

Entrepreneurship with a REGIONAL *flavor*



APPALACHIAN CENTER FOR ECONOMIC NETWORKS
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Growing Our Regional Economy

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Entrepreneurship with a Regional Flavor

June Holley

Like many other local economies during the 1990s, Appalachian Ohio lost businesses and jobs as lower-cost international suppliers made local businesses, especially small manufacturers, less competitive. Athens County (population 60,000), for example, lost three grocery stores, a Japanese seat belt manufacturer, a plastics manufacturer, and a shoe factory – more than 1000 jobs lost in less than 10 years.

Fortunately, at the same time, this region began a decade of experiments in entrepreneurship and, along with dozens of other areas around the country, pioneered in the creation of a new type of economy, based on innovation and regionalism and powered by dynamic networks and collaborations. Hundreds of new businesses were formed, a wide array of support services emerged, and a new capacity for community creativity arose throughout the region.ⁱ

How did this Regional Innovation Economy emerge? What lessons can other regions learn from these successes? This chapter provides a brief history of the development of Appalachian Ohio's regional innovation economy from the initial formation of a specialty food cluster to the current operation of the Regional Entrepreneurship Network. It provides insights for other areas possibly interested in replicating this type of approach.



The chapter begins by describing how a

local economic development organization in rural Appalachian Ohio implemented a strategy to add value to the region’s agricultural assets by creating a cluster—a system of support for specialty food entrepreneurs—that involved the three keys to successful local initiatives: weaving networks, encouraging innovation, and involving many groups in collaborative efforts. The next section describes how the success in the specialty food sector became the foundation for the development of a regional innovation economy. The major vehicle for this transformation was the emergence of a regional flavor cluster where artisans and food businesses joined with tourism bureaus and businesses to combine their offerings and open large regional markets. The chapter closes by discussing two regional entrepreneurship networks and the promise they hold for expanding the impact of local successes through policy and learning.

A Specialty Food Cluster Emerges in Appalachian Ohio

A Kitchen Incubator

In 1992, a group of farmers approached the Appalachian Center for Economic Networks, a regional non-profit that operated a small business incubator and was organizing business networks to increase jobs in the region. The farm group wanted to add value to their farm products but was overwhelmed by state regulations for food-processing. An ACEnet staff member had recently



attended a National Business Incubation Association conference, and had learned about a *Kitchen Incubator* project in Spokane, Washington (the first of its kind in the country). Kitchen Incubators are licensed processing facilities where entrepreneurs can rent the use of a wide range of equipment—a bottling line, ovens, or catering space—to process their products. She presented this idea to the farmers, who agreed to explore the approach.

Kitchen Incubators are an example of facilities that focus on providing services to groups of entrepreneurs in a specific cluster. Other cluster-focused incubators work with Arts businesses or artisans, technology

businesses, or wood products businesses. They usually provide shared equipment, offices or work spaces, storage, and access to technical assistance related to that cluster. These services mean that an entrepreneur will not have to invest scarce start-up dollars in equipment or real estate but can use those funds for working capital and more rapid expansion.ⁱⁱ However, Kitchen Incubator initiatives have the most impact on rural economies when they combine low-cost access to equipment with three other key services: identifying needs of entrepreneurs and working with others in the community to create new services to meet those needs, building networks among entrepreneurs so they begin to collaborate to gain economies of scale, and providing innovation services and market access so that entrepreneurs generate substantial sales and profits.

During the three years needed to access funds, find a building, and complete required renovations, ACEnet staff held literally dozens of *joint design sessions* with small groups that helped them build the skills and relationships needed for collaboration. These groups – which included farmers, food artists, Ohio University’s food service director, food specialists from Cooperative Extension, local grocery store managers, and consultants – provided input and ideas used to design the floor plan, select equipment, and determine rates.

The diversity of the focus groups enabled potential food entrepreneurs to build relationships with many individuals and experts who could help them succeed with business ventures. The relationships formed during this design process were the beginning of the *regional network development* that became so critical in the coming years: dozens of individuals from many different types of organizations and businesses got to know and trust each other and learned the basic skills of successful collaboration.

The ACEnet Kitchen Incubator facility was a 12,000 square foot space that had previously been a mattress warehouse. It had approximately 3,000 square feet of processing space, with one room for bottling jarred products, another with ovens, stoves and preparation tables, and two smaller spaces for drying and cooling products. An even larger space was used for storage. This room had palletized areas that entrepreneurs could rent to store bulk items such as jars or raw materials. It also contained large walk-in coolers and freezer where entrepreneurs rented sections or shelves. A large area next to the two loading



docks served as a staging area where finished products were palletized to be picked up by distributors. Since usually there were at least several trucks at the loading docks, this area became a *connecting place* where entrepreneurs congregated, shared news and discussed joint projects.

The front of the incubator included business offices rented by several of the entrepreneurs, a library with trade journals and regulations, a copier and fax, and the offices of ACEnet's 3-person technical assistance staff, in essence the makings of a traditional business incubator.

What is a Cluster?

ACEnet explicitly decided not to limit its services to the food manufacturers who used the Kitchen Incubator. Instead, ACEnet would serve the entire specialty food and agricultural cluster in the Appalachian region. This included food manufacturers with their own facilities, locally-owned restaurants, and farmers interested in exploring specialty crops.

