

ACCESSING  
LUCRATIVE  
MARKETS

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# ACCESSING LUCRATIVE MARKETS

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GROWING WOMEN'S  
BUSINESSES IN LOW-INCOME  
COMMUNITIES



## I N T R O D U C T I O N

# KEY CONCEPTS

In rural southeastern Ohio a cluster of specialty food producers are marketing gourmet salsas, vegan pastas, and Appalachian heritage products out of a community kitchen incubator nestled in the hills. In Albuquerque, New Mexico, Latinas are producing upscale handcrafted clothing on contract for companies nationwide. And in rural West Virginia, home-based knitters produce hand-knit luxury sweaters, home furnishings and baby clothes for sale at exclusive stores throughout the country. These are just a few examples of a number of innovative projects designed to create profitable business opportunities for low-income women by linking them to regional and national markets.

Over the last fifteen years, the enterprise development field has blossomed in the United States. The field includes microenterprise development organizations that provide training, technical assistance, and access to capital to low-income entrepreneurs. It also encompasses community-based businesses run by non-profits and worker-owned cooperatives designed to create decent jobs in low-income areas.

All of these efforts to reduce poverty face serious challenges on the path to success. This paper will focus on the challenges organizations face in making their businesses

or their clients' businesses viable and profitable in our rapid-paced, sophisticated economy. Low-income microentrepreneurs need to generate enough revenue from their businesses to enable their families to move out of poverty, and in some cases, to enable their businesses to grow so that they can create jobs for others. Community-based and cooperative enterprises need to generate enough revenue to pay their employees living wages and benefits, and to grow in order to create more jobs.

Simply stated, the greater the difference between the cost of pro-

ducing or delivering a product and the return from selling it, the greater the revenue a business can generate. Enterprise development organizations therefore need to make their or their clients' businesses more cost-efficient, on the one hand, and better able to create products that can demand high prices, on the other hand. Given their social goal of raising the incomes of microentrepreneurs or employees, these initiatives are constrained in their ability to cut costs. However, they can seek out high-end markets where they can sufficiently mark up the prices of their products. In order to do this,

enterprise development organizations must devote considerable attention to researching, identifying and accessing high-value markets. Their choice and design of products, the training they offer entrepreneurs or employees, and the type of capital they provide to entrepreneurs must be dictated by the needs of these markets. An increasing number of organizations are pursuing this approach to enterprise development, which we call a market-driven strategy.

**MARKETING FIRMS AND MARKET DEVELOPERS**

For purposes of this paper, we will categorize organizations imple-

menting market-driven strategies as marketing firms or market developers (please see Figure 1).

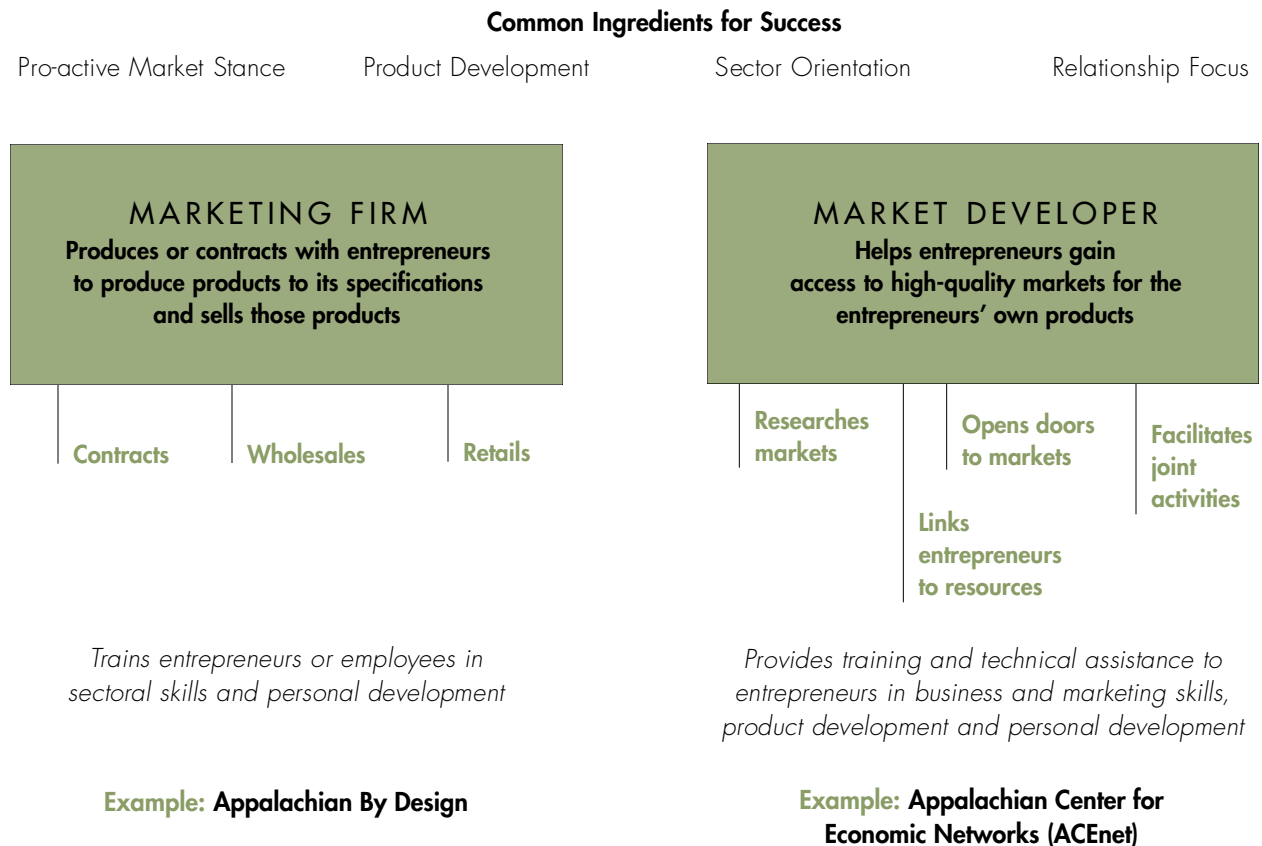
A marketing firm either hires employees to produce products or sub-contracts with entrepreneurs to produce products to the firm's specification. The staff of the marketing firm researches and identifies markets and sells the products. The marketing firm uses three strategies to sell the products: contracting, wholesaling, and/or retailing.

When acting as a contractor the marketing firm is selling the production skills of the entrepreneurs or employees. In this arrangement,

a buyer designs a product and contracts with the marketing firm to produce it. As a wholesaler the marketing firm itself designs a product line produced by its employees or sub-contracted entrepreneurs. The firm markets the product line through trade shows, wholesale catalogs and relationships with retail stores. As a retailer, a marketing firm also designs product lines produced by employees or sub-contracted entrepreneurs. It then sells the products directly to consumers through a storefront, catalog or web site.

An example of a marketing firm is Appalachian By Design (ABD), in

**FIGURE 1**



rural West Virginia. ABD trains low-income women to be home-based knitters and refers them to sources of loans for the purchase of their knitting machines. When ABD acts as a contract business, a company such as Esprit International designs a line of sweaters and contracts with ABD to produce it. ABD in turn sub-contracts with 50 knitters it has trained to produce the sweaters. For its wholesale business, ABD hires design consultants or uses in-house expertise to design product lines such as home furnishings or baby clothes. ABD then secures wholesale orders for the products and sub-contracts with the knitters to produce them. ABD has also recently established its own retail outlet at the upscale Greenbrier Resort outside of Lewisburg, West Virginia.

A market developer is a non-profit organization that helps entrepreneurs gain access to high-quality markets for the entrepreneurs' own products. Market developers use a range of strategies to assist entrepreneurs in particular sectors to produce high quality products and sell them at a premium in high-end markets. These include researching and identifying market opportunities; providing entrepreneurs with marketing and sector-specific training and technical assistance; linking entrepreneurs with financial, technical and other resources; opening doors to lucrative markets; and sometimes brokering or retailing entrepreneurs' products. Market develop-

ers often organize entrepreneurs into formal or informal groups to take advantage of joint purchasing and selling opportunities.

An example of a market developer is the Appalachian Center for Economic Networks (ACEnet) in Athens, Ohio. ACEnet currently focuses its marketing activities in the specialty foods sector. The organization has built a commercial kitchen to train entrepreneurs and incubate small food businesses. ACEnet staff has developed expertise in local and regional markets for specialty foods. They expose entrepreneurs to the latest trends; link them with experts in the community on nutrition, packaging and marketing; and actively encourage the entrepreneurs to learn from and work with each other.

Based on their extensive knowledge of the sector, ACEnet staff advises entrepreneurs on product design. The organization uses innovative financing mechanisms, such as a product development fund, to provide entrepreneurs with the capital they need to produce high-value products with strong market appeal. Staff also builds relationships with local and regional market outlets, such as natural foods stores, and facilitates opportunities for entrepreneurs to sell their products at these outlets. Finally, ACEnet operates a retail store as a test market for entrepreneurs' products.

In actual practice, the distinctions between marketing firms and mar-

## TERMINOLOGY

In this publication, we use the term "sector" to refer to a market sector or sub-sector. A market sector refers to a particular consumer market, such as food, clothing, or household products. Market sectors are further divided into sub-sectors, such as specialty foods, high-end knit clothing, and environmentally friendly household products. The sector encompasses the full set of:

- production and service businesses;
- retail outlets and consumers;
- distributors, brokers and suppliers;
- potential and existing employees; and
- consultants, technical experts, designers, university research institutions and other resources, people and organizations.

ket developers are not always clear-cut. One organization may adopt elements of both approaches or may evolve from being a market developer to a marketing firm. Furthermore, marketing firms can begin as projects of market developers that spin off to become independent entities.

## FOUR KEYS TO SUCCESS

Although market-driven strategies are still in their formative stage, they appear to be a promising means to help businesses grow, generate income and assets, and create jobs. We have identified four key elements to a successful market-driven strategy for both marketing firms and market developers. These elements are:

- 1 a pro-active market stance;
- 2 an emphasis on product development;
- 3 a sector orientation; and
- 4 a relationship-building capacity.

### Pro-active Market Stance

Having a pro-active market stance involves much more than training entrepreneurs in marketing. It means that an organization researches market trends and anticipates or even creates market opportunities.

### Emphasis on Product Development

Marketing firms need to have the capacity to develop an ongoing stream of innovative products; market developers need to help their clients build this capacity. Being first into the market, or distinguishing a product from its competitors, is essential. Trend research, staying in touch with leading-edge producers in a sector, and using expert designers or product developers all contribute to quality products.

### Sector Orientation

Every market sector has its unique terrain, with vastly different players and resources. Market-driven organizations have found that to be most effective, they must concentrate their efforts on a small number of sectors. Researching a sector and building relationships with key players requires a considerable investment of time. Furthermore, programs that operate within a particular sector can improve product quality by providing employees or entrepreneurs with training in sector-specific skills.

### Relationship-building Capacity

Market-driven organizations that encourage entrepreneurs and others in the sector to get to know and support each other have more impact. Relationships among the businesses are an important factor in increasing viability by sharing information, learning skills from each other, and purchasing supplies and marketing goods collaboratively. Through network relationships, small businesses can gain the economies of scale typical of larger businesses. Organizations adept at relationship building can also form productive partnerships with key players in their sectors, such as research institutes, trade associations and industry experts.

### METHODOLOGY AND ORGANIZATIONS PROFILED

This publication draws primarily on interviews and meetings with seven grantees of the Ms. Foundation for Women's Collaborative Fund for Women's Economic Development. It also cites the experience of a few other leading market-driven programs. This study limits itself to organizations focusing on product rather than service sectors. Many of the practices and recommendations we discuss, however, also apply to market-driven programs working in the service sectors.

The Ms. Foundation's Collaborative Fund for Women's Economic Development pools the resources of large and small funders to support women's enterprise development programs throughout

the country. In its second round, the Collaborative Fund supported 14 organizations from 1996 through 1999. The seven programs below all pursued market-driven strategies and met periodically to share lessons and emerging best practices. The following briefly describes the organizations and the market-driven programs pursued during the second round of the Collaborative Fund.

*Appalachian By Design (ABD)* trains women in West Virginia to set up home-based knitting businesses, and then secures production contracts with retail outlets, such as Bergdorf Goodman and Ethan Allen. ABD enables these isolated rural entrepreneurs to reach high value national markets that they could never access on their own. Through this strategy, the women earn between \$7 and \$12 an hour.

