associated with selling the shares.)

The prospectus lays out risks associated with the stock offering, but, as a practical matter, shareholders are making an investment in the community. If the group does not reach its goal, it will have to pay back all the money raised to date, with interest, and the board will be personally responsible for \$25,000 in legal fees that would otherwise ultimately be paid out of the start-up capital. They have six more months, after which they can file with the attorney general for a six-month extension, but Brill and Brown are confident they will meet their goal.

For examples of organizing documents and prospectuses, visit www.mainstreet.org. For additional examples of community-owned corporations, visit community-businesses.blogspot.com



Clare City Bakery (a.k.a, "Cops & Doughnuts")

"It began as a crazy idea," says Officer Al White.

Last May, Clare City Bakery was about to close after 113 years of continuous operation. The owners were retiring and didn't see any prospects for selling the struggling business in Michigan's tough economy. Today, Clare City Bakery (redubbed "Cops & Doughnuts") is creating new life in downtown Clare.

It started when members of Clare's municipal police department heard news of the bakery's imminent closing. It was nearly at that moment that the entire force of nine men and women (though acting in their capacities as private citizens) decided to buy the business. Each person agreed to put in a modest equal initial investment and to make a small additional monthly investment for the next year. They would manage the business as volunteers and there would be no profits distributed for at least 12 months. The group elected a president and vice president of the corporation and then hired a general manager, who in turn hired the bakery's staff.

Today, with four billboards on two nearby interstates, recent profiles on CNN and "The Today Show," and inquiries from no fewer than a dozen interested franchisors, Cops & Doughnuts is the hottest thing to happen in Clare in some time. (And three new businesses, including an art gallery, have recently opened downtown.) The bakery has 18 employees (nine full-time) and has already expanded into an adjoining storefront. The bakery's bathroom is designed to replicate a jail cell (complete with wall-mounted bed), and the store is already selling Cops & Doughnuts logo apparel. The owners are considering future wholesaling and franchising options – but they are trying not to get ahead of themselves. They still haven't paid themselves anything.

The irony of cops and their fondness for doughnuts isn't lost on the owners, and they take the jokes as they come. "Any joke is good advertising," says Officer White. "We thought it would be fun to own a bakery," he continues, although one wonders if he envisioned serving doughnuts on Christmas Eve (see his photos on Cops & Doughnuts' Facebook fan page). As the *Central Michigan Morning Sun* observed, "protect and serve" has taken on a new meaning.

Small Ownership Group

Small groups, such as partnerships and closely held corporations (also called private-stock corporations), are such traditional forms of business ownership and capitalization that most people don't think of them as models for a community-owned business. But they can be. A small group, or even an individual entrepreneur, can open a business with a community-minded purpose.

Partnerships and private-stock corporations have different legal structures (in a partnership, the individuals are owners; in a corporation, they own shares, even though the stock is not publicly traded or easily sold), but both can embody social-enterprise and community-ownership principles. The most notable functional difference from a "community-owned corporation" (such as The Merc) is that small ownership groups tend not to be open to the general public and the "group" is usually, well, smaller.

Firefly Restaurant opened in Effingham, Illinois (pop. 12,000), in 2006. Operating their own restaurant was the dream of an Effingham native and her chef-husband, Kristie and Niall Campbell, who were then living in San Francisco. But they hadn't considered opening it in Effingham. Meanwhile, local leaders in Effingham had long seen a need for an upscale, independent restaurant where they could bring friends, family, and business associates, but they had not been successful in recruiting one.

During a visit home, the Campbells were courted by several local business leaders. Among them was Jack Schultz, CEO of Agracel, Inc., headquartered in Effingham, author of *Boomtown USA*, and self-described "business agitator." He was one of 18 local business people who helped raise \$50,000 to invest in a new restaurant. The members of the group act as silent partners in the business, which is run by the Campbells. (A portion of the Campbells' ownership stake, in addition to a cash investment, derives from "sweat equity"; the remainder of the required capital was borrowed.)