It also included businesses that provided services (such as graphic designers and accounting services), markets (from larger grocery stores to convenience stores) and distributors. And finally, the cluster included many non-profits and agencies – such as the Small Business Development Center and cooperative extension – that ACEnet helped customize services to more effectively serve food-related businesses. Defining the specialty food cluster to include food producers, their markets, and organizations that supported their success was an important step. It helped everyone realize that paying attention to and enhancing the whole system of relationships was likely to increase everyone's chances of success.



Most of these partners became engaged in the cluster through involvement in one of the many projects organized to develop a new *cluster infrastructure* – a set of permanent services or programs that enabled more food cluster businesses to start-up and then continue to expand over the years. Examples of cluster infrastructure, described in a later section, include festivals, regional brands, and an innovation fund.

Over the years, ACEnet continued to listen to the ideas of entrepreneurs, and introduced new approaches gleaned from conferences, the Internet, or from the vast network of relationships with

individuals around the country to help implement those ideas. In this way, a number of sub-clusters, such as agritourism and freshwater shrimp, were formed and will be discussed in more detail later in this chapter.

Cluster-focused Services

During the three years required to complete the Kitchen Incubator, ACEnet staff set up a basic array of *cluster-focused services* that would so dramatically increase business survival rates. The most crucial services were all intended to ensure that entrepreneurs operated at the high end of markets, where they could maximize profits.

Product Innovation

From researchⁱⁱⁱ ACEnet knew businesses that developed new products and processes every year tended to grow more rapidly, create more and higher quality jobs, and be more resilient during downturns in the economy. Because of these findings, *product and process innovation* was a central part of the technical assistance program provided by ACEnet. The results have been impressive: more than 50 new businesses start each year, and, during the last two years annual sales of existing food businesses grew by an average of 45 to 65%.

The most successful of the 20 or so salsa businesses that participated in the ACEnet network (who tended to offer specialty salsa with unusual flavors,



such as apple verde or blackberry chipolte), for example, could charge three to ten times the price of typical grocery salsas. Since the ingredients in these salsas cost only minimally more, the products made the businesses very profitable, often at an early stage of business development.

Somewhat surprisingly, entrepreneurs found that higher prices often increased rather than decreased the volume of sales. Consumers desiring high quality, innovative, authentic regional products are one of the fastest growing market niches in the food industry, and higher prices often signal to consumers that the product fits this profile.

Much of what makes products high end is appearance, and ACEnet staff identified several graphics artists willing to develop appealing labels and introduced them to entrepreneurs. Initially, entrepreneurs hesitated to pay the

cost of graphic design. Finally, Crumbs Bakery, one of the businesses located in the incubator, agreed to work on a new label for a tofu pasta. While working on the label in the incubator conference room, staff encouraged many other entrepreneurs to come in, meet the designer, and give feedback on the design. The resulting label was stunning, and product sales increased dramatically – even though the pasta already sold for twice the price of the product with the old look. Even more exciting was the fact that in the next three months 14 previously resistant businesses suddenly decided to adopt new labels and appearances for their products.

The production of food is fraught with issues of safety and shelf life. ACEnet staff used this need for caution to introduce entrepreneurs to the benefits of food science. Here ACEnet linked entrepreneurs to food scientists from university programs and consulting businesses who not only worked with them on developing safe production processes but assisted with a wide range of difficult issues, from separation in salad dressings to flavor deterioration. Tackling these issues gave entrepreneurs knowledge essential to ongoing product innovation and taught them the rewards of using experts to improve product quality.

ACEnet's food production staff was extremely innovative and continually encouraged entrepreneurs to conduct extensive trials on new product ideas, often using feedback from other entrepreneurs and staff in the incubator, which in turn increased those individuals' appreciation for the nuances of product quality and innovation.

Finally, through workshops and the foodnet group email, ACEnet provided information on trends, not just in the specialty food industry but also in related areas such as wellness and health, which resulted in a number of product breakthroughs, such as the development of health-oriented teas and tofu (with heart healthy soy) pasta.

Other similar small, viable product innovations multiplied, and after a few years, created an intense *culture of innovation*, where incoming entrepreneurs accepted as a given that they had to upgrade their original products and continually develop new ones.



Networking Entrepreneurs

The other critical cluster service involved weaving *networks* among entrepreneurs. ACEnet staff spent considerable time listening to entrepreneurs – often in informal conversations as they met in the halls of the incubator. Staff identified needs and opportunities and then introduced entrepreneurs to people who could help them solve the problem or explore the opportunity. When one entrepreneur needed a way to remove seeds and bitter skin from a local fruit (pawpaw), ACEnet staff introduced him to a food scientist at the Ohio State University who found an old pulper-finisher machine which he lent to ACEnet to use for this purpose.

ACEnet staff also encouraged entrepreneurs to share information and resources with each other. One of the powerful dynamics of successful entrepreneurial networks is the use of *complex reciprocity*, or what anthropologists call a *gift economy*, to keep knowledge and resources circulating in a way that results in extraordinary economic value. First, staff share generously – providing important information about trends, markets, people and so forth. Entrepreneurs quickly translate this information into economic gain: they buy a piece of used equipment for much less than they had expected, they draw on the know-how of an experienced entrepreneur to develop superior products, or they gain entrée into a large grocery chain very quickly because someone shares the name of their key contact.

Next, staff encourages entrepreneurs to share generously among themselves, knowing that this behavior primes the pump of exchange and results in much more knowledge and resource sharing by others back to them. It is amazing how quickly the transition to this type of mutual sharing behavior occurs, even though entrepreneurs continue to compete fiercely with each other in many ways.