*Appalachian Center for Economic Networks (ACENet)*, in rural Ohio, helps low- and moderate-income entrepreneurs in the food sector expand their businesses and increase their incomes by connecting them to local and regional markets, working with them on marketing and distribution strategies, and helping them improve their products' image and labels. ACENet currently works with more than 160 specialty food businesses. ACENet's kitchen incubator enables several of these business to rent licensed commercial kitchen space so they can start their business without having to invest in equipment.

Located on the Pine Ridge Reservation in South Dakota, the *Lakota Fund* has seeded over 220 Native American-owned businesses in one of the poorest regions of the country. Several of these are small, home-based arts and crafts businesses. Through a retail store, website and trade shows, the Lakota Fund markets its clients' products to tourists and other national and international buyers.

*Southwest Creations Collaborative (SCC)* is a community-based business employing low-income women in Albuquerque, New Mexico. SCC provides contract sewing, fabric printing and hand-work services for regional and national clients including the MarketPlace catalog. SCC currently provides consistent full-time employment to 23 women with wages ranging from \$6.50 to \$16.50 an hour. SCC provides highly subsidized on-site day care, no cost savings accounts, paid sick leave and flexible work hours to its employees.

*West Company* is the only organization in rural Medicino County, California, promoting the economic self-sufficiency of low-income women through microenterprise development. Since 1988, over 1,400 women have benefited from West Company's business and personal development courses, business counseling and lending programs. West Company helped form an association of artisans that marketed products jointly through trade shows.

## HISTORY AND BACKGROUND OF MARKET-DRIVEN INITIATIVES

The development of the market driven strategy is an inspiring example of grassroots innovation.

Between 1991 and 1994 several organizations spontaneously developed market-driven projects, some with support from the first round of the Ms. Foundation's Collaborative Fund. For example, the Center for Economic Options in West Virginia started working with specialty food entrepreneurs in 1991, and in 1992 began assisting entrepreneurs to start businesses growing flowers for fresh or dried arrangements. Appalachian by Design spun off from the Center in 1991 to focus on the knitwear sector. The Women's Initiative for Self-Employment in San Francisco initiated a sectoral project in 1992 which organized entrepreneurs into clusters based on sectors; the most developed was a food cluster, where entrepreneurs met regularly to hear from experts or to discuss issues and strategies.

ACEnet pioneered a sectoral approach to specialty furniture for people with disabilities starting in 1990, and in 1993 started to work with small specialty food businesses. In 1993 ACEnet published *New Directions for Microenterprise*, a first attempt to articulate the advantages of a market-driven approach to microenterprise development. ACEnet, the Center for Economic Options, Women's Initiative and others began to offer workshops on market-driven strategies at Association for Enterprise Opportunity (AEO) and Ms. Foundation conferences, and several dozen organizations began adapting these ideas to their projects.

At this point, several national initiatives emerged to promote and better understand these strategies. In 1996, the Ms. Foundation's Collaborative Fund selected a second round of new grantees, about half of which were involved in a marketing project. At least once a year these organizations convened as a Markets Learning Cluster to share information and emerging best practice.

In 1996, the ACEnet Institute initiated Foodnet, a face-to-face and online network of organizations working with small food businesses in low-income communities. In 1997, the ACEnet Institute and AEO formed a joint project, the Access to Markets Project, funded by C.S. Mott and the W.K. Kellogg Foundation, which made emphasis on markets a central aspect of AEO's work in microenterprise development. AEO began including access to markets in its list of four necessary components of microenterprise programs (the others being technical assistance, access to capital, and economic literacy). To support training programs at its national and regional conferences, AEO developed an Access to Markets Training Manual, with key concepts, simulations, case studies, and a glossary.

In 1997, the C.S. Mott Foundation funded seven Access to Markets projects, and the Aspen Institute is convening the groups annually to share learnings. Aspen staff developed a survey instrument that permits tracking of both the entrepreneurs and the Access to Markets projects over a three-year period. In 2000, the Woodstock Institute published a study of sectoral microenterprise programs that includes analysis of market-driven programs such as ACEnet. Ms. Foundation, Aspen Institute, AEO, ACEnet Institute and Woodstock Institute staff working on these funding, research and training programs have met to share learnings and will continue to coordinate activities.

*The Women's Self-Employment Project (WSEP)* is one of the oldest and largest women's microenterprise programs in the country. Since 1986, WSEP has provided business and personal development training, technical assistance and credit to over 4,600 low-income women in Chicago. Several years ago, WSEP began to organize entrepreneurs in the food sector to provide them with sector-specific training, work with them on improving their products' design, and help them expand into local and regional markets. WSEP also plans to launch a website to market entrepreneurs' products. WSEP recently organized a second cluster of design-oriented businesses.

Through its Urban Horizons project, a \$23 million venture, the *Women's Housing and Economic Development Corporation (WHEDCO)* has turned an abandoned building in the South Bronx into a beautiful facility that provides a comprehensive package of housing, employment and microenterprise training, and primary health care services to low-income women and their families. Urban Horizon's Food Sector Program has four com-

ponents: a training business that produces take out food and contract meals for local institutions; a kitchen incubator that provides affordable, licensed commercial space to food entrepreneurs; a catering and baking business; and an entrepreneurship training program.

This paper also draws on the experiences of the following organizations in helping low-income women and men access lucrative markets:

*ShoreBank Enterprise Pacific*, a collaboration between ShoreBank Corporation (Chicago, Illinois) and Ecotrust (Portland, Oregon), was incorporated in 1994 to develop and advance a long-term regional development strategy for the coastal temperate rain forests of North America. Its goals are to capture significant market demand for "green" products and to grow the number of local firms that can supply the demand. ShoreBank launched RainKist to develop and market high-value environmentally friendly gifts made by local craftspeople.

*Appalmade*, part of the BusinessStart Program of People, Inc. of Southwest Virginia, creates


self-employment income opportunities for craftspeople who need to work from their homes. In addition to design, training and marketing services, Appalmade sells products through its retail shop and church fundraiser program, and wholesales products at national gift shows. Over 100 artisans, primarily women, participate in the Appalmade network.

*Watermark Association of Artisans*, organized in 1978, is a member-owned craft production cooperative. Watermark provides craft classes and operates a retail shop and shipping facilities for over 700 producers of traditional and indigenous crafts.

Founded in 1977, *Coastal Enterprises Inc. (CEI)* is a private, non-profit community development corporation headquartered in midcoast Maine. CEI engages in targeted financing, business assistance, research and policy advocacy to create economic opportunities for Maine citizens. Through its Fisheries Project, CEI fosters sustainable development of the fisheries and coastal communities by helping them add value to and market marine resources.

# THE MARKETING FIRM

## CASE STUDY: APPALACHIAN BY DESIGN

 In a side street in the charming village of Lewisberg, West Virginia are the offices of Appalachian By Design (ABD), a non-profit that sells sophisticated knitted products such as sweaters, throw blankets, and pillows. ABD has made significant progress towards its goal of helping women in rural West Virginia become entrepreneurs and earn enough to move their families above the poverty line. ABD accomplishes this using the marketing firm approach and acting as both a contract business and a wholesale business. They have also recently opened a retail outlet at the upscale Greenbriar Resort outside of Lewisberg.

ABD currently has more than 200 contract and wholesale accounts. When ABD acts as a contract business, a company such as Esprit International or Hot Knots designs a line of sweaters and contracts with ABD to produce the

line. The company provides the specifications and yarn. ABD in turn subcontracts with the 50 knitters in its network to produce the sweaters.

For its wholesale business, ABD hires design consultants to design product lines such as home furnishings or baby clothes. It also uses in-house expertise to develop product lines. ABD then secures orders for the products through booths at trade shows, catalogs and relationships it has built with retail stores. It then subcontracts with the knitters to produce the products.

**Launching With a Market Partner**  
This all began in 1991, when Esprit International approached ABD to produce sweaters for their new EcoCollection. These sweaters were made from organic and natural fibers and sold primarily in Europe. Esprit provided the designs and worked with ABD staff to set up training programs for interested entrepreneurs. This partnership jump-started ABD, propelling it into the international knitwear market.

As important as a good market partnership is, relying on a single market partner can be perilous. ABD discovered this when, after several successful years, management of Esprit International cancelled the EcoCollection line. ABD instantly lost 70 percent of its sales. Fortunately, by the time Esprit International closed its account, ABD had developed sound relationships with other high-end clothing companies it could look to for contracts.

### Diversification

Not wanting to get caught in such a vulnerable position again, ABD decided to diversify its market sectors as well as its market partners. It chose to expand beyond clothing into high-end knitted household products, which have a less seasonal market. For this market, ABD also decided to build its own capacity to generate products and to act as a wholesaler. It contracted with top designers for a variety of product lines, and commissioned reports on international trends influencing U.S. markets. These steps helped ABD to be a year

ahead of the market and develop future-forward product lines. As a result of this design process, Ethan Allen now carries ABD's line of modern pastel flower pillows. In addition, Ethan Allen is now moving into the role of a market partner, giving ABD information about new furniture lines and styles, so ABD can develop products to fit with those lines.

### Product Design

Product design is the keystone of ABD's business, but it took some time to learn how to determine which designs were winners. For

example, ABD started its household collection with two color lines of pillows and throws, one natural and one bright. After its first trade show, however, ABD realized that the two lines clashed in the display booth, and chose to drop the natural line.

ABD has developed an intensive continual product improvement and modification process. Staff tests new products at trade shows, where they have learned how to make buyers feel comfortable pointing out problems with the products. On returning home,

staff redesigns and refines the line. When the modifications are complete, the line is ready to make a splash at the next trade show.

### Recruiting and Training Entrepreneurs

New entrepreneurs are recruited by local organizations located in five different communities in West Virginia and southwest Virginia. ABD offers training sessions periodically in each community, where potential entrepreneurs first learn how to use the computerized knitting machines. After entrepreneurs demonstrate that they have

## VARIATIONS ON A THEME: OTHER MARKETING FIRMS

### Watermark Association of Artisans

Watermark Association of Artisans, in eastern North Carolina, is organized as a cooperative of craftspeople. In addition to working with producer members on their own designs, Watermark also develops cooperative product lines. These product lines, building on ideas from tradeshows or retailers, generally have a particular theme, such as a red, white and blue flag motif. The cooperative has a sister non-profit organization that provides training for new and existing craftspeople to produce the already designed items. Watermark markets the completed products through a wholesale catalog, trade shows, and long-term market relationships.

### Shorebank Enterprise Pacific

The mission of Shorebank Enterprise Pacific, a non-profit organization located on the coast of Washington State, is to encourage environmentally sound economic development in the rainforests of the PacificNorthwest. Shorebank Enterprise Pacific launched RainKist to develop and market high-value, environmentally friendly gifts. In order to design products with strong market appeal, RainKist sponsored a two-day "design charette." At this interactive session, design experts introduced the entrepreneurs to trends in the gifts and home products sectors, including colors, styles and types of products. As a result, the group developed a line of wreaths and decorative items made from non-timber forest products with high customer appeal. RainKist subcontracted with the artisans to make the products, which it intro-

duced at a regional trade show that resulted in large orders from several major catalog companies.

### Appalmade

Appalmade, a program of the non-profit organization People, Inc., sells the work of 150 local artisans through a retail and wholesale line. It sells a wide range of primitive crafts such as early American rag dolls, handmade brooms, and antiques wooden items. Most of the artisans are women working out of their homes in the Appalachian region of Virginia and Tennessee. The wholesale portion of the business is operated as a marketing firm, though Appalmade's involvement in the design process is less directive than ABD's.

### Southwest Creations Collaborative

Southwest Creations Collaborative (SCC) was founded in 1994 by a group of low-income Latina women looking for a way out of poverty for themselves and their families. The company now employs 23 low-income Latina women. SCC's first market partner was The MarketPlace, a catalog featuring clothing made by low-income women in India and New Mexico. The company has since diversified its clients, and now works on contract for companies nationwide. SCC produces sewn goods with handwork details ranging from clothing, to home furnishing to pet products. SCC differs from the other examples in this paper in that it employs women rather than subcontracting with individual entrepreneurs.

the interest and aptitude for the project, they attend an entrepreneurship course geared to the particulars of the knitwear industry. Once the entrepreneurs have completed both the entrepreneurship and the skills training, they are eligible to bid on ABD contracts. These contracts generate an income from \$7 to \$12 an hour. Most of the knitters work part time on ABD contracts, generating valuable supplemental income to help meet their families' needs.