The business is actually two LLCs: one owns the land and developed the building; the second operates the restaurant and leases the building. In its first three years of operation, the members of the initial group have made some additional investments, and the business is performing in the black. In Firefly's case, while the partners certainly hope to recapture their initial investment, they see their venture's

primary goal as improving the quality of life in Effingham.

At the smallest end of the "ownership group" scale, even a sole proprietorship can incorporate social-enterprise tools and values. Linda Welch is a Washington, D.C., entrepreneur who has started and operated a number of businesses that have ranged from boarding pets to a comic book store. While she has never owned a restaurant, she is keenly aware of the need for additional vegetarian restaurant options in the city. So she's planning to open one, which will be called "Elements."

She teamed up with Neil Takemoto, an expert in crowdsourcing – a technique that uses a "community" to solve a problem. (See sidebar below for more information on crowdsourcing.) Together, they convened hundreds of local vegetarians to help Welch design the restaurant concept, including its name, logo, menu, location, and feel. Different from traditional focus groups, Welch's process helped her get potential customers' input while building buzz about her endeavor. What's more, this information-gathering and community-building process happened both online (using social media) and in-person.

The "crowd" – which now numbers in the hundreds – has been meeting regularly for over a year and participating actively in online discussions. As one ongoing activity, members of the group collect pictures on their travels of places or characteristics they would like to see incorporated into

Elements. Ultimately, Welch will own the restaurant, though she is considering a cash-plus-sweat-equity partnership arrangement with the chef. But Washington's vegetarian community will feel a sense of ownership, too, because they contributed to the restaurant's concept. And the benefit for Welch is clear: on opening day, Elements hopes to have 500 already loyal customers. Says Welch, "This is not a democracy, but I'm open to hearing any idea. For me, it's been wonderful."

Members of a small ownership group may be active managers or silent partners, but they typically expect some degree of profit sharing in the business' success, usually in proportion to their investment or participation in the business' operations. If an ownership group is financing an entrepreneur, it is critically important that the business operator has a stake in the venture. The entrepreneur must assume a portion of the risk, just as the silent investors do. (See sidebar "Tips for Small Ownership Groups and Investment Funds" on page 12.)

Firefly's story is the product of two great coincidences of entrepreneurship: a native, with restaurant experience, who was considering a move back home and was able to put together a compelling business plan. And a group of fast-acting local businesspeople that was able to secure resources, identify a site, establish itself as the building's developer, and provide financial and technical support. Cops & Doughnuts



Crowdsourcing in practice: Army-Community Heritage Partnership Program

Two Army communities – Fort Knox in Elizabethtown, Kentucky, and Fort Polk in Leesville, Louisiana – are currently organizing to develop community-owned or community-initiated restaurants.

Fort Knox and Fort Polk are participants in the Army-Community Heritage Partnership, a special initiative of the National Trust Main Street Center and the Department of the Army. Through surveys of local Army families (military and civilian), focus groups, and an analysis of consumer buying power, the Community Land Use & Economics Group and the National Trust Main Street Center were able to research and document the need for additional dining options "off-post," especially in the downtowns neighboring these two Army installations.

In Elizabethtown and Leesville, volunteer task forces made up of Army and community representatives are employing crowdsourcing techniques: they have each established blog-to-post updates about restaurant development plans and have invited local residents and Army families to participate in the initiatives. Each city hopes to establish a new, community-owned or community-initiated restaurant downtown within the next three years.



happened almost impulsively when a group of co-workers decided they needed to do something to save their favorite coffee spot. Community-minded investor groups can be cultivated by organizing individuals around a great idea with social impact, even if it means accepting a relatively high investment risk.

Investment Funds

An investment fund provides venture capital (equity) or loans (debt) to an entrepreneur. Unlike traditional venture capital, community-development investment funds have less interest in high returns and more interest in stimulating new businesses – especially great business ideas that cannot gain access to capital (or sufficient capital) through traditional channels. Instead of owning and operating a business directly, a community can use this tool to invest in one or more businesses – and, potentially,

revolve the capital into more new businesses over time.