Entrepreneurs quickly learn how to identify those areas where it makes sound financial sense to cooperate. With staff assistance initially, they begin to form *collaborations*. At first, many of these are “twosies.” For example, two entrepreneurs agree to jointly purchase jars to get a much lower price or two entrepreneurs agree to take turns driving their products to a nearby city for delivery.

Joint activities tend to be low-risk at first, involving little or no money and with little chance of adverse results if things go wrong. Entrepreneurs use these activities to



test with other entrepreneurs – they quickly find who they can trust for which activities. For example, one entrepreneur may be an excellent partner on product innovation, but not be able to deliver products reliably. ACEnet staff help process the results of the joint activities so that entrepreneurs realize that almost everyone can be trusted – but only to deliver on certain activities. This ability to trust others selectively means that many more people can be a resource.

As the cumulative knowledge about an individual’s capacities spreads around the network, a huge informal knowledge bank is formed. Entrepreneurs only need go to a fellow entrepreneur or two to find the name of a person appropriate to join with them to make some activity or scheme more likely to succeed and more financially viable. Of course, some people – network hubs – are more likely than others to know what is happening in the larger network and entrepreneurs contact them first when they need information. Later in this chapter we will show how network maps can help identify and enhance the work of these network hubs.

As entrepreneurs gain skills needed for successful collaboration – accurate assessment, negotiation and clarification of expectations, dealing with misunderstandings, and other issues – they start to form larger collaborations that can really have a substantial positive impact on their business. For example, the unit price drops substantially when 6 or 8 entrepreneurs join in purchasing a tractor trailer load of jars.

Critical to the building of these networks are *connecting places*. These are places where entrepreneurs naturally meet each other. They are sufficiently



unstructured spaces so that entrepreneurs have the time to share information and negotiate deals. The design of incubators and other business assistance offices must consider the importance of connections. For example, the loading docks at ACEnet are an important connecting place. Restaurants run by ACEnet-assisted

entrepreneurs have also become effective connecting places, where entrepreneurs delivering supplies encounter entrepreneurs enjoying a meal.

The tipping point of these entrepreneurial networks occurred when ACEnet staff began to hear about dozens of collaborations that had received no

assistance from them. At this point, the economy was *self-organizing* – entrepreneurs were able to identify needs and quickly draw together the appropriate others to meet those needs.

Contrast this environment with the more typical training approach to microenterprise, where a local organization provides 6 or 8 weeks of training in starting a business, then usually has little contact with entrepreneurs after that. In a networked approach, staff provided technical assistance in customized small doses, as questions and issues arise, ensuring that the assistance is immediately applicable. Staff members have long-term relationships with the entrepreneurs: they not only help a business start-up but work with entrepreneurs to continue business growth and profitability.

And finally, because resources for technical assistance staff are limited, ACEnet works to ensure that more experienced entrepreneurs provide assistance to those with less experience. Why do experienced entrepreneurs do this? They know that these same entrepreneurs will soon be valuable partners in joint ventures and see their mentoring as a long-term investment. In addition, they tend to enjoy helping others and knowing that their actions will build a stronger local economy.

The result is that more businesses survive and thrive, adding jobs and wealth to the region. ACEnet currently assists almost 200 food entrepreneurs a year, and the network includes many more who are actively engaged with other businesses in ways that enhance their productivity and profits.

Collaborations

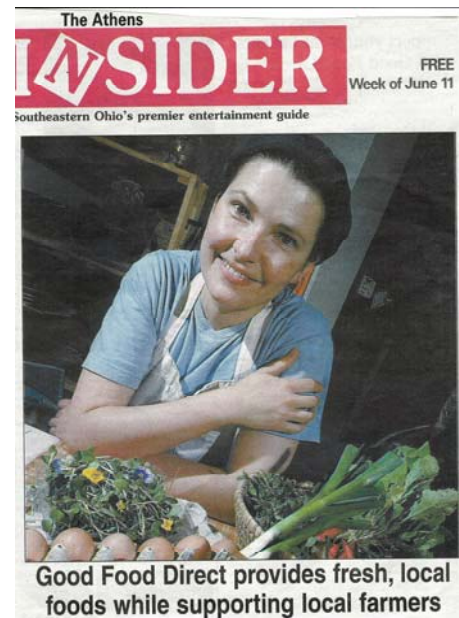
Peer networks among entrepreneurs are a powerful force, but they are seldom able to coordinate the development of new services, programs and institutions that can dramatically increase business success and accelerate business growth. These more complex collaborations require the involvement of a wide range of area organizations – from banks and chambers of commerce to cooperative extension and tourism bureaus – who commit to becoming *Entrepreneur Support Organizations*. This means that they are willing to work with others in their region to create a *cluster infrastructure* and *acceleration infrastructure*.

Cluster infrastructure focuses on a single cluster, such as specialty food or tourism, while acceleration infrastructure – infrastructure that helps entrepreneurs continue to expand their business – helps entrepreneurs in many clusters by dealing with large gaps in the system. For example, lack of access to capital is a huge barrier to business growth in Appalachian Ohio, where banks are lending to small businesses at a rate two to four times less

than the national average.^{iv} Realizing this problem, the region collaborated by creating many new institutions and services to ensure that entrepreneurs could access the kinds of capital they needed: ACEnet formed a high risk loan fund; Ohio University supported the start-up of a venture fund with more than a dozen investors; ACEnet, ITAAO, and the Voinovich Center worked together to identify angel investors; and the Oak Hill Bank applied for and received a New Market Tax Credit that enabled it to set up a low interest loan fund for distressed communities. Although each project had a lead organization, virtually all of these new institutions were the result of collaborations among many regional organizations.