#### MARKETING STRATEGIES

As illustrated by ABD's experience and in the box on the left, a marketing firm either hires employees to produce products or sub-contracts with entrepreneurs to produce products to the firm's specification. The staff of the marketing firm researches and identifies markets and sells the products. The marketing firm uses three strategies to sell the products: contracting, wholesaling, and/or retailing.

As a contractor, the marketing firm sells the production skills of the entrepreneurs or employees. In this arrangement, a buyer designs a product, contracts with the marketing firm to produce it, and generally supplies the raw materials. The advantages of contracting are that the marketing firm does not have to invest in product design and can rely on the buyer's knowledge of market trends. The disadvantage is that in many sectors, such as apparel, the marketing firm is competing

with producers who pay very low wages, either in the United States or overseas. In order for contracting in such sectors to be viable, the buyer must be willing to pay more for the labor, either because of its quality, its proximity, or out of a social commitment.

As a wholesaler, the marketing firm designs the product line, using outside design consultants, staff or skilled entrepreneurs. The firm then markets the product line through trade shows, wholesale catalogs and relationships with retail stores. The advantage of wholesaling is that the firm is selling its design skills, as well as its production capacity, and can therefore sell products at a much higher mark-up. However, the firm must have the resources to invest up front in design, and stay on top of trends and tastes in its sector.

As a retailer, a marketing firm also designs product lines produced by employees or sub-contracted entrepreneurs. It then sells the products directly to consumers through a storefront, catalog or website. Retail operations generally do not provide sufficient revenue for the firm to provide full-time work to its employees or sub-contracted entrepreneurs. In combination with wholesale and contracting operations, however, they offer valuable opportunities. For example retail stores offer venues to test new products and receive input from consumers. Storefronts, websites and catalogs also increase the visibility of the marketing firm.

#### ORGANIZATIONAL AND LEGAL STRUCTURE

A marketing firm can either employ workers to produce products (as in the case of Southwest Creations Collaborative) or it can sub-contract with entrepreneurs to produce products to its specifications (as in the case of Appalachian By Design).

A marketing firm can be organized as a non-profit or as a producer cooperative. In the first case, a tax-exempt organization operates the marketing firm. The organization can maintain its tax-exempt status while operating a business because of the business' charitable mission. In this type of structure, the entrepreneurs or employees do not own shares in the business. However, many non-profit marketing firms do include entrepreneurs or employees on boards of directors and advisory committees. ABD and SCC are both organized as non-profits.

A cooperative is a for-profit business. The cooperative's members purchase shares in the business and receive dividends if the business makes a profit. Members generally participate by electing a board of directors that hires management. Watermark Association of Artisans is an example of such a cooperative.

#### STRATEGIC STEPS FOR ACCESSING LUCRATIVE MARKETS

An organization using the marketing firm strategy must follow the same steps as any other successful small business. It has to develop

quality products, created by skilled entrepreneurs or employees, and compete in the marketplace to sell those items. Unlike most businesses, however, it must also consider the social aspect of its mission. Below, we list the strategic steps in accessing lucrative markets.

### **Set up the business**

Once it has chosen a sector, the marketing firm must choose a business form, write a business plan, and raise funds for initial capitalization of the business. The business may remain a project of a larger organization, as in the case of Appalmade, or become a new legal entity, usually a non-profit, as in the case of ABD. In either case, the marketing firm should form a Board of Directors or an advisory group that will add value to the organization. For example, Appalachian By Design's board is made up of knitters, a lawyer, and resource people with skills in the industry.

### **Recruit and train entrepreneurs and employees**

Most programs begin with a core of women already involved with the organization. In order to expand, the marketing firm usually needs to recruit additional entrepreneurs or employees from the community. It often looks for women with some skills in the particular sector. For example, many of the entrepreneurs in Appalachian By Design's network worked for years at shoe or sewing factories before these factories closed down. If the marketing firm relies on home-based entre-

preneurs to produce products, it should look for participants with a certain amount of self-discipline and family situations that will not be overly disruptive to their work.

Marketing firms emphasize industry-specific skills development in their training programs. While they teach basic business skills to the entrepreneurs, they do not have to impart sophisticated marketing skills since the organization is responsible for most of the marketing.

### **Map the sector and explore niches**

The marketing firm should build a map of the one or two sectors where it can operate profitably (see Appendix: Mapping the Sector). The map should include the key retail and wholesale markets, brokers, distribution pathways, industry resources, and regulatory agencies that affect the sector. The marketing firm must learn which trade shows are the most useful, and quickly gain a sense of which product and service features will offer a competitive advantage in its chosen sector. For example, the firm needs to determine whether it is most important to be able to quickly produce a design provided by the buyer, to be first into the market, or to produce a high-quality product.

### **Jump-start the business**

The marketing firm must find a way to jump-start the business. One way is to develop a market partnership with a key buyer in order to ensure sales during the critical start-up phase. However, the marketing firm should identify

additional buyers as soon as possible so that it is not vulnerable if the market partner moves on or cancels a product line.

Another jump-start technique is to set up a retail store in a good location. Appalmade did this when it opened a gift store in an area with high tourist traffic. The marketing firm should also, if sufficient resources are available, invest initially in market research and product development. RainKist did this, and was able to launch its business selling products with considerable market appeal.

### **Build relationships with diverse markets and experts**

The marketing firm should build relationships with key players, such as buyers or designers, to strengthen their commitment to the organization, and tap into their networks. For example, Carolyn McKecuen, former director of Watermark, spent two years building a relationship with buyers at Ralph Lauren and finally landed a series of lucrative contracts. Each sector also has experts who can add tremendous value if they support the project's mission. In the case of ABD, its design consultants were well connected and provided essential information about potential customers.

### **Continually develop new products**

Marketing firms using the wholesale or retail strategy must have the capacity to continually generate new designs, as innovative products that are first in the market can command top dollar. This may be

done in-house, as in the case of Watermark and Appalmade, or through the use of consultants, as in the case of ABD or RainKist. In order to keep current, the marketing firm must develop sources for trend information. For example, staff should have access to the sector's "color mavens," who determine the specific shades that will be used during the upcoming season.

### Develop new markets

The marketing firm must develop a varied customer base. It should collect information on new markets from designers, current customers, and trade shows (see page 14, Trade Show Tips). The marketing firm should also try other creative strategies. For example, Appalmade packages products together into a gift chest of samples. Churches purchase this chest and take orders for the products, including a mark-up in the price for church projects. Congregations participate in the program because they want to support low-income families in isolated regions of Appalachia as well as to earn income for the church. Appalmade also includes a 35 percent markup to cover its marketing costs.

### Utilize economies of scale

The marketing firm can buy raw materials in bulk and resell them to entrepreneurs at a cost much lower than the entrepreneur could obtain on her own. As it grows, the marketing firm can expand these economies of scale to other aspects of the business, such as

large equipment purchases or purchase of accounting services for the entrepreneurs.

### Establish good account management systems

The marketing firm should have good systems in place to manage for growth and profitability, especially inventory control and order fulfillment (i.e., shipping, invoicing, and collection). It should also develop and maintain a customer database that profiles stores, locations, and products. This information prevents selling to competing businesses, thereby building customer loyalty. The database should also identify good customers—those who do repeat business and pay their bills. The marketing firm should give them priority in shipping products and call them regularly for follow-up orders.

### Work with other community organizations

The marketing firm should explore partnerships with other community groups that might provide a wide range of services for the entrepreneurs or employees, especially training and financing. There are numerous examples of this: Watermark set up a sister non-profit to provide skill training; ABD works with microloan programs that finance the entrepreneurs' knitting machines; and Appalmade refers entrepreneurs to the entrepreneurship training and loan fund run by People, Inc. In summary, marketing firms can increase their impact by:

- using designers, both external and internal, to develop innovative products;
- developing market partners to help place products with buyers outside the region and generate repeat business;
- attending enough trade shows to reach a significant market segment; and/or
- obtaining economies of scale through bulk purchase of raw materials.

### RESULTS TO DATE AND ON-GOING CHALLENGES

Experience to date with the marketing firm strategy shows that it has the potential to influence industries on a state and regional level and produce significant results for low-income families. We have seen that the strategy can:

- provide wages or entrepreneurial income higher than typical in specific market sectors, especially those dominated by women;
- create flexible jobs, often with corollary elements (training, networking, ownership) that result in entrepreneurs or employees gaining increased power as actors in their local economies; and
- produce income for the organization to cover some operating costs.

Although these marketing firms compete in the business world, their real goal is to help low-income women move their families out of poverty. The marketing firm strategy has been success-

ful at creating income-generating opportunities for low-income women, especially in situations where few options exist. It also has been successful in providing income that is higher than that typically found in many female-dominated sectors. For example, the garment industry is notorious for sweatshops paying less than minimum wage,

while ABD entrepreneurs earn between \$7 and \$12 per hour. In an area where jobs are scarce, SCC's workers earn \$6.50 to \$16.50 per hour with benefits including subsidized on-site childcare and paid sick and vacation leave.

The marketing firm strategy demands less of the individual than

independent entrepreneurship. The entrepreneur or employee does not have to be involved in marketing or in product development. However, many programs require the entrepreneur or employee to invest time in intensive training. For example, ABD's knitters spend a significant period of time in training before they can bid on a contract. Programs have found that this training improves entrepreneurs' self-esteem and builds their individual capacity. Some knitters in ABD's network now use their skills to contract for other knitted work independently of ABD. Even if they close their businesses, they are often able to obtain much better jobs than they would have before being involved in the project.

As marketing firms try to achieve their full potential, they face a range of challenges. These include:

- undercapitalization;
- identifying and accessing market outlets; and
- building staff capacity; and
- achieving sustainability.

### Undercapitalization

The primary barrier for organizations using the marketing firm strategy is undercapitalization. Lack of capital can prevent marketing firms from acquiring state-of-the-art equipment, obtaining quality market research, hiring the best design consultants, or purchasing raw materials in quantity. Lack of capital also makes it difficult for the firms to engage in a national marketing strategy, which

## TRADE SHOW TIPS

Trade shows are an effective tool for increasing sales and developing market partnerships. Here are some tips for effectively using trade shows:

- Identify trade shows in your sector. Identify regional shows for product testing and national shows for volume and impact. Expos (retail shows selling directly to consumers) are a good way to get feedback on price and customer appeal on early prototypes.
- Determine your readiness: Can you invest in a series of shows and the necessary follow-up? Can you supply the level of demand a show can generate?
- Determine your goals for the show, such as knowing the market, creating an industry image of your business, making \$x in sales, developing relationships with certain buyers, meeting new suppliers, generating publicity, or visiting cutting-edge stores in the area.
- Hire a professional with a strong sense of visual merchandising to design and construct your booth.
- Develop a budget that includes show fees, staff time, setting up and breaking down, hotel, travel, and booth expenses. These costs can range from \$1,000 for a small regional show to up to \$20,000 for a major national show.
- Make sure the key buyers get information about your booth ahead of time through a special invitation that includes a map showing the booth's location.
- Know your target. Do you want to sell to retail stores or catalogs?
- Buyers are desperately looking for products that will make them a star. Know what they want. Talk about your ability to modify your products to meet their needs. Know their deadlines (catalog printings, seasonal line introductions).
- Tell a story. Use your mission to create added value.
- Track each conversation on business cards or contact sheets and follow up with personalized mailings.
- Take advantage of the many excellent work shops offered at shows, which often include the latest in trend information and provide opportunities to get to know consultants in the field.
- Take breaks to relieve stress. Walk the show to see what others are doing. Learn from other booths.

requires attendance at major trade shows and the development of professional marketing materials.

The types of expenses that bring significant returns over a long period of time require patient capital or grant funding, both of which have been hard to obtain. For example, major trade shows can cost \$10,000 to \$20,000 for the booth and all expenses, but can generate sales of three to four times that amount. In spite of that fact, finding funds to invest in a sufficient number of shows is a major problem. Hiring top quality designers is another big investment that will eventually pay for itself many times over, but is difficult to finance. For example, ABD's investment of \$6,000 in design fees and royalties for its Funky Folk Art line generated \$70,000 in product sales.

### Identifying and Accessing Market Outlets

A crucial area where more research and group learning needs to occur is on the topic of market outlets. It takes staff time and money to determine which outlets (e.g., large stores, small retail, or catalogs) are the best for a particular

product or project. Having information readily available, as in searchable on-line annotated databases, would enable organizations to make those decisions in a more cost-effective way.

Obtaining access to market outlets is also a barrier. Marketing firms often find it challenging to convince specific buyers to become market partners. Well-connected funders and supporters could help by introducing organizations to potential buyers.