Many examples exist of community investment funds organized to foster new industries such as manufacturing, software development, or biotech. However, few investment funds have been organized to invest in new, small-scale retail, service, or arts and entertainment businesses.

The National Trust Community Investment Corporation (NTCIC), for example, makes real estate investments in projects that qualify for historic or New Markets tax credits. Beginning in the 1990s, the Local Initiatives Support Corporation (LISC) began making equity investments to establish supermarkets as shopping center anchors in neighborhoods with underserved food alternatives.

The LISC retail project began with a \$2.4 million investment in a Pathmark built in East Harlem, New York, by the Abyssinian Development Corporation. In 2005, in the Fruitvale neighborhood of Oakland, California, LISC, through the Unity Council Community Development Corporation, provided a \$580,000 loan to acquire a site for a new farmers market.

Originating out of an identified need for local jobs, in 2008, the Unity Council launched “Made in Oakland” (“mio,” for short, or “mine” in Spanish), a storefront-based apparel design and manufacturing business. The project was capitalized with money from the Unity Council and a jobs-creation grant from the U.S. Department of Health and Human Services. As a condition of the grant, mio was required to find a for-profit partner in a related industry. It partnered with Los Angeles-based The Evans Group, which creates patterns and samples for emerging designers. The Unity Council and mio director/designer Hiroko Kurihara expect the social and retail venture to create 60 to 70 new jobs for low-income Fruitvale-area residents.

As towns like Powell and Saranac Lake have raised capital through the creation of shareholder corporations, a community could apply the same approach to raise venture capital and make equity investments in new downtown businesses. Even without creating an investment fund, individuals or groups can make loans to small businesses using social-venture lending programs like VirginMoney (formerly CircleLending), a service used to generate formal promissory notes and third-party-managed repayment systems.

Which is the Right Model?

COOPERATIVES

The cooperative is a philosophy as much as it is a business model. Its structure is designed for maximum community involvement in ownership and management and sometimes in the workforce, as well. The model fits best when it matches the values of the community. A cooperative is a good choice if one or both of the following conditions exist:

- 1 The community embraces cooperative ideals and tenets as a means to benefit members and build social capital.
- 2 There is a wholesale buying, marketing, and/or distribution infrastructure in place, as with grocery and hardware stores.

Cooperative structures can present challenges when raising large amounts of capital: if shares are priced low, they will be accessible, but the membership numbers required may not be achievable. If shares are priced high, they will be out of reach for many people, which will limit membership and may not fit the co-op’s social principles. Nevertheless, many cooperatives have found a workable middle ground or have issued other classes of shares to augment their capital.

The cooperative comes with all the benefits and challenges of broad community involvement and ownership, which may slow decision-making or require extensive consensus building. Its broad base notwithstanding, in the end, a cooperative must only respond to its members – not the entire community.

COMMUNITY-OWNED CORPORATIONS

A community-owned corporation can share many characteristics of a cooperative, but it allows greater flexibility, primarily because it does not necessarily require that each owner make an equal investment or have an equal vote.

Like cooperatives, community corporations may (depending on the capital needs of the business) require a similar level of energy and volunteer commitment to sell shares to a large number of people. And community-owned corporations may be burdened by a process-oriented governance system, both in their organization and in their management. A community-owned corporation is a good choice when local ideals will more naturally embrace a for-profit venture or when greater flexibility is needed in share pricing or share-ownership limits.

Tips for Investor Groups and Investment Funds: Have Skin in the Game

When a group of investors mobilizes to finance an entrepreneur, several common-sense rules apply:

- The entrepreneur must have “skin in the game.” In addition to bringing skills and a viable business plan, the operator must have a personal financial stake in order to leverage other people’s money and build a successful business.
- Be patient. Most businesses don’t take off as quickly as Cops & Doughnuts.
- Have a contingency plan. If the business takes longer than anticipated to become profitable, initial investors should be prepared to increase their financial commitment.
- Check expectations so they align with the (usually) large risk and the (usually) small potential for payoff.
- Investors must support the new business as its best customers, promoters, and marketers.