The regional capacity to collaborate was built over many years. The first collaborations focused on the Kitchen Incubator, where area organizations learned to listen to the needs of entrepreneurs and share their expertise effectively in joint design sessions. Then a series of small joint projects emerged. For example, during the three years needed to develop the Kitchen Incubator, Hocking College—a regional technical school—allowed entrepreneurs to have access to its culinary kitchen to begin prototyping products.

Local newspapers worked closely with staff and journalism students to generate frequent stories about food entrepreneurs. Then projects became larger: entrepreneurs joined with local volunteers to develop a regional brand—*Food We Love*—and urged more than 80 regional stores to set up Buy Local displays; several communities joined with entrepreneurs and area organizations to develop festivals, most notably the Pawpaw Festival and the Chili Pepper Festival.



Finally, groups of organizations began to help in the formation of sub-clusters. The agri-tourism cluster, for example, brought together tourism bureaus from several counties, who worked with ACEnet on workshops to help farmers set up farm-based tourism activities—such as corn mazes and hayrides—to supplement their income.

ACEnet partnered with Ohio State Cooperative Extension on workshops for farmers interested in the production of freshwater shrimp, then worked closely with the health department to get the Kitchen Incubator approved for

shrimp and fish processing. Hocking College then joined this cluster to help with a Jambalaya Jam on the Hocking Festival to celebrate the first successful harvest.

Currently, area organizations and entrepreneurs are involved in dozens of joint projects every year – which range from festivals and marketing brochures to new sources of capital and regional websites.

Chapter

2

The Formation of Mega-clusters: Regional Flavor **What is a regional innovation economy?**

Clearly, a new type of economy was emerging in Appalachian Ohio. This economy was based on a subtle shift by a substantial number of businesses – especially restaurants and specialty food businesses – from being *local* businesses to becoming *regional* businesses. What made the businesses regional? A regional business tended to have a passionate local customer base, but also drew from larger nearby urban centers (such as, in this case, Columbus and Cleveland). These customers often felt part of the business, offering suggestions, lending money at less than market rates, and acting as informal marketers.

In addition, the regional businesses were distinctive and authentic – they used local ingredients; they offered exciting, innovative products and services; and their owners and employees were known for their engaging personalities. They networked with other area businesses, which were suppliers or worked with them on joint purchasing or marketing. They often used innovative technology to streamline business processes and to connect more effectively with customers. They helped create a more supportive environment for themselves and other regional businesses.

Casa Nueva, a worker-owned Mexican restaurant in Athens, is an excellent example. This business not only purchases almost 90% of its raw materials from area farmers and food processors, it highlights this fact in its menu. Each season, the staff develops a new menu, full of culinary surprises.

In addition, Casa manufactures many of its salsas, which are sold throughout the region. Casa has a devoted customer base that stays in touch through the business' web page. When these customers move to other cities, they often demand that local stores carry Casa products.

Casa Nueva plays an important community-building role as well. The restaurant places the works of local artists on its walls, and the cantina provides a venue for area musicians and poets. Casa helped form an Independent Restaurant Association that organizes joint purchasing, supports local growers, and donates to local charities. The restaurant is now one of the most profitable in town, and employs more than 80 workers, many of them owners as well.



In the past century, urban areas have become increasingly isolated from surrounding rural communities, with urban and rural commerce and culture seen as vastly different and mutually exclusive. The new regional innovation economy is healing this unnatural divide. This economy began with the notion of buying food locally, a behavior that has morphed into a movement, with sales of locally grown products experiencing growth rates higher than that of organic foods.

Urban residents quickly realized that Buy Local meant not just purchasing food grown in their city, but purchasing food products from the rural regions around the city as well. When a region includes one or more urban areas and the surrounding rural areas, an individual's regional purchases can become a substantial percentage of their spending. And dollars spent in a region tend to stay in the region, circulating again and again and creating local jobs and local wealth. Regional economies usually transport goods less than 200 or 300 miles, unlike typical food or clothing items which often travel several thousand miles.^v

Regions become wealthy through two major drivers: exporting outside their region to bring in income and increasing the circulation cycles of regional dollars. By paying attention to the development of internal economy of the region as well as its external economy, communities can become more vibrant and resilient. An added bonus is that the collaboration required to develop a regional innovation economy will also increase the capacity of communities to creatively confront the energy, health, and diversity issues that seem certain to be major challenges as this century unfolds.

Culture of Innovation

Many of the emerging regional businesses are *innovation leaders*. They tend to be extremely innovative—developing new products and processes every year—which often sets them on a powerful growth trajectory. This innovation is not only important for business success, but it helps create a *culture of innovation* that sets up a virtuous cycle of economic health and prosperity.

Only 5-15% of businesses are innovators in most regions (same as the next sentence). However, when more than 50% of the businesses in a region become innovators (usually by connecting the innovators to less innovative entrepreneurs), the economy becomes increasingly prosperous and resilient.^{vi} And, in such an economy, the top performers among the regional businesses—in all sectors—will often move into the traded or export economy.