### Building Staff Capacity

The projects described in this chapter have attracted very talented people, many with industry experience. In spite of that, a lack of staff training in strategic analysis and decision-making is a barrier to organizational growth and impact: there are so many market options and variables that it is difficult for any organization to determine which activities will provide the maximum short- and long-term returns. Even the most talented staff needs training, and organizations have often had to provide their own industry training on the run. Investment in training, and funds to access costly experts

in the field to build staff skills, should pay off many times over in increased sales.

### Achieving Sustainability

Like other non-profit organizations, marketing firms face the challenge of achieving financial sustainability, that is, a plan for matching grants, loans and earned income. Unlike other organizations, marketing firms have the opportunity to generate significant income through their marketing operations. In most cases, however, this income does not cover the total cost of operations. Some organizations aim over time to cover the cost of their marketing operations while continuing to receive grant funds to cover the training and personal development of entrepreneurs or employees. Others have determined that even their marketing operations will need ongoing subsidies because they create job opportunities for people left out of the economic mainstream. The challenge for the field is to better understand what functions can and should become self-supporting or even profit generating, and which merit ongoing support from the public and private sector.

# THE MARKET DEVELOPER

## CASE STUDY: THE WOMEN'S SELF EMPLOYMENT PROJECT

The Chicago-based Women's Self Employment Project (WSEP) is highly regarded for its support of low-income women's businesses. For over fourteen years, WSEP has provided microenterprise training and credit to its clients, mostly women of color. WSEP complements these programs by policy work, particularly in the area of welfare reform.

Several years ago, WSEP staff realized that they could assist clients in marketing their products by organizing them into sectoral "clusters" to identify opportunities and overcome barriers to accessing lucrative markets. Staff began by organizing a "specialty foods cluster" in 1998. The group met monthly with WSEP staff to share information, receive training, and identify the barriers and opportunities. Over a two-year period, WSEP staff worked with the cluster to:

- improve the members' ability to compete in the marketplace;

- enable members to produce products that meet industry requirements;
- open doors to opportunities to sell products; and
- facilitate joint activities.

### Improve the members' ability to compete in the marketplace

WSEP staff and cluster members realized that in order to compete in the marketplace, cluster members would have to improve their business readiness and their product design and image. To improve business readiness, staff developed a simple but useful checklist that must be completed before a business can receive specialized technical assistance. The checklist clarifies the steps in the business development process and identifies which are WSEP responsibilities and which must be done by the entrepreneur.

In order to improve product design, WSEP developed a partnership with Archiworks, a design firm whose internship program requires students to work on design projects with businesses.

Each quarter, several WSEP client businesses were selected to work with an intern to create a label or image for her product. Then, once a quarter, entrepreneurs presented their re-designed products to an advisory committee that included Archiworks staff and other industry experts. Not only did committee members provide important feedback on the products, but also they occasionally linked the entrepreneurs to larger markets. For example, one committee member arranged for an entrepreneur to introduce her sweet potato pie spice mixture to food specialists at Sara Lee in order to obtain their advice and explore marketing opportunities.

### Enable members to produce products that meet industry requirements

As they researched the specialty food market, WSEP staff saw that in order for entrepreneurs to place products in stores, they would need to produce them in a licensed facility. Such a facility can cost many thousands of dol-

lars to set up, an amount beyond the reach of most start-up entrepreneurs. WSEP explored many options for addressing this barrier, and finally found a baking institute willing to rent the use of its space and equipment after-hours to entrepreneurs at a reasonable rate. WSEP also identified a co-packer—a manufacturer who produces products for others at a set fee—who agreed to produce entrepreneurs' products in his manufacturing plant even though most orders would be small.

### Open doors to opportunities to sell products

WSEP worked out a local market partnership with the Hyde Park Cooperative, a large upscale specialty and natural food store. Hyde Park agreed to offer some of the WSEP businesses shelf space in the store. Four businesses placed products and one demonstrated food preparation in the store.

### Facilitate joint activities

As the cluster members got to know and trust each other, they also embarked on some joint marketing activities. For example, some of the members decided to attend the Fancy Food Show—an important national trade show—in order to research their competitors and observe trends in package designs. Another group of women, who previously viewed each other as competitors, realized they all could benefit by jointly purchasing a booth in a local trade show.

## VARIATIONS ON A THEME: OTHER MARKET DEVELOPERS

**Appalachian Center for Economic Networks (ACEnet)** ACEnet, located in Athens in rural southern Ohio, has been refining a food sector market development strategy for several years. Staff began by encouraging merchants to try the products of local food entrepreneurs. In addition, ACEnet organized opportunities for the businesses to present their products at most of the local trade shows and business expos. Since Athens is a college town there are several media outlets. ACEnet encouraged entrepreneurs to get attention in the area papers and radio stations. All this activity meant that even low-income entrepreneurs could reach enough local markets to allow their businesses to begin generating income quite quickly.

At the same time, the downside of being in a small college town is that the number of outlets is limited, and many of the businesses were not satisfied with income from local markets alone. ACEnet's first attempt to develop a relationship with the national office of Wild Oats, the second largest natural food chain in the country, revealed some significant barriers. Wild Oats required that businesses use its designated distributor, which was expensive and had virtually no presence in the Midwest, and that the products be ready for national distribution.

Faced with these barriers, ACEnet took a step back and looked for opportunities to enter regional markets. ACEnet took the products of over 20 businesses directly to a single Wild Oats natural food store that was opening in a nearby city. Wild Oats staff liked the products, and ACEnet described how its support helps the businesses be reliable suppliers. Fifteen of the businesses followed up with Wild Oats, and were able to place their products much more easily because ACEnet opened the door for them. ACEnet then worked with some of these businesses to organize samplings of their products in the store, which greatly increased sales. Six months later, the businesses were billing from \$300 to \$4,000 a month to Wild Oats. The Wild Oats store's staff was so impressed that they coordinated efforts to get the products in another new Midwest store. Now Wild Oats wants the products to be carried in all twelve Midwestern stores, which would mean additional sales of \$72,000 to \$720,000 annually per business.

**West Company** West Company, a microenterprise organization in a sparsely populated large rural county in Northern California, helped a group of artisans form an association to jointly market their products. West Company hired a consultant with skills in marketing, business finance and group facilitation to work with the association. She helped the artisans determine their highest priority joint action: setting up a booth at a regional trade show. The association researched trade shows, identified a grant to assist with expenses, constructed a booth, built the display, shared staffing of the booth, and jointly displayed their products. The result was \$8,000 in sales, and the likelihood of repeat orders.

## MARKET DEVELOPMENT STRATEGIES

As illustrated in the examples above, a market developer is a non-profit organization that helps entrepreneurs gain access to high-quality

markets for the entrepreneurs' own products. Market developers use a range of strategies to assist entrepreneurs in particular sectors to produce high quality products and sell them at a premium in high-end

markets. These include researching and identifying market opportunities; providing entrepreneurs with marketing and sector-specific training and technical assistance; linking entrepreneurs with financial, technical and other resources; opening doors to lucrative markets; and sometimes brokering or retailing entrepreneurs' products. Market developers often organize entrepreneurs into formal or informal groups to take advantage of joint purchasing and selling opportunities.

### Market Research

Market developers must devote considerable staff time to research-

ing market trends and identifying market opportunities for their clients. Most often this is accomplished by reading sector-focused trade journals, researching online, and conversing with staff of stores who are aware of shifts in consumer tastes. This information is then passed on to entrepreneurs through mailings and e-mail, at workshops and in one-on-one technical assistance sessions.

### Training and Technical Assistance

Through training and technical assistance, market developers help entrepreneurs acquire the skills to successfully market their products.

These include business and marketing skills, product development skills and personal development skills.

### Business and Marketing Skills

Market development organizations enhance the general business training offered to entrepreneurs with training and technical assistance in specific industry skills. They also provide training on a range of marketing topics such as:

- how to do market research to identify potential market niches;
- how to develop a marketing strategy;
- simple graphic design techniques to prepare business cards, product

## TRAINING APPROACHES

Market developers have been very creative in designing a range of ways to provide training and technical assistance to entrepreneurs. Some examples of training approaches are described below.

**Scheduled classroom training** A few organizations, such as WHEDCO, have offered classroom microenterprise training focused on a particular sector. Trainees learned the specifics of marketing in the food sector from the start and had opportunities to meet experts and resource people in the sector. WHEDCO also incorporated hands-on food preparation skills training in its kitchen incubator.

**Small groups** In rural situations or when entrepreneurs face many competing demands on their time, it can be difficult to gather enough participants together for scheduled classroom training. To address this problem, several organizations have developed a just-in-time approach to training delivery. For example, ACEnet staff conduct short training sessions for small groups on an as-needed basis and organize occasional workshops for larger groups on high-interest topics, such as trade show presentation.

WSEP has regular monthly food cluster meetings. These sessions are used for training on topics identified by the entrepreneurs, or as opportunities for the women to help solve each other's business problems.

**One-on-one technical assistance** Each business is unique, so there will always be a need for one-on-one technical assistance with entrepreneurs on their marketing strategies. However, because one-on-one help is expensive to deliver, it is important for market-driven organizations to monitor the amount of time spent on individual entrepreneurs, and to track longer-term impact. ACEnet and WSEP are both beginning to identify some of the businesses they work with as growth businesses, where focused technical assistance is likely to create the most quality jobs for low-income residents and wealth for the community. ACEnet uses a system of portfolio management, where each staff member develops strategic plans with eight businesses and then coordinates other staff to make sure each business gets the assistance it needs to grow.

**Mentoring and peer exchange** Mentoring and peer exchanges can be effective training techniques and can reduce the amount of time staff spends with individual entrepreneurs. These can be formal, as in the case of the Chamber of Commerce mentoring programs available in many communities, or informal. In addition to creating spaces where peer exchange is likely to occur (such as networking hubs or breaks at meetings or workshops), market developers are sponsoring e-mail listservs, a promising new medium for peer exchange. When staff or another business owner answers a question, all the businesses can benefit from the knowledge.

- descriptions, product neck tags and point of purchase handouts;
- how to use a brand name and product name as marketing tools;
- how to analyze the competition and determine a product's distinct features;
- how to make sales calls; and
- how to price products in new markets.

#### *Product Development*

A crucial distinction between market developers and other microenterprise programs is market developers' emphasis on helping entrepreneurs with product development and design. As entrepreneurs enter increasingly sophisticated markets, they must continuously adapt and upgrade their products' quality and image. For example, cookies packaged in a zip lock bag with a handwritten label can sell well at a local farmers' market, but to make it on the shelf of a Whole Foods supermarket, the cookies will need professional packaging with a UPC bar code and nutritional analysis. The entrepreneur might also have to modify the recipe to include less sugar, or to improve the cookies' appearance.

Market development organizations employ a range of methods to expose entrepreneurs to increasingly sophisticated markets and to help them incorporate what they learn into improvements in product design and image. This work is very hands-on and extends far beyond traditional conceptions of technical assistance. For example, organizations can:

- bring entrepreneurs to major trade shows and upscale stores so they can better understand high-end consumer tastes;
- establish local product advisory committees to review entrepreneurs' products;
- bring entrepreneurs to local expos to present products and get direct consumer feedback;
- organize tastings at local stores, fairs and farmers' markets;
- form partnerships with experts who can help entrepreneurs modify products; and
- form partnerships with local designers to help entrepreneurs improve packaging, labeling and marketing materials.

#### *Personal development*

Every market developer studied for this paper identified a significant barrier to success: training low-income entrepreneurs to dream big. Most market developers indicated that low-income entrepreneurs, especially women, are limited by visions that are much too modest. In particular, most low-income entrepreneurs are averse to trying new markets outside their previous experience and community.

Several groups have explicit strategies to move entrepreneurs into a new attitude. WESST Corporation in New Mexico begins its entrepreneurship training with almost therapeutic sessions where women are encouraged to notice their worth and to feel more powerful. The Women's Housing and Economic Development Corporation (WHEDCO) had sessions on eco-

nomic literacy and brought in experts who treated the women with respect and took them seriously as business owners. ACEnet first surrounds entrepreneurs with high-end products and marketing materials and takes them to trade shows to familiarize them with sophisticated products and markets.

#### **Linking Entrepreneurs With Financial, Technical and Other Resources**

Market developers place a high priority on identifying market and industry expertise in the community and linking entrepreneurs to these resources. For example, ACEnet worked out an arrangement with the Center for Innovative Food Technology (CIFT), an association connected to the University of Toledo, which provides low-cost technical assistance to entrepreneurs who need to develop "process plans" required by law for acidified products.