SMALL OWNERSHIP GROUPS

Small investor groups, whether partnerships or closely held corporations, are the most nimble and flexible of the possible community-owned business structures. Like the Clare police department, they can act quickly and with a minimum of process. The small-group aspect lessens the risk to each individual investor. Assuming the members of the group bring money as one of their chief resources, a business can raise capital relatively quickly.

In addition, the tight control offered by a small ownership group helps avoid “owner-agent” problems: because the owners are likely to be actively involved in the business, they are also likely to be involved in, and support, day-to-day operational decisions. (In a cooperative or community-owned model, because of the number of shareholders, the owners are further removed from the general manager’s motivations and decision making.)

However, small ownership groups – whether partnerships or corporations – present two related challenges:

- 1 It requires great trust to enter into a business relationship with a small group of partners, and it often takes time to cultivate the trusting relationships that small groups need to operate.
- 2 In addition, maintaining healthy relationships during the management and operation of a business can be as challenging as establishing the group in the first place.

In a cooperative or community-owned corporation, the numbers are large enough that individuals’ relationship-based disagreements are less likely to cause a systemic breakdown. In a small investor group, relationship breakdowns are one of the most common causes of business failures.

INVESTMENT FUNDS

An investment fund is well suited to attract the best new ideas when the organizing entity itself is not interested in starting and operating the business, or when it wants to stimulate the development of multiple businesses. Flexible venture capital is also an excellent tool for leveraging additional private and public capital.

Community-based investment funds have been used to catalyze a wide range of business types, but are more common in industrial and knowledge-based business development than in the retail sector. Because an investment fund is not selling a specific

concept with cool imagery (a grocery store or a mercantile, for example), it may be harder to motivate individual investors.

How Can Main Street Lead?

A Main Street program can play many pivotal roles in creating community-owned businesses, from instigator to owner-operator.

- **OPPORTUNITY SCOUT.** By having its ear to the ground and listening to customers and merchants alike, Main Street can help define or refine the types of business most needed in the district, and those most likely to succeed.

- **RESEARCH.** Main Street can gather consumer information (like demographics and buying power), conduct consumer surveys and focus groups, or even send out reconnaissance teams to gather information about similar businesses.

- **CONVENER.** If an idea (for a mercantile, a restaurant, a movie theater, etc.) is floating around, Main Street can convene an exploratory group and provide it with support and structure while the idea gains credibility and momentum. Because of its relationships with local business people, Main Street may even be able to arrange “marriages” among interested investors and entrepreneurs.

- **ADVISOR.** Main Street can advise investment funds, banks, and public agencies to steer investor groups and social-enterprise ventures to the downtown.

- **SALESMAN.** When it comes time to sell shares, Main Street can use its marketing

know-how to advance the stock offering, particularly among its members and business district constituents.

- **TRANSITION MANAGER.** If a venerated local business (like the Clare City Bakery) is in danger of closing, and no single individual is stepping forward to buy it, Main Street can facilitate the formation of a group of buyers and, in doing so, transition a sole-proprietorship to a community-owned business.

- **HOME BASE.** After acting as convener, Main Street may decide to house the community-owned business initiative within the program itself, either through its own task force or as a project of the economic restructuring committee.

- **MARKETER.** With its deep reach into the consumer community, Main Street can become a marketing partner for a new (or developing) community business.

There are many alternative, and probably easier, ways to recruit a business than trying to launch one as a community project. But there are not many business development efforts that can mobilize as much financial and social capital. The Green Bay Packers are currently valued at about \$1 billion. It’s not hard to imagine Cops & Doughnuts someday becoming an equally valuable franchise.

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The Lexington Co-operative Market in Buffalo, N.Y., was formed in 1971 by members who wanted access to whole foods at reasonable prices. With more than 5,000 member owners, it has evolved from an entirely member-run organization to a full-service store with paid staff.