Prosperity does not come simply from “high tech” businesses, but occurs when there are breakthrough businesses in many sectors. For example, restaurants move into the traded economy by manufacturing some of their food offerings. A dry cleaning business may innovate by developing a new green process for cleaning and have the potential to develop a national franchise. A beauty parlor may have developed hair care training programs for employees that could be offered nationally. In rural communities or urban cores with few biotech or information technology firms, economic developers can still build a regional innovation economy by helping existing local businesses become master innovators.

Developing a Regional Flavor

But how does a culture of innovation develop? How does an area build a sense that it is a distinct and dynamic region? The story of AORIC and *Regional Flavor* offer some clues.

Several years ago, several organizations—ACEnet, Rural Action, the Foundation for Appalachian Ohio, the Ohio Arts Council, the Ohio University Voinovich Center, and People for Adams County Tomorrow (PACT)—formed the Appalachian Ohio Regional Investment Coalition (AORIC) to explore this shift from local entrepreneurship to a dynamic regional economy.

They designed a strategy called Regional Flavor. The idea was to link food entrepreneurs with artisans and entrepreneurs in tourism-related businesses through a meta-cluster, with the hope that they would—through dozens of collaborative projects—develop a distinctive and attractive sense of the region.

They saw Regional Flavor emerging from the area's natural and heritage assets: the beautiful parks and recreational amenities, the many musical venues, the rich history related to the Underground Railroad and the coal fields, and the work of skilled artisans using local woods.

When local assets are combined — like vegetables combined in a soup — into unique sets of experiences, activities and stories, the region becomes very appealing: residents become more strongly committed to the region, others are drawn to move to the area and visitors to the region develop long term emotional bonds. This process increases economic activity, as locals purchase more regionally made products and services, new arrivals bring much-needed skills and resources, and visitors return again and again, spending dollars with each visit.

Quilt barns and birding trails

When AORIC tried to identify examples of Regional Flavor projects already working, they discovered an amazing collaboration in Adams and Brown



Counties, relatively isolated counties in western Appalachian Ohio. For years, birders (one of the most prosperous of all tourist groups) had been coming to Appalachian Ohio to watch bird migrations — but they spent very little money in the region.

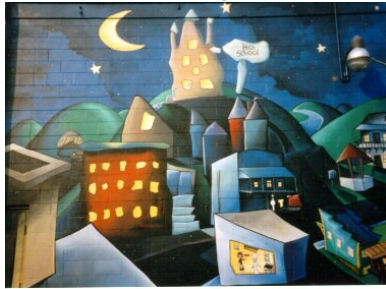
The local Audubon Society decided to produce a brochure and map that would include birding spots but point out retail shops and bed & breakfast operations as well. However, in serendipity typical of regional innovation economies, this project developed a unique twist. One board member had a mother who was part of a quilting group. This group had the novel idea that area artisans might paint large quilt patterns on local barns. If the brochure included the location of the barns, they reasoned, the birders might take more time to meander through the counties and spend even more dollars in the region.

The quilt painting idea was embraced with a public relations firm in nearby Cincinnati donating the design for a map/brochure and 30,000 copies were distributed to nearby urban centers. The project was such a success that several barn owners set up gift shops in their barns, and artisans began to make quilt puzzles and potholders to sell in local stores along the quilt barn trail. The local bed & breakfast added some cabins and a restaurant to meet demand. And, from the unlikely partnership of birds and barns emerged a lovely sense of Regional Flavor.

Yellowroot: A Regional Innovation Fund

Seeing how a small amount of money and a somewhat unusual collaboration had catalyzed this Regional Flavor project, AORIC decided to set up a new but promising piece of infrastructure whose purpose would be to jumpstart this kind of collaborative innovation. The concept was a small but powerful *innovation fund* called the Yellowroot Fund. This fund provided small seed funds – from \$300 to \$3000 – to projects that involved both entrepreneurs and at least two supporting organizations.

During the past few years, several dozen projects received money from the fund. These projects ranged from a mural corridor project – a joint brochure by five collaborating counties that included 17 large outdoor murals in



communities around the region – to a grant to replicate the quilt barn map in another part of the region. The idea was to offer seed funds to many newly formed collaborative groups so that they could start an experiment. If they could succeed at something small, the theory went, they would be able to attract the attention of funders with larger pools of funds, and take the project to scale. This in fact happened, as the quilt barn concept spread rapidly throughout the region, and as several projects used their successes to leverage substantial additional dollars.

Several projects began to create what are being called *micro-regions*. For example, a group of nearly a dozen small former coal mining towns spanning the borders of three counties became The Little Cities of the Black Diamonds. A collaboration of several small non-profits and area artisans, restaurants and bed & breakfasts joined to develop a series of tours, some highlighting the region's coal legacy (the CIO of the AFL-CIO was first organized here), while others visited artisan shops or nature trails. The Yellowroot Fund supported a brochure describing these tours.

As the experiment with Regional Flavor progressed, AORIC began to realize that Regional Flavor does not mean one consistent, packaged theme imposed on the entire region, as often happens with regional brands generated by outside consultants. Regional Flavor, instead, emerges from the crafting of dozens of microregions such as the Little Cities of the Black Diamonds, linked by cross-cutting themes, such as the heritage mural corridor or the Underground Railroad activities.

These small projects are powerful, but often neglected, ingredients in a dynamic regional economy. They create the foundation for transformation of the economy in several ways. First, the projects build new leadership. People involved in these projects gain new project development skills, and find that they can make important things happen.