#### **Opening Doors to Lucrative Markets**

Through training and resource development, market developers help entrepreneurs improve their skills and the marketability of their products. But they also go one step further. Market developers pro-actively develop relationships with market outlets to open doors for entrepreneurs' products. By investing considerable staff time in building relationships with Wild Oats and the Hyde Park Cooperative, for example, ACEnet and WSEP opened the shelves of these stores to several entrepreneurs at one time.

A market outlet is often more willing to purchase from a new entrepreneur when it sees the kind of support and assistance she receives from the organization. While it never substitutes for product quality, the organization's social mission can also give entrepreneurs' products an added cachet.

### **Retailing or Brokering Entrepreneurs' Products**

Market developers occasionally operate a retail outlet or act as brokers. While market developers help entrepreneurs with product design, unlike marketing firms they do not design the products for the entrepreneurs.

#### *Retailing*

When a market developer operates a retail store it can either purchase products from entrepreneurs and resell them, or sell products on consignment. When selling on consignment, the store agrees to put a product on its shelves in exchange for a percentage of final sale price (up to 60 percent). Consignment is hard on the entrepreneurs, since they do not receive payment until the product is sold to a consumer. Consignment is less risky for the market development organization, however, since it does not pay an entrepreneur for a product until it is sold.

Retail outlets alone generally do not provide sufficient sales to support many entrepreneurs. They can, however, provide entrepreneurs with hands-on training and test markets. For example, ACEnet often organizes tastings

in its small retail shop and employs women transitioning off welfare to staff the shop.

Organizations are also experimenting with setting up on-line retail outlets. While this strategy is too new to evaluate, it may offer an opportunity for isolated entrepreneurs to reach broader markets. For example, the Lakota Fund on the Pine Ridge Reservation in South Dakota has begun to sell Native American crafts on its website ([www.lakotafund.org](http://www.lakotafund.org).)

#### *Brokering*

The market developer acts as a broker when it establishes relationships with market outlets and agrees to sell the entrepreneurs' products for a fee, usually a percentage of sales. Brokering (called repping in some industries) is most often used when the market developer sells in wholesale markets. The percentage charged by the broker depends on the industry sector and the kinds of services provided.

#### **Facilitating joint activities**

The impact of market development strategies is due in part to the economies of scale gained when small entrepreneurs join together in some fashion. A primary task of a market developer is to design mechanisms for collaboration among entrepreneurs. Two approaches used by the groups described in this paper are associations and informal joint ventures.

Entrepreneurs willing to make a commitment to a longer-term relationship may choose to form an association, either formally or informally. An example of this is the association formed by local artisans with the help of West Company, described on page 23. It is a closed group, in which existing members decide whether and how to expand the group.

Some entrepreneurs, after making connections through associations and training sessions, may come together to organize joint ventures. These can include sharing the cost of a trade show booth, pooling funds to hire a design consultant to make a community label, or purchasing inputs in bulk. For example, several of the salsa producers in ACEnet's network pool funds to buy jars, reducing their costs by up to half.

The entrepreneurs themselves initiate many of these collaborative efforts. However, the more capacity the market developer has to provide facilitation so that agreements among entrepreneurs are clear, the more likely entrepreneur-initiated marketing activities are to contribute to business success and community transformation.

### **STRATEGIC STEPS FOR DEVELOPING LUCRATIVE MARKETS**

Market developers open market pathways and help entrepreneurs continuously improve their products to anticipate and meet market demands. If a local market exists

for an entrepreneur's product, the market developer should begin by helping the entrepreneur succeed in this local market before moving on to regional markets. In reality, such a linear progression is not always possible, and organizations sometimes respond to regional market opportunities before cultivating local markets. In urban areas, it is critical to identify true local outlets, and not the neighborhood outlet that is in reality part of a much larger chain. An entrepreneur who is not ready and becomes involved with a chain can quickly get in over her head.

### How to open up local markets

#### *Map the local markets*

As a first step, market development organizations should identify all local retail outlets, consultants, and related businesses; outline the relationships among them; and share this map with entrepreneurs (see Appendix). The market developer can help entrepreneurs identify smaller, easy-to-miss markets that are good first steps. For example, WHEDCO found small beauty parlors in its South Bronx neighborhood that wanted to offer baked snacks to waiting clients, and encouraged entrepreneurs to solicit this business, which did not require sophisticated packaging and labeling.

#### *Establish relationships with supportive local buyers*

Project staff should actively reach out to local businesses to let them know about the project and intro-

duce them to entrepreneurs' products. Staff must then identify entrepreneurs ready to take their products to these buyers. For example, WSEP's relationship with the Hyde Park Cooperative served as an entry market for a number of entrepreneurs. ACEnet developed a long-term relationship with the Ohio University Food Service. The Food Service set up tasting sessions where students sampled and voted on local food entrepreneurs' products. The most popular were purchased for use by the Food Service, resulting in \$30,000 in sales for one business alone.

#### *Seek out other local partnerships*

Other local partners are often extremely important to the success of marketing partners. For example, several of the organizations have partnered with local microloan funds so that the entrepreneurs have access to small loans, which they often need to purchase raw materials and packaging for their products.

#### *Expand local markets*

Organizations should explore a range of activities that expand local markets. These include: consumer tastings at local stores; "Buy Local" campaigns that educate consumers about the benefits to the local economy of purchasing products produced locally; product kiosks at area stores; and public relations campaigns that place stories in the local media about individual businesses or the overall project.

## MAMMA CLASS PANTRY: EXPANDING HER MARKET STEP BY STEP

Doris, owner of Mamma Class Pantry, grew up on a farm in the South. Even though her family was poor, her mother always had a pantry full of preserves. After her mother passed away, Doris continued to make the preserves according to her mother's treasured recipes, and several were extremely popular among her friends. This popularity inspired Doris to set up a business making the preserves, but she thought only of selling at the local farmers' market. WSEP convinced her that her products had the potential to be popular in larger markets and encouraged her to enlarge her vision.

Doris first expanded her market by finding a local restaurant that featured Southern cooking. She noticed it did not have the pepper sauce traditionally served with greens. When she mentioned to the owner that she could provide him with the real thing, he began ordering five cases a month. He was so pleased with the product and service that he recommended Doris to several other restaurants in the area. To expand her business even further Doris needed to improve her product presentation, so WSEP linked Doris to an Archiworks intern who developed a label. She also needed upscale bottles, and recently obtained financing from WSEP to purchase them. Income from the business is still supplemental, but it has the potential to be Doris' sole income within the next two years.

## FROM DOGFISH TO CAPE SHARK: CREATING A MARKET PATHWAY FOR FISHING BUSINESSES

Coastal Enterprises Inc. (CEI) in Maine developed the Cape Shark Project to assist fishing businesses to diversify their catch to overcome new limits on the fish that were once their mainstay. CEI identified dogfish as an underutilized fish, and found that although the fish was popular in Great Britain (the fish of fish and chips) it was not used in the U.S. due to an ammonia-like taste. CEI built a partnership with experts from the Massachusetts Institute of Technology (MIT) and a research firm that had developed a process for removing this taste. The experts worked with CEI and a fishing business to modify this process so it could be used on-board a small boat.

Once the taste of the fish improved, staff assisted entrepreneurs in opening up access to local markets. Dogfish presented two significant challenges: its unappealing name, which CEI changed to Cape Shark, and its reputation as a junk fish. CEI provided samples of the fish to area restaurants, targeting fried fish places first, since that was the market in Great Britain. CEI discovered, however, that high-end restaurants were better markets. Not only were the chefs more willing to innovate, but also, because the

restaurants were locally owned, the owners wanted to help their community by supporting local fishing businesses. In spite of many successes, however, it was clear by the end of the season that the local market was not large enough to support even one fishing business full-time.

The next season CEI worked on a regional marketing campaign focused on Portland, Maine. Twenty-five restaurants contributed special recipes for a cookbook that was sold in the restaurants and in retail stores. CEI also conducted fish industry association tasting sessions. Unfortunately, the project came to a sudden halt when the regional organization that sets limits on fish catches, in a controversial decision, decided dogfish could no longer be singled out for large catches. CEI is now focusing on general public education campaigns to open markets for other fish, and is becoming active in regional fishing issue discussions.

The Cape Shark project shows how a market-driven organization can apply technology to open new markets for entrepreneurs and how a regional campaign can be used to build momentum around a new product. The experience also taught CEI the importance of researching resource management regulations before selecting a product to market. They now only select products for which a resource management plan is in place, and design the marketing strategy to work within that plan.

### How to Open Regional Markets

Once an entrepreneur has established a presence in the local market, she may be ready to move into regional markets. This generally will require more rigorous research and assistance from the market developer.

#### *Map the regional markets*

The market developer should start by identifying the regional retail outlets (including chains), consultants, brokers, sales representatives, and distributors, and share this map with the entrepreneurs (see Appendix). The organization should help entrepreneurs identify which market outlets will be most

strategic for their continued growth. Staff can also compile annotated databases of regional markets. ACEnet has obtained detailed information about natural foods markets in the Midwest from a socially responsible broker and from intensive Internet searches.

#### *Establish relationships with regional buyers*

A market developer should visit regional chains to identify the culture and customers of each store, and arrange for groups of entrepreneurs to meet buyers, distributors and brokers. It should help the entrepreneur strengthen those relationships by assisting

with tastings and product demos, developing point of purchase materials, negotiating agreements with retailers, and coordinating visits to regional trade shows.

#### *Seek out other regional partnerships*

A market developer should seek out partners who can assist with product development, financing, and building relationships with buyers. Good examples of this can be found in the technical partnerships developed by Coastal Enterprises with the Massachusetts Institute of Technology (see box above) and ACEnet with the Center for Innovative Food Technology.

### *Expand regional markets*

The market developer should initiate public relations campaigns that make the community aware of the project and its products. For example, Coastal Enterprises recruited 25 restaurants in the Portland, Maine area to develop recipes for a Cape Shark cookbook that was sold in the restaurants and regional retail outlets. Several organizations have also developed “umbrella brands” that encourage consumers to buy regional products, such as the Appalachian Harvest brand developed by an organization in southwest Virginia.

### *Address distribution and other bottlenecks*

For businesses with few accounts and small orders, there are not many ways to distribute their products except by expensive mail carriers. To address this problem, the market developer must work with entrepreneurs to develop innovative ways to distribute products outside the local community. For example, WSEP is considering establishing an Internet marketing site, where customers pay for shipping, and ACEnet has identified businesses that will serve as distributors to specific large urban areas.

Government regulations can also be a bottleneck for smaller producers, especially in the food sector. The market developer should help entrepreneurs understand and comply with regulatory requirements, such as the nutritional analysis label information.

In summary, organizations employing a market development strategy can significantly increase their impact by:

- building market partnerships and creating pathways that open up new markets to several entrepreneurs at once;
- exposing entrepreneurs to resources that jolt them into creating higher-value products, such as visits to trade shows, trend research, and product development funds;
- fostering collaborations among small sets of entrepreneurs to create economies of scale; and
- continual problem-solving around barriers to expansion such as distribution and production issues.

### RESULTS TO DATE AND ON-GOING CHALLENGES

The market development strategy has produced:

- methods to introduce fairly large numbers of microentrepreneurs to quality markets;
- significant increases in both sales and profits for numerous entrepreneurs;
- access to many more quality resources and experts than the typical entrepreneur could find on her own; and
- early indications that some entrepreneurs are creating jobs in addition to their own.

Data on results are still preliminary and often scattered. Both WSEP and ACEnet are setting up tracking systems that will enable the field to assess more accurately the benefits

of this approach. Anecdotal information already suggests that a sizable percentage of entrepreneurs in these projects will experience substantial growth and will hire employees. ACEnet reports that sales of the 40 most active businesses in the food venture program have increased by at least \$4.6 million in the last two years, according to informal information elicited from entrepreneurs.

Market developers face a range of challenges to achieving their full potential. These include:

- the cost of research, information gathering and dissemination;
- reaching optimal density levels;
- staff recruitment and training;
- income generation for the organization; and
- achieving poverty alleviation goals.

### **The cost of research, information gathering and dissemination**

The value of these approaches has a lot to do with the depth of sectoral information that the market developer is able to gather and share with entrepreneurs so that they can identify the most appropriate markets very quickly, can develop labels and products that are highly valued in the market, and can meet industry requirements. This level of research and information gathering must be much broader than that of the marketing firm, since the market developer will be serving many different businesses in different market niches. In addition, the market developer needs some cost-effective methods for sharing this information with many entrepre-

neers over time. Many of the market development organizations have started to develop hard copy or online materials but it is an expensive and time-consuming process. Most of the organizations work with entrepreneurs with varied literacy levels and from different cultures, and these issues need to be successfully addressed in developing materials and curricula.