At the same time, the project participants learn to work together and build trust and understanding. But, perhaps most importantly, they learn that when they see an opportunity or a problem, they can join with others to do something that makes a difference for themselves and their communities. Once people succeed on a few small projects, they tend to become more ambitious and start tackling larger and larger opportunities and problems, as the next section will describe.

Mobilizing Regional Businesses:

Regional Brands and Regional Support Services

Linking artisans, food businesses, and recreation to create a new style of experiential tourism is a great way to prime the regional economy pump, but is insufficient to turn around economies in chronic decline. This level of transformation will require several major shifts. These changes include: the development of regional markets and market pathways, the creation of regional brands, the implementation of services to enable local businesses to become regional, and the ongoing support of projects that enhance Regional Flavor.

First, a substantial market for regional goods and services is developed. People, especially in urban areas, must start to desire and demand regional products, and those regional products and services must be easy to access. This approach requires development of new retail outlets (online, in local communities, and in urban centers) and partnerships with existing stores.

Development of effective regional distribution systems will also be necessary. Currently, distribution systems for most products are national. It is usually easier for small food manufacturers to place their products on the shelves of a natural food store in Utah than to sell to *all* the stores (grocery, convenience, specialty, natural and farmers market) in a town 50 miles away.



Already, enterprising entrepreneurs who find themselves delivering their products to a nearby city are taking the products of other businesses as well, and making a tidy profit from this activity. Will entrepreneur support



organizations rise to the challenge of identifying these entrepreneurs and helping them work together to create reliable regional distribution systems?

How can the products of thousands of small food and artisan businesses be morphed into a set of products recognized as regional? One strategy is the development of *regional branding*. These Regional Flavor brands are quite different than typical brands. For example, *Food We Love*, the Appalachian Ohio food brand, is an umbrella brand for a wide assortment of products. The only thing these products have in common is that they are each unique, are very high quality, and are made in Appalachian Ohio. They constitute an inviting and engaging Regional Flavor stew, not a consistent and bland puree.

The brand helps very small businesses get into the door of large grocery chains, and provides several congregate sites in the store where common branding draws people to the displays. The brand also helps organize tastings, where customers can try the products and get to know the entrepreneurs. This interaction helps consumers develop a long-term, emotional bond to the entrepreneurs, the region and the brand, which tends to generate repeat purchases and informal marketing of the products among their friendship networks.



At the same time that regional brands are implemented, entrepreneur support organizations must work with entrepreneurs to help businesses become regional, rather than local,

businesses. An area of huge potential for many communities is to provide the assistance that will enable artisans to become small manufacturers.

Appalachian Ohio is home to more than a thousand artisans, but most sell only in limited venues, such as craft fairs. The first step is to reposition artisan products not as gifts or knickknacks but as ingredients in a Regional Home where the food, dishware, furniture and art are all created in the region and, through the sense of the region that they reflect, add to the beauty and enjoyment of one's home.

Regional economies are built from the ground up. The community of Nelsonville (pop. 5,000), a former coal mining town that several years ago had an unemployment rate of 16% and an almost empty but architecturally gorgeous town square, is an example. Several local benefactors offered subsidies to entrepreneurs willing to open shops on the square, and soon there were 20 shops, including several potters' galleries, an artisan cooperative, a yarn shop and an art gallery. A coffee shop opened at one end of the square, and Hocking College's culinary school started a delightful gourmet restaurant.

ACEnet then worked with shop owners on a brochure, with funds from the owners leveraging grants from the Yellowroot Fund. The marketing piece highlighted the heritage of the area (the region was home to many brick manufacturers early in the century, including the stunning Starbrick) as well as the artisans and included a walking map of the square.

Staff of the shops on the square were trained and encouraged to tell the story of the business, the artisans and the region. Shopping became an authentic and enjoyable experience and part of building the Regional Flavor in the customer's mind. Store staff members were also encouraged to cross-sell—identifying interests of their customers and referring them to other shops and activities that they might enjoy. The shops now sell the products of more than 200 area artisans.

The next step is to identify those entrepreneurs who are interested in growth and link them to new regional markets to start the expansion process. ACEnet has created a website that features Regional House and Home products. The galleries assist entrepreneurs with product innovation and quality, then



warehouse and ship the artisan's products. As a result, the galleries have increased their income streams, strengthened their interest in quality, and become a source of aggregated purchasing trends for area artisans.

The galleries also encouraged entrepreneurs to emphasize regional aspects of their products, through design and hand tags or brochures that tell stories containing the products in the region's heritage and culture. For example, the Starbrick Clay gallery commissioned an artisan to make pottery coasters and trivets using the starbrick design and then told the story of the early 20th century brickmaker to people who stopped by the shop.

Another important way to enhance the Regional Flavor of products is through reframing of festivals. For example, the Pawpaw Festival celebrated a local fruit that was little known outside the area.

Festival organizers encouraged artisans to design new pawpaw products to sell at the festival. As a result, glassblowers brought hand blown pawpaws, while food artists concocted pawpaw ice cream and pawpaw cakes. These innovations often became part of the artisan's permanent line of products – and encouraged them to explore other regional themes in their product development.



The final step will be to help artisans set up production processes and other technologies needed for the larger demand that will result. Hocking College is exploring ways to package classes for busy entrepreneurs making it easy for them to adopt computer technologies, such as inventory systems, to enhance business productivity.

How a region can support innovation and Regional Flavor

The responsibility for supporting innovation and the development of Regional Flavor is not limited to entrepreneur support organizations. The media, local and regional leaders, and area consumers all can play an important role in building a regional innovation economy.

Marketing in a regional innovation economy works because it generates buzz – people become passionate about a new regional restaurant and urge their friends and co-workers to try it. Thus, it makes sense for entrepreneur support organizations to understand how buzz, or *innovation diffusion*, works. ACEnet involved a group of area women who had large networks of friends in the community in the development of the *Food We Love* logo and store materials. These women developed a sense of ownership of the brand and shared their excitement with friends. Basically, they became an informal sales force for the brand. Consequently, when the products arrived in stores, many shoppers were already familiar with them and sales were brisk from the start. ACEnet also developed a mailing list of people who expressed interest in buying local products and sent out frequent notices of new products or entry of the brand into additional stores.

The media also played an important role in the support of the emerging regional innovation economy. Almost every week, area newspapers or radio featured stories of entrepreneurs and community collaborations. During the start-up of the *Food We Love* brand, one paper ran a weekly column, written by ACEnet staff, that provided information about the value and importance of purchasing regional products.

Regional leadership is also crucial to the success of regional innovation economies. The director of the Governor's Office of Appalachia, for example, provided crucial funding for several Regional Flavor projects and set up a regional web portal that helped link and incorporate a large number of regional sites.^{vii}

Regional Networks

Several new network structures were developed in Appalachia to support the emergence of a regional innovation economy. The first was a small learning network among a group of entrepreneurship organizations. The second was the formation of a *Regional Entrepreneurship Network* (REN), a loose network of entrepreneurs, entrepreneur support organizations, and government officials/ policy makers.

A Multi-state Learning Network: The Central Appalachian Network

The Central Appalachian Network (CAN) was formed more than a decade ago by a group of Entrepreneur Support Organizations in Appalachian Ohio, West Virginia, southwest Virginia, and Kentucky. This group, the result of a brainstorming session between Aspen and ACEnet staff, has primarily served as a learning, knowledge-building and innovation diffusion network.

CAN periodically selects areas where members want to deepen their understanding, then convenes CANTanks with speakers and interactive sessions. Periodically, the groups share successful innovations with each other, and provide mentoring in the application and adaptation of these initiatives. In addition, CAN sets up joint capacity building activities that enhance the operations of the organizations.

More recently, the groups delved into the policy arena. Each organization selected a local policy objective and, at the same time, a joint Central Appalachian initiative was chosen by CAN members. The results of these experiments led to a policy white paper, *Strategies for Sustainable Entrepreneurship*, that included policy recommendations derived from the

experiences of the CAN members. The document described five key insights identified by the groups as crucial to successful regional entrepreneurship, shared stories about entrepreneurs to illustrate the insights, backed up their findings with research, and then made policy recommendations.^{viii}

This document was presented at a CAN Roundtable, at which policy influentials from the five states heard from national innovators and area entrepreneurs, discussed the policy recommendations presented in *Strategies for Sustainable Entrepreneurship*, then met in state delegations to identify next steps. These delegations have continued to meet in many of the states and CAN is ready to move its regional network into high gear.

The Appalachian Ohio Regional Entrepreneurship Network

A *regional entrepreneurship network (REN)* – the loose network of entrepreneurs, entrepreneur support organizations, and public officials/policy makers – is critical to the long-term success of regional economies. A REN is a vehicle for identifying emerging needs of entrepreneurs; creating, modifying or coordinating new services to meet those needs; and engaging policy makers to develop policy drawn from what the region has learned about supporting entrepreneurs.

Many areas believe that they can organize a regional entrepreneurship network by convening a large group of people and suggesting that they form a network. This seldom works, as the relationships, skills and understanding needed for the group to work together as a whole have not been developed. The relationships that are developed as organizations and entrepreneurs work with others in the region on dozens of collaborative projects.

The Appalachian Ohio Regional Entrepreneurship Network has been built in this way. In addition to the many collaborative projects described in this chapter thus far, several other key actions helped weave the network. For example, Ohio University's Voinovich Center for Public Leadership, which has a long history of providing training to local public officials, piloted a day-long workshop that introduced public officials and local organizations in Adams County to entrepreneurship.

Local officials and economic development staff have, for decades, based their hopes for jobs on recruitment strategies – convincing manufacturing operations from outside their region to locate in their community. With the

outsourcing of manufacturing to low-wage regions of the world, this dream became unsustainable.

However, entrepreneurship is a more complex strategy than recruitment. For success, it requires that organizations become entrepreneur-focused and work together effectively to support those entrepreneurs. It requires continual innovation and adjustment. Thus, having a trusted partner such as the Voinovich Center provide training and mentoring is essential in developing the strong local support so critical to an effective regional network.^{ix} In Appalachian Ohio, weaving the network has taken a decade. Only recently has the network come together to contemplate its future. At a gathering of approximately 100 entrepreneurs and support organizations from around the region, AORIC members invited a panel of diverse entrepreneurs to discuss what they needed to grow and increase profitability. This was followed by a presentation based on research on the state of entrepreneurship in the region. The gathering then broke into small groups, each generating ideas for enhancing the entrepreneurial environment in the region. However, the continued pace of development of the Regional Entrepreneurship Network is constrained by the lack of resources to convene and coordinate the group.