### Reaching optimal density levels: geographic vs. programmatic

Even more so than a marketing firm, a market development project needs to grow rapidly to a certain minimum number of entrepreneurs to get the benefits of the approach, which is highly dependent on peer exchange. Ideally, a market development organization should reach the point where it works with more than 50 businesses as soon as possible. This is the density level that seems to provide opportunities for peer learning, economies of scale, and the kind of buzz that inspires others to start businesses in the sector. However, one question that needs further exploration is how important geographic proximity is to the success of this strategy. Does the strategy work better when businesses run into each other often because they are in the same town or neighborhood, or can phones and e-mail substitute for geographic proximity?

### Staff recruitment and training

The market development strategy requires staff with a combination of skills that is often hard to find: staff need to be highly skilled in

building relationships with markets, comfortable with shifting priorities or directions, able to learn quickly and research ruthlessly and able to relate to and motivate low-income entrepreneurs. All of the market development organizations would benefit immensely from increased staff training in strategic decision-making and assistance in developing criteria by which options can be analyzed to select those most likely to have the greatest long-term impact. Staff involved in market development need to build a stronger capacity to share information and train entrepreneurs in marketing than is the case for staff of a marketing business. The level of staffing required by market developers is also costly: ACEnet has found that one staff person can serve about 25 business per year. Staff also must coordinate general market development activity that benefits all of the businesses.

### Income generation for the organization

Income for the marketing firm comes from sales. Unless they run profitable retail or brokering operations, market development organizations do not have mechanisms to internally generate income. They are just beginning to set up systems to cover some of the costs of their activities. For example, ACEnet is exploring a service agreement that would charge entrepreneurs a small percentage of any increase in sales during a year, to pay for all the market development assistance they require. In addition, ACEnet is considering some of the

cost of technical assistance when it prices loans, and adds a small participation fee or royalty to cover that cost in addition to the interest charged. The association facilitated by West Company had an association membership fee, which covered costs after the start-up period.

### Achieving poverty alleviation goals

The market development strategy can be an effective poverty alleviation approach for low-income entrepreneurs, but only when they interact with a pool of more experienced businesses owners who can serve as mentors and resources. Most market development projects work with a range of entrepreneurs: about 30 to 50 percent are moderate income, about the same percentage are low-income but with previous industry experience and stable homes, and a small percentage are low-income with multiple barriers to entrepreneurship (low literacy, little work history, and/or unstable homes). The organizations have found that the diversity creates a culture of high expectation and skill sharing that is especially positive for very low-income entrepreneurs.

Market developers have also addressed poverty alleviation by fostering the growth of businesses that can provide decent jobs with career ladders for low-income residents. When trying to create jobs for welfare recipients, the market developer needs to work closely with the businesses, employees and local social service offices to ensure a smooth transition from welfare to work.

# FOUR KEYS TO SUCCESS

Marketing firms and market developers share four elements that are key to their success. The more deeply each of these elements is integrated into an organization's strategies, the more impact it can expect to have. The four keys to success are:

- a pro-active market stance;
- an emphasis on product development;
- a sector orientation; and
- a relationship-building capacity.

## PRO-ACTIVE MARKET STANCE

The power and impact of market-driven strategies come not from a set of specific marketing services, but from a market mindset. This entails adopting a pro-active stance toward identifying, and even creating, market opportunities. To be successful, both marketing firms and market developers must develop this market mindset. Market developers also need to instill this mindset into the entrepreneurs with whom they work.

In order to have a pro-active market stance, the organization or

business must learn to:

- anticipate markets;
- identify or create niches to focus its energy;
- develop the strategic capacity to evaluate and modify niches; and
- create market partnerships.

## Anticipate Markets

The organization or business must adapt to the changing needs of the market, rather than remain rigidly attached to a particular product. This requires both a continual stream of information about trends and a way to process that information so it gives direction to product development and marketing efforts. The information required includes both general demographic trends and sector specific trends. These are illustrated in the box on the right.

Every sector has associations, trade shows, magazines, research reports, and web sites that provide access to trend information. Although keeping current with the literature is important, the most useful information comes through relationships with key players in the sector. These tend to be of three sorts:

- Market partners (store owners, buyers, etc.) will often suggest specific, and very good, ideas for new products. For example, Wild Oats staff pointed out to the ACEnet entrepreneurs that

## GENERAL DEMOGRAPHIC TRENDS

- An increased interest in wellness and spirituality leads to a market for Native American craft items or herbal remedies, tapes on wellness topics, and yoga pillows.
- A larger percentage of younger buyers are avoiding traditional name brands in every product category, opening opportunities for new brands to be developed.

## SECTOR SPECIFIC TRENDS

- The current color trends in baby clothing are modern pastels.
- Organic foods markets continue to grow about 24 percent every year.
- Colors for antique doll clothing are increasingly dark brown, and black calicos are popular.

## EXAMPLES OF MARKET SECTORS, SPECIALTY MARKETS AND NICHES<sup>1</sup>

Market Sectors	Specialty Markets	Niches
Food	Natural Foods	Organic, vegan, functional foods
Apparel	Handmade/Hand-designed apparel	Organic fiber knitwear, ethnic clothing, handmade in America brands
Health & Beauty	New Medicinals	Chinese medicine, medicinal teas, aromatherapy products

the younger vegetarian market is quite different from the baby boomer vegetarian market, and encouraged the entrepreneurs to develop vegan food products with modern package designs.

- Experts or consultants often have connections that help them quickly detect shifts and new opportunities in markets. This can be extremely useful in identifying products with a high chance of success. For example, one of ABD's consultants attended some European shows where she noticed household products in bright, primary colors and anticipated that this trend would become popular in the United States in two years. By immediately developing a line of products using these colors, ABD was able to grab the attention of buyers and make a name for itself as a trendsetter.
- Consumers are often the best

source of breakthrough ideas. These may come from formally organized focus groups, where a professional leader asks a group of consumers provocative questions, or from informal conversations when a business is sampling products. WHEDCO staff organized a focus group of women with small children to test organic slice and bake cookies. WHEDCO used the feedback to narrow down the flavors and to inform its presentation of the cookie line to store owners.

### Identify or Create Niches to Focus Market Energy

Commodity or large-scale markets make up a substantial part of most industries. Usually, these are dominated by big corporations, which can mobilize enormous economies of scale, such as McDonald's or General Mills in the food sector, or Levi Strauss in clothing. On the

edges of these, however, are niches—smaller market units that can be served by microbusinesses. Niche products meet special needs, or are packaged in a way to make them attractive to a small set of customers. Small businesses can be the first to enter these markets if they have access to trend information and the other resources they need to excel. These niches may grow very large over time and most market shares may be taken over by large corporations, as happened in the case of salsa and low-fat foods. However, a business that is first into the market with a product, or can produce a unique variation that is clearly distinguishable from its competitors, will be able to flourish.

Niche markets often provide much higher returns for small businesses than commodity markets, because consumers are willing to pay more for these products. A can of tomato sauce might have a wholesale price of fifty cents, while a jar of herbed tomato vinaigrette will bring in five dollars wholesale. These differences add up and mean much higher income for small businesses that produce specialty items: 10,000 jars of tomato sauce will generate only \$5,000, while 10,000 jars of the vinaigrette will generate \$50,000.

One of the fastest growing set of niche markets are those that appeal to people's concerns about social issues, such as the environment, healthy communities, and ending

<sup>1</sup> Adapted from A Model Market and Product Development in Low-income Communities by ACE, 1991 and revised by Sarah Bobrow-Williams in AEO's Access to Markets Handbook

poverty. These are called cause-related markets. Products can often command a small premium and generate increased sales if the cause they represent is clearly and convincingly presented to consumers.

The recent Cone/Roper report on cause marketing, *The Evolution of Cause Branding*, states that 83 percent of all Americans, and 94 percent of influential Americans, have a more favorable image of companies that are committed to a cause.<sup>2</sup> However, other values are often more important in actual purchasing decisions, such as price, availability and quality. A valued cause is not a substitute for a quality product, but it is a factor that can positively influence the consumer. Shorebank Enterprises Pacific found that health and safety issues were major factors for customers purchasing local salmon, and that environmental factors (the use of ecologically sound fishing methods) were secondary, but still were valued by customers as part of their decision-making process.

Every sector and niche needs to be seen as new territory to explore, and not all territories will prove to be equally fruitful. Market-driven organizations must continually assess the value of particular sectors and niches and be ready to move in other directions. For example, ABD decided to move into the household products sector because knitwear styles changed so rapidly. ACEnet encouraged businesses to modify their products so that they

contain organic ingredients, since natural store growth continues to be so strong and retailers are eager for more organic products.

### Develop Strategic Capacity to Evaluate and Modify Niches

One area where most of the organizations described in this paper need additional development is in adopting a more effective style of planning. When working in fast-paced niche markets, traditional linear planning can trap a market-driven organization in an outmoded set of goals and activities. Instead, planning needs to prepare the business to respond quickly and creatively to the inevitable changes and unseen shifts in the market that occur as its plan unfolds. In other words, organizations and businesses must develop strategic readiness.

A major component in strategic readiness is taking time to reflect on experience, learn from it, and modify actions based on what worked and what did not. The business should have systems in place to provide timely feedback. For example, ABD developed a business plan projecting a line of plain pastel pillows. However, when these pillows did not sell well at several shows, ABD quickly dropped them and developed a new line of baby products using the surplus pastel yarn. If ABD had stuck to its original plan and had kept trying to sell the plain pillow, it would have been hurt financially and missed the much more lucrative baby market.

### Create Market Partnerships

One of the primary means of gaining leverage in highly competitive markets is to form strategic market partnerships. Market partners are buyers who provide some type of extra value to the market-driven organization, in part because of their affinity for the organization's social mission. In a close partnership, such as the one ABD has with Ethan Allen, the partner will provide information about colors and style changes and ask the market-driven organization to generate products to fit the new niche.

There are several important insights that market-driven organizations have already learned about market partners, though more research needs to be done. Market partners, because they generally provide a sizable order or opportunity, are important in bumping up a market-driven project to another level of operation. This can be stressful as well as fruitful, and the market-driven organization should be prepared for the growth that occurs by putting in place ahead of time the management systems that will be needed.

Market partnerships are generally unstable. Corporations get sold, or the project's champion leaves the corporation, and instantly the partnership is dissolved or diminished. Market-driven organizations should prepare for such shifts by having multiple champions and by making sure that no one market

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<sup>2</sup> Carol L. Cone, *Cone/Roper Cause Related Brands Report: The Evolution of Cause Branding*. Boston: Cone, Inc., 1999

partner accounts for most of the organization's or entrepreneurs' access to markets.

## EMPHASIS ON PRODUCT DEVELOPMENT

Whether it is selling its own products or enabling entrepreneurs to move into high-value markets, the market-driven program should have the capacity to develop an ongoing stream of innovative products. Being first in the market, or distinguishing a potentially unexceptional product from its competitors by developing unique qualities, is essential. Trend research, staying in touch with leading-edge producers in the sector, and using expert designers or product developers all contribute to quality designs.

## From Niche to Product

Market-driven organizations need processes for translating trend information into new products or for using the information to redesign existing products. This often means up-front market research and contracting with designers or product formulators. Working with gifted designers or product developers is key to the success of market-driven organizations. Most of the groups profiled in this paper have tapped into the expertise of design experts:

- Appalmade hired a painter of primitive art who was able to produce a continually changing line of dolls and wooden items. Doll styles vary with changes in season and color trends. Without

guidance from an experienced designer, it would be difficult for isolated entrepreneurs to stay up-to-date on these trends and develop products that sell well in the doll market.

- As described in the box below, Shorebank Enterprise Pacific convened three nationally known designers with gatherers and craftspeople for a two-day "design charette." The entrepreneurs first heard trend information, then showed some of their current products. In a room filled with materials gathered from the local forests, the group prototyped different products for the ecologically oriented household product line.