More about Networks

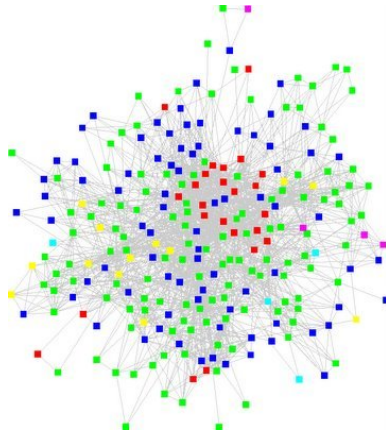
Since networks are such a critical aspect of new regional economies, this chapter concludes with what ACEnet has learned about networks, especially how they are formed and nurtured.

Networks are sets of people and their relationships and communication flows. There are many types of networks. For example, the proverbial “old boys network” is a small, closed network where information about opportunities for asset development flows among a limited group of high wealth individuals. At the other extreme, research has documented that low-income individuals also have very narrow networks – but others in their networks tend to be very poor themselves and thus drain resources rather than open new resources.

Smart networks, on the other hand, enable individuals to access information and identify opportunities from a broad and diverse set of people. Individuals with such networks tend to flourish personally – they find jobs easily, get promotions, or operate successful growing businesses – and, at the same time, the networks they develop help create a healthier community and catalyze community change.^x Smart networks are open to new ideas and different kinds of people. Information and innovation flow freely to all parts of the network, and resources are available to all as well. Smart networks are

oriented towards *opportunities* not problems; in fact, people in smart networks tend to see problems, such as the oil crisis, as an opportunity to create new technologies and ways of living.

Smart networks seldom happen by accident. It takes the efforts of many *network weavers* who know the basics of building smart networks. Network weavers are people who agree to take responsibility for enhancing the network, and they generally do this as part of the way they operate in their job or business.



A network map shows people in the network and their relationships. A network map is an excellent tool for visually tracking those relationships and designing strategies to create new connections that improve the flow of information and innovation and that increase the likelihood of collaboration. It also helps people change the way they think about their work. In addition, a set of measures have been developed that help people know when they are improving their network. After viewing network maps, people tend to pay more attention to their networks as they go about their daily activities.

Learning about smart networks and network weaving will be critical skills in the new regional economies. ACEnet staff and entrepreneurs have mapped their network three times in the last five years. The first time, when ACEnet examined their connections in the map, the network fragmented. As a result, staff focused on connecting more of the entrepreneurs and organizations with each other rather than serving as the sole source of information. Now the network is well-connected even when ACEnet's connections are removed.

ACEnet also used the maps to identify network hubs—entrepreneurs and organizations that many people went to for information or worked with on projects—and helped provide support to their leadership role. The map also helped point out critical individuals who were not in the network, and staff made a conscious effort to draw them in to network activities.

What can other communities learn from the Appalachian Experience?

Key lessons from Appalachian Ohio are:

1. Non-profit organizations are key catalysts in building regional innovation economies as it is easier for them to be agile and innovative. Government entities should support and value such organizations and the essential role that they play in building innovation economies.
2. A vibrant regional economy can be generated by helping local entrepreneurs of all types become innovative regional businesses. However, this requires the development of supportive infrastructure that can be set up only through collaborations.
3. Networking, innovation and collaboration all are critical to the creation of vibrant regional economies. However, to use these effectively requires those involved in economic development and entrepreneurship to invest in and acquire new skills and understandings.

Notes

- ⁱ McVay, Mary and Madi Hirschland, *Making the Connection: Appalachian Center for Economic Networks (ACEnet)*, Access to Markets Case Study Series/No. 1 (Washington, DC: The Aspen Institute), see <http://www.fieldus.org/Publications/index.html>
- ⁱⁱ For more information, see www.nbia.com
- ⁱⁱⁱ Innovation and Firm Performance, Session C. and Cainelli, Giulio et al. Technological innovation and firm performance in Italian traditional manufacturing sectors, Conference Innovation and Enterprise Creation: Statistics and Indicators, France, 23-24.11.2000 ftp://ftp.cordis.lu/pub/innovation-smes/docs/statconf_paper_e.pdf and 2003 European Innovation Scoreboard: Technical Paper No. 1, Indicators and Definitions, Nov. 11, 2003 <trendchart.cordis.lu/scoreboards/scoreboard2003/pdf/eis_2003_tp1_indicators_definitions.p> “Innovative small and medium-sized enterprises and the creation of employment” in *Entrepreneurial Innovation in Europe: A review of 11 studies of innovation policy and practice in today’s Europe*: www.cordis.lu/innovation-policy/studies/ca_study4.htm; [http://www.hhh.umn.edu/img/assets/91 ... report1.pdf](http://www.hhh.umn.edu/img/assets/91...report1.pdf)
- ^{iv} see www.ffiec.gov
- ^v see the 100 mile diet at <http://www.100milediet.org/>
- ^{vi} Audretsch, David B., *Entrepreneurship Policy and the Management of Places, The Emergence of Entrepreneurship Policy Governance, Start-ups, and Growth in the U.S. Knowledge Economy* editor David Hart, (Cambridge: Cambridge University Press) 2003
- ^{vii} see www.appalachianohio.com
- ^{viii} see www.cannetwork.org
- ^{ix} see www.voinovichcenter.ohiou.edu
- ^x see www.networkweaving.com/blog