## SHOREBANK ENTERPRISE PACIFIC: NICHE IDENTIFICATION

Before embarking on their eco-friendly line of gifts and household products, Shorebank Enterprise Pacific conducted thorough market research to determine which niche was the most strategic. Since its mission is to provide economic activity that is beneficial to the western rainforests, Shorebank was interested in identifying non-timber forest products. It looked at the supply of fifteen different plants grown in the woods, from mushrooms to St. John's Wort to salal, a beautiful green vine, and identified how much was currently going out of the region. Next it identified five sectors, which included products made from these plants: medicinals, vitamins, food, floral, and gifts. In each area, it identified existing capacity in the region for making those products, potential for adding value, market opportunities, and barriers.

Shorebank found that the region had little capacity to turn plants into food items, since it had no kitchen incubator or existing small food businesses making similar products. Vitamins and medicinals would require processing plants and compliance with FDA regulations. The floral sector had little opportunity for adding value, as florist shops simply want raw product. In the gift market, however, no one was producing for the niche of eco-friendly gift and household products, and Shorebank felt that it could develop a substantial market for high-quality items.

This market feasibility study was very effective in identifying a profitable niche: sales in 1998 of the eco-friendly gift products were more than \$400,000.

- WSEP developed a partnership with Archiworks, a design school that raised money to enable students to work with entrepreneurs on labels and image. WSEP also set up a product advisory committee, which included staff from industry leaders such as Sara Lee, to review entrepreneurs' products. Usually a half dozen entrepreneurs presented their products at one convening. All the entrepreneurs were expected to listen as the others presented so that they would get a better sense of how to judge their own products.

## Capitalizing Product Development

Perhaps the major barrier market-driven organizations and entrepreneurs face when trying to develop high-quality products is

lack of access to the appropriate kind of capital. Banks and even loan funds see product development as a high-risk investment, and philanthropic funders often do not understand the potential return on such investments.

Several market-driven organizations are developing strategies to capitalize product development. For example, ACEnet has set up a \$200,000 fund to encourage entrepreneurs to develop high-quality products and improve existing products. Funds are provided in the form of awards, with repayment to ACEnet coming from royalties on the sales of the new product, or in the form of lower-interest debt with a small participation fee or royalty based on sales or increase in sales. The advantage of royalties is that the entrepreneur only pays a return to the fund based on the successful sales of her product. Although the fund is quite new, ACEnet has found that even very small awards of \$3,000 or less to upgrade labels and packaging can play an important role in increasing sales and the price at which products can be sold. One business was able to increase the price of its product by 50 percent when it had a gourmet appearance.

## SECTOR ORIENTATION

Each sector has its unique terrain, with vastly different players and resources. Researching a sector and building relationships with key players requires an enormous investment of time, which makes it critical that the market-driven

organization concentrates on a very small number of sectors.

Staff of market-driven organizations needs to become familiar with the market outlets, distribution networks and the wide range of resources available in the sectors in which they work. Market outlets can be retail (e.g., stores, Internet sites, catalogs and expos) or wholesale. As discussed earlier in the paper, each sector has distinct distribution patterns and many have established brokers and other intermediaries.

Beyond understanding market outlets and distribution patterns, it is essential that the staff of market-driven organizations researches and maps out all of the resources in the sector they can draw upon to amplify the project's impact. These resources are quite diverse and include:

- loan funds, banks and venture funds;
- other economic development organizations;
- designers;
- industry associations and trade journals;
- equipment dealers;
- universities and other educational and research institutions;
- local and state agencies, such as Human Services departments;
- suppliers of raw materials and packaging;
- other related businesses;
- the media.

Staff needs to pro-actively develop relationships with the players whose resources can best benefit the project and the entrepreneurs. Staff should also look for gaps in

services and identify opportunities to fill them, for example, by encouraging a local community college to set up a technical training program. Government policies often affect how a sector functions and the ease or difficulty of access for small producers. Staff should therefore also develop relationships with policy makers and advocate for policies that benefit the project and the entrepreneur.

Appalachian By Design tapped into several resources as it built its business. For example, it worked closely with designers who provided ABD with market trend information, with production engineers who helped identify equipment and efficient production processes, and with the state microenterprise loan fund to provide knitters with access to capital to purchase looms.

Thinking big, market-driven organizations should strive to create a dynamic and self-reinforcing set of relationships among producers, suppliers, distributors, buyers and all the related resource organizations. They want customers to identify their community as "the" place where high quality products from their sector are made. This is what management guru Michael Porter calls a "cluster." Porter states:

In a healthy cluster, the initial critical mass of firms triggers a self-reinforcing process in which specialized suppliers emerge; information accumulates, local institutions develop specialized training, research, infrastructure and appropriate regulations; and cluster vis-

ibility and prestige grows. Perceiving a market opportunity and facing falling entry barriers, entrepreneurs create new companies. Spin-offs from existing companies develop, and new suppliers emerge. Recognition of the cluster's existence constitutes a milestone. As more institutions and firms recognize the cluster's importance, a growing number of specialized products and services become available and specialized expertise responsive to the cluster arises among local financial services providers, construction firms, and the like. Informal and formal organizations and modes of communication involving cluster participants develop. As the cluster grows, it develops greater influence not only over what other firms do but also over public and private institutions and government policies.

#### RELATIONSHIP-BUILDING CAPACITY

Two of the critical issues in enterprise development are scale and impact. How can the activities of one small organization have enough impact on a local economy to make a significant difference for low-income women and their families? Building targeted and productive relationships appears to be the key to increasing impact and scale.

The market-driven organizations in this study all developed the capacity to build solid working relationships among all the cluster participants—entrepreneurs, buyers, experts, and staff of other local organizations. These relationships help entrepreneurs access diverse resources and

adopt new business practices that greatly increase their viability. To understand the process of building these kinds of relationships, it is necessary to understand how networks function. Networks, as defined by social scientists, are the set of relationships along which information and innovation move. Networks are not formal organizations, although formal associations may emerge out of networks. In effective networks, businesses build relationships to exchange information, draw upon resources, and achieve economies of scale.

By collaborating and sharing information, businesses can become much more competitive in the long run than if they do not work together. For market-driven organizations, networks also lower the cost of technical assistance, since more experienced entrepreneurs become mentors for others, sharing information about markets, production processes, suppliers, and technologies. To again quote Michael Porter,

To the degree that the businesses in a cluster are networked, they will quickly learn about and adopt new technologies that can increase their competitiveness

When a substantial number of entrepreneurs know each other and run into each other frequently, new ideas and resources spread rapidly, or cascade, through the system. When two tiny businesses in the textile network in Prato, Italy dis-

#### APPALACHIAN BY DESIGN: CONTINUOUSLY UPGRADING PRODUCTS

Seeking out and incorporating feedback on products improves prospects for increased sales and profitability. ABD received strong signals from the tremendous success of its pastel baby stockings that there were additional opportunities in the babywear niche. In response, it brought together a group of staff and knitters for a two-day design session that generated a line of baby products. The line included sweaters, throws and hats. By testing the line at a regional show, ABD received valuable feedback that it incorporated into an improved line. For example, ABD added a knit doll to the line and created attractive wooden stands to display the products. At the show, ABD also received information on the price points and modified the pricing structure.

ABD introduced the much-improved full line at the New York Gift Show, and found that buyers wanted to buy the display stands as well, guaranteeing excellent retail presentation. In 2000, ABD made \$198,978 in sales for the baby line.

covered sand-washed silk, the techniques to make this fabric spread rapidly throughout the 6,000 business network. Prato became the world center for production of this popular and high-value product, bringing the local economy to new heights of prosperity. This same cascade of innovation explains what

<sup>3</sup> Porter, Michael E. *On Competition* Cambridge; Harvard Business Review Books, 1996.

<sup>4</sup> *Ibid.*

happened when 11 businesses associated with ACEnet all changed their labels following the example of a few innovators.

The market-driven organization will need to jump-start the building of many different but overlapping networks. The most significant benefit comes when low-income entrepreneurs are linked with people and organizations that are resource or power rich.

Organizations should foster:

- *Networks of entrepreneurs* where businesses share market information. These are especially productive when they link new businesses run by low-income entrepreneurs with larger, more experienced firms.
- *Market networks*, the relationships among the businesses and key buyers and suppliers who can become excellent sources of trend and other market information.
- *Resource networks*, the relationships among businesses and the range of resource people and institutions listed in the previous section.
- *Policy networks* that involve businesses in policy activities that can open market access or increase resources.
- *Support networks* that provide a sounding board and support for business owners dealing with personal and family issues and change.

Market-driven organizations have experimented with several techniques to encourage the development of these networks.

Organizations often deliberately provide opportunities for entrepreneurs to get to know each other by starting meetings with time for introductions and lengthy breaks for networking. They may also set up informal gatherings, such as potluck dinners, and formal celebrations, such as annual award ceremonies, where entrepreneurs in the program can meet each other and socialize with successful business owners. And, when an entrepreneur has a specific need for assistance, the organization tries to identify other business owners who can help. Finally, market-driven organizations actively encourage entrepreneurs to initiate joint activities, such as bulk purchasing of supplies or joint trade show booths.

Another tool that has been used effectively by many of the market-driven groups is the networking hub. Any space can be transformed into a networking hub if staff employs some of the techniques described above. For example, the kitchen incubators run by WHEDCO and ACEnet provide opportunities for trainees to meet and work with the more experienced business owners who rent space in the incubators. ABD has a Finishing and Training Center, where supplies purchased in bulk are warehoused and distributed to entrepreneurs, and sweater pieces produced by the entrepreneurs are assembled and shipped. Entrepreneurs also go there for training in quality control and machine use. The multiple activities taking place mean that entrepreneurs—even though they

work in their homes—will have many opportunities to meet with other entrepreneurs, share information, and provide important personal support to each other.

## CONCLUSION

Each of the four keys to success—proactive market stance, product development, sector orientation, and relationship building capacity—increases the potential for impact and scale of market-driven projects. The projects create capacity, fertile ground so to speak, which will continually sprout new sales, new sector services, and new economies of scale. The investment in building a relationship with a market partner means repeat orders over time. Setting up a product development fund means more high-quality products that will sell well. Working with a local technical school on a training program increases the likelihood of trained owners and employees, which can increase productivity. Successful market-driven organizations are continually asking themselves: How will this activity build long-term capacity? What kind of synergies or multiple outcomes will this activity generate?

Underlying all of the market-driven activities is the need to strengthen and support the ability of people to collaborate and innovate together. Low-income communities, networked locally and yet sharing innovations with other communities, can become central to the economy of the next millennium.

# CONCLUSION & RECOMMENDATIONS

The programs profiled in this paper show the promise of market-driven strategies to bolster sales, increase incomes and assets of low-income families, create jobs and bring business activity to distressed communities. To move forward and reach its potential for impact in low-income communities, the field has two critical tasks: it must build capacity among both entrepreneurs and practitioner organizations, and it must develop an infrastructure for learning. By also adopting a “market mindset,” foundations, corporations and other funders can play a crucial role in advancing the strategy.

## CAPACITY BUILDING

### Business and Marketing skills

Both the entrepreneur and the market-driven organization must develop a set of relatively sophisticated business and marketing skills. These include:

- the ability to continually design high quality, high-value, unique products and respond quickly to market trends;

- the ability to conduct market research, map sectors, acquire industry knowledge and build a web of relationships in order to access high-value markets with sufficient volume to generate significant returns; and
- the production and management capacity to respond to increased market demand in a timely fashion while maintaining product quality.

The degree to which the entrepreneur or the market-driven organization must build these capacities depends on the approach taken by the practitioner organization. Marketing firms must fully develop all of these skills themselves. Since their affiliated entrepreneurs or employees do not engage directly in marketing, they do not have to acquire these skills to the same degree. Market developers must not only gain these skills themselves, but must also transfer them to the entrepreneurs they serve.

Several organizations are moving from a traditional microenterprise training program to one with a

market-driven orientation. More research on the best strategies for this transition is needed. Experience thus far indicates that organizations should research and identify one sector, hire or assign at least two staff to the project so that they can process and learn together, and encourage staff to learn from other market-driven organizations. Staff should have some experience with the sector, but even more important is their ability to learn quickly and build relationships.

### Organizational Skills

All market-driven organizations need assistance in developing a set of organizational capacities above and beyond business and marketing skills. These include the ability to:

- create functioning and dynamic networks of entrepreneurs;
- meet both social and business goals and resolve tensions between them;
- identify staff and outside consultants who bring both industry expertise and the sensitivity to work respectfully in low-income communities; and

- address the personal barriers and skills-training needs of low-income entrepreneurs or employees.

Market-driven organizations need assistance in learning how to determine their costs of providing services, and information on innovative strategies for covering these costs from business activities and fees. They need to learn industry standards for brokering and marking up prices for resale, and use rates and policies close to the industry norm. Organizations that provide technical assistance or services need to experiment with creative mechanisms to cover some of these costs through fees.

#### BUILDING AN INFRASTRUCTURE FOR LEARNING

In order to speed up capacity building among practitioner groups, the field must develop an infrastructure for learning that includes:

- basic and advanced practitioner training opportunities;
- peer learning programs;
- the development of sectoral resources; and
- further research and evaluation efforts.

#### Practitioner Training

If the field is to continue making progress, practitioners need training on the range of activities described in this paper, such as researching market opportunities, identifying trends and preparing for trade shows. The Association for Enterprise Opportunity (AEO) cur-

rently offers a day-long Access to Markets pre-conference session for practitioners new to this strategy at its national and regional meetings, and workshops on marketing throughout the conference. For several years, the Ms. Foundation has also offered courses on marketing at its national Institute on Women and Economic Development.

To support these training efforts, and to offer learning opportunities to a wider number of groups, it would be helpful to collect a portfolio of useful practices and tools that market-driven organizations have used. These could include information on how to conduct focus groups, do's and don'ts for trade shows, and tips for marketing over the Internet. Such a toolbox could be designed as an interactive web site, with a hard copy version for use in training workshops.

As market-driven organizations grow in sophistication, there is also a need for more advanced training provided by industry professionals. For example, the Ms. Foundation contracted with two design and product development specialists from the private sector to share their expertise with grantees at a Collaborative Fund gathering. Furthermore, it is important to convene the experienced innovators to deepen their understanding of successful strategies and record their learnings for others.

#### Peer Learning

To share their expertise and work through problems with each

other, practitioners need opportunities to come together and observe each other's work for concentrated periods of time. Peer exchanges offer a more in-depth look at other programs than is provided by the informal exchanges of conferences or online communications. The Ms. Foundation supports peer-to-peer exchanges in which one or more organizations spend a week on-site at another organization learning skills in a specific area.

#### Sectoral Resource Development

The Kauffman Foundation recently concluded, after surveying small businesses, that entrepreneurs are most in need of sector-specific knowledge if their businesses are to grow. Similarly, market-driven organizations need networks, convenings and information sources that are sector-specific if they are to be effective in their assistance to entrepreneurs.

ACEnet has taken a leadership role in convening Foodnet, the network of 250 organizations and experts working with very small food processing businesses in low-income communities. The Foodnet listserv enables all subscribers to learn from each other's questions and answers. The field needs to develop such networks in other sectors.

Organizations working in a particular sector need to come together to learn specific techniques and regulations and to join forces to influence industry policies. For

example, the specialty food sector needs a conference to share information about kitchen incubators and learn about regulations regarding packaging and labeling. Organizations also need assistance in becoming familiar with experts in the sector, especially those who are willing to work pro bono or for lower rates. These may be found in the private sector, universities, or in manufacturing centers.

At some point, market-driven organizations will benefit by jointly developing regional or national infrastructure to gain economies of scale and scope. For example, some type of brand or certification system might add value to products. As more programs pursue market-driven strategies, large sets of entrepreneurs all over the country could order packaging through large bulk orders to obtain the same prices as larger businesses.

### Research and Evaluation

The peer forums described above will raise issues that need additional study. The field should have researchers who will take on the task of distilling experiences that can become a guide for others. Topics that have been raised in this publication as needing additional research include market partnerships, strategies for making the transition from a generic microenterprise organization into a market-driven one, cause marketing and branding, and electronic commerce.

Evaluation, in the context of market-driven strategies, is quite com-

plex. Much of the impact of these strategies comes from activities that are hard to quantify and track. It is easy to gather data on specific marketing interventions, such as a web page or a trade show, and their success in generating sales. However, the more powerful and subtle underlying factors of market success—the power of market relationships, the capacity to generate trendy products, the shift to a market mindset—are much more difficult to track and evaluate. In addition, investments in the strategy often do not show a substantial return for several years. Furthermore, if they are noticed and become an impetus for improvement, mistakes are often a pathway to success. The field must develop evaluation methodologies that take into account this complexity, yet support continual improvement.

As one example of such research, ACEnet is conducting surveys to enable entrepreneurs to identify their business and marketing networks, in order to explore the degree to which this collaboration improves businesses' access to markets. ACEnet found that businesses with the strongest growth in sales were those with dense and diverse networks.

The field also needs objective quantitative data on the costs of interventions and their impact on entrepreneurs' and employees' income and assets over time. This research is essential not only to assess the effectiveness of the mar-

ket-driven approach, but also to identify which strategies are most effective and efficient. With support from public and private sources, both local organizations and intermediaries must develop tools for data collection relevant to these strategies and improve their data collection capacity.

A good example of such data collection is the Aspen Institute's evaluation of the nine Access to Markets projects funded by the C.S. Mott Foundation. The study follows businesses assisted by these nine organizations over a three-year period. Through an annual survey of entrepreneurs, the project tracks marketing activities utilized, geographic span of marketing, and networking with other businesses. It is also tracking sales growth, business revenues and the number of employees.

### FUNDING NEEDS

Just as practitioner organizations adopting these strategies must change their mindset, private and public funders supporting them must do so as well. To have the greatest impact, organizations pursuing market-driven strategies require long-term funding for capacity building, long-term investments for market research and product development, flexible funding to respond to market demands and resources to engage in advocacy. In addition, this strategy gives funders the opportunity to contribute not only money, but also crucial contacts and market information.

Since market-driven organizations increasingly look and act like for-profit businesses, funders may expect that such organizations will become financially self-sufficient over time. The strategies discussed in this paper do offer opportunities for non-profits to generate significant income from sales, brokers fees, or royalties. However, while engaging actively in the market, these organizations are working to correct market failures by choosing to operate in low-income communities outside of the economic mainstream. They will need on-going funding to provide training, technical assistance and support services to entrepreneurs or employees, and to research and create new markets for their products.

### Capacity Building

A range of funding opportunities stems directly from the capacity building needs discussed in the previous chapter. Local organizations require on-going funding to:

- employ skilled staff with sector and marketing expertise, constantly upgrade staff skills, and contract with industry experts as needed;
- engage in the market and product development and relationship building crucial to success;
- provide training and technical assistance in sectoral and marketing skills; and
- provide the social supports needed by low-income entrepreneurs and employees.

Intermediaries and networks (such as AEO, state microenterprise associations, the Aspen Institute, the Corporation for Enterprise Development, the ACEnet Institute and the Ms. Foundation for Women) require funding to promote peer learning, document lessons learned, and provide training opportunities for practitioners. It is essential that both local organizations and intermediaries raise resources to collect data and document quantitative results.

### Investments

It has taken several years for the pioneer market-driven organizations to acquire sector-specific knowledge, build market relationships, develop products that respond to market trends and train entrepreneurs or employees to produce quality products in a timely manner. Once entrepreneurs develop a new high-value line or improve their label, it may take several months for sales to pick up. The capacity building activities outlined in the previous chapter will help shorten the learning curves of both organizations and entrepreneurs. However, there is no getting around the fact that market-driven organizations and entrepreneurs need research and development funding that is long-term and flexible and may not show returns for some time. Public and private funders can support these research and development needs with grants, loans and equity investments. Market-driven organizations need

multi-year grant support to research trends and build market relationships. Both organizations and entrepreneurs need long-term patient capital to develop new product lines and increase production capacity to meet market demands. Funders can support these needs by providing grants and program-related investments to product development funds and by capitalizing community development venture capital funds.

### Flexible Funding

Appalachian By Design often characterizes the organization's operating principle as "plan, plan, improvise and reflect." This mindset acknowledges the importance of business plans and feasibility studies, but recognizes the need to shift plans in mid-course to respond to market opportunities, and to learn from these experiences. To support effective market-driven organizations, therefore, funders need to become comfortable with such changes in direction. They can also create funding streams for grantees to quickly respond to unanticipated market opportunities. The third round of the Ms. Foundation's Collaborative Fund for Women's Economic Development, for example, will include a Special Opportunities Fund that may be used for this purpose.

### Advocacy

Funders can amplify the impact of their investments by supporting market-driven organizations'

efforts to influence public and industry policies. Organizations require support to engage in advocacy and public education campaigns to improve business opportunities and working conditions for low-income entrepreneurs in particular sectors. For example, WHEDCO is working with local officials to increase access to vending kiosks for their clients' businesses. Microenterprise groups in the Midwest are working to ensure that government training sessions on food regulations and food processing are appropriate for very small food processing businesses, and that consideration is given to lower literacy levels of some entrepreneurs.

To be most effective, market-driven organizations need support to participate in local and regional economic development planning to make sure that strategies chosen foster rather than discourage entrepreneurship and to enable microenterprises to take advantage of economic development incentive programs. For example, after its experience with dogfish, Coastal Enterprises has become more engaged in resource management debates and designs marketing strategies that work within existing regulations.

At the national level, funders can support advocacy for continued funding of the PRIME Act, which will be able to support marketing training and technical assistance.

### **Beyond Funding**

Finally, given the importance of networking and relationship building, funders can offer much more than money to market-driven organizations. Individual donors may have contacts with designers, buyers or investors. For example, one of the Ms. Foundation Collaborative Fund donor partners introduced several grantees to her daughter who runs a high-end mail order catalog. Institutional donors can contract with grantee's businesses for catering, conference bags and printing services. The field needs more opportunities to bring funders and grantees together to share contacts and build relationships that go beyond funding.

# MAPPING THE SECTOR

As an organization develops a map of the sector it has identified, the answers to important questions provide the landmarks a business will need for guidance.

## How does this sector sell?

- What are the characteristics of local markets in this sector? Are they high-end, low-end, informal, formal, niche, commodity, retail, wholesale?
- What are the characteristics of the regional markets?
- How are goods distributed regionally?
- What is the role of brokers or reps in this sector?
- What are the characteristics of the national markets? International markets? What are the specific opportunities in each?
- What regulations could affect marketing?
- How are all of the markets and players linked? Who knows whom? Who respects and/or works with whom? What are the specific interests of each of these market players?
- Are any players good candidates to become market partners?
- Who do you know that could provide entrée to any of these market players, especially potential market partners?

## How do trends become opportunities?

- Who are the market leaders who set the trends, colors, tastes, and styles in this market?
- Where do new styles or niches come from?
- How often do styles change?
- How often do colors change?
- Where are all the places and resources where you can learn about these new styles and trends?
- Where can you find designers?
- Can you form partnerships with any of them?
- What is your internal design capacity, or your

capacity to identify the kinds of designs that will succeed in the market?

- How can you build your capacity to develop or recognize excellent designs?

## Where are the niches?

- What shifts are occurring in values and tastes?
- What unmet needs are there in the sector?
- How can these needs be expressed in a new or modified niche?
- What qualities seem to be garnering the highest value?
- What products would meet these unmet needs or interests?

## Who are market resources?

- What are the major trade associations in this sector?
- Are there other key sector organizations?
- What are local trade shows in the sector? Regional shows? National shows?
- What are the major trade journals? What are key magazines?
- What other media like to give free coverage to value-based projects and entrepreneurs, and could be used for free marketing?

Mapping a sector is not just gathering data by asking the right questions. It's important how and from whom the information is gathered. Many of the people who you survey to get this information, such as store managers, catalog owners, designers, bankers, brokers or reps, can become, in essence, pro bono consultants for your efforts, providing you with a continual stream of trends, tips and other useful advice. And, each person who becomes your supporter brings his or her network in closer reach.

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tunities for low-income residents. ACEnet supports the capacity of local communities to network, innovate, and work together to create an economy that provides benefits for all people. ACEnet uses a sectoral strategy, focusing on the food and technology sectors of the economy. For more information, visit ACEnet's website at [www.acenetnetworks.org](http://www.acenetnetworks.org).

Drawing on extensive experience in both international and domestic economic issues, **Anna Wadia**, Director of Program, co-leads the Ms. Foundation for Women's Program Department and manages our work in Women's Economic Security. For several years, she coordinated the Collaborative Fund for Women's Economic Development. Ms. Wadia speaks on women's economic issues at national and regional conferences, and wrote a chapter on microenterprise development and state policy in the book, *Six Strategies for Self-Sufficiency - Great Ideas for Using State Policy to Get Families Out of Poverty*. Ms. Wadia has held professional positions at the Ford Foundation, the Refugee Policy Group, and Catholic Relief Services in West and Southern Africa, where she supported and analyzed community development and relief efforts. She has a Master's of Public Affairs (MPA) from the Woodrow Wilson School at Princeton University.



