

**Access to Markets
Case Study Series/ No. 1**

Making the Connection:

**Appalachian Center
for Economic Networks
(ACEnet)**

**Mary McVay and Madi Hirschland
The Aspen Institute**

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Making the Connection:

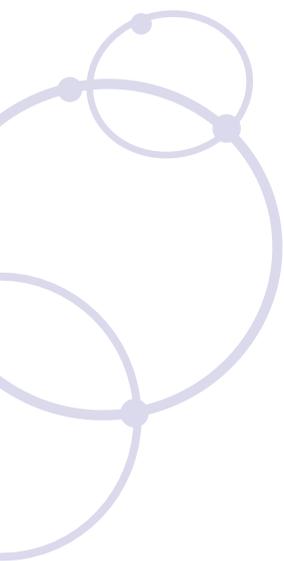
Appalachian Center for Economic Networks (ACEnet)

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Case Study No. 1**

September 2000

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FIELD
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1. INTRODUCTION

This case study is a part of the Aspen Institute’s Access to Markets (ATM) Learning Assessment, supported by the Charles Stewart Mott Foundation, and funded in conjunction with the Mott Foundation’s 1998 ATM grants to seven practitioner organizations. This is the first of several case studies documenting programs that help low-income entrepreneurs gain access to more lucrative or high-value markets. Access to Markets (ATM) services are becoming recognized as a critical way to support the growth of micro- and small-scale enterprises. ATM programs are testing a wide range of marketing-related services with the goal of connecting entrepreneurs to additional or previously inaccessible customers, thereby increasing sales of and possibly income from the business. This case profiles the Appalachian Center for Economic Networks (ACEnet), located in rural Ohio.

ACEnet helps small-scale producers work together to develop quality products and sell them where they will get as much money for them as possible.

ACEnet is a community development corporation located in Athens, a university town in southeastern Ohio, and serving eight surrounding rural counties. Its mission is to develop a healthy and viable local economy. ACEnet focuses on creating jobs and empowerment opportunities for low-income people and their communities by facilitating innovative, collaborative economic development. Since 1985, ACEnet has experimented with a variety of economic development strategies, including worker-owned cooperatives and a small-business incubator. ACEnet’s current strategy is a “market-niche approach” to microenterprise development. This strategy attempts to assist small manufacturing firms form industry-specific informal networks (clusters of businesses operating in the same industry) that will facilitate access to high-value markets. In other words, ACEnet helps small-scale producers work together to develop quality products and sell them where they will get as much money for them as possible. ACEnet initiated this strategy in the accessibility products market¹, and is now

focusing significant resources on the specialty and natural food sectors through a project called Food Ventures. Food Ventures was conceived in 1993 and started serving clients regularly in 1996. Since then, the program has taken a lead role in spreading awareness and lessons learned about ATM programs across the country. Its services and strategies have evolved — and are still evolving — as ACEnet responds to client demand, market changes and lessons learned. Food Ventures is the subject of this case.

¹ Products designed specifically for people with disabilities.

The Polly Baker: One ACEnet Client's Family Business

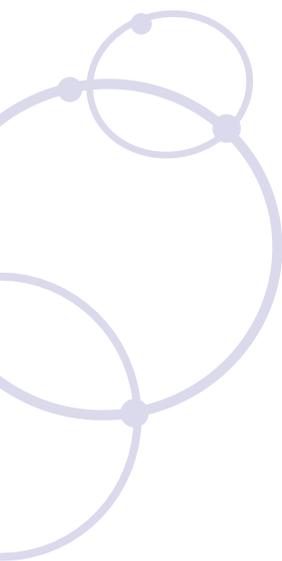
Sarah and Frank live with their 12-year-old daughter in a modest, self-built home off a rural road in Athens County, Ohio. Sarah was an independent dance instructor and her husband, Frank, operated a small home-improvement enterprise.² Unfortunately, Sarah became injured and could no longer drive around rural Ohio teaching dance. The family needed to replace Sarah's earnings while accommodating her need to work closer to home. They decided to capitalize on Frank's talents as a baker and chef, and began by baking cakes and catering for friends. Subsequently, they gained access to a commercial kitchen through a barter arrangement with a local Chinese restaurant. In addition to occasional catering jobs, the family made all-natural or organic baked goods and sold them to local grocers and health food stores under the name The Polly Baker. However, Sarah and Frank were not making much money from the business, and the work was hard, involving a lot of driving and time away from home.

Sarah and Frank are resourceful, careful business planners who sought as much business advice as possible. They approached ACEnet after hearing that the program was helping entrepreneurs in the food sector. In advisory sessions, staff helped Sarah and Frank narrow their product line to five types of natural, gourmet cookies. Staff advised them on label design, conducted a nutritional analysis and helped them obtain a UPC code, which is required for commercial sale. Staff also trained Sarah in Quickbooks accounting software, which helped the family establish solid financial tracking and planning practices. The new business focus and packaging resulted in increased sales and less work for Sarah. Inspired by this success, along with a need to move out of the restaurant, the family converted their carport into a small commercial kitchen.

Once the business grew enough to handle larger orders, ACEnet staff began taking The Polly Baker product samples to Wild Oats, a regional natural food store. The staff at the Wild Oats store in Columbus loved the The Polly Baker cookies and began ordering regularly. That staff was assigned to open additional Wild Oats stores around the region. The Polly Baker received additional cookie orders from these new stores. As a result, Sarah has shifted her focus from local to regional markets so that she no longer has to spend a day a week delivering cookies and servicing local accounts.

Sales of The Polly Baker products have been increasing steadily, from minimal sales in 1997 to \$8,000 in 1998 to \$15,000 in 1999.

² Names of individuals and businesses have been changed for the purpose of this case study to protect confidentiality.



Now that their business has been successfully launched, Sarah and Frank are developing a focused marketing plan with ACEnet staff. The family grows the business one careful step at a time, balancing family and work time and minimizing capital risk. Sarah works on the business full time, while Frank divides his time between the baking business and his home-improvement business. Their total investment so far is about \$15,000. Right now, their objective is to sell 1,000 cases of cookies per week, after which they will review their goals. Their vision is to earn a solid living while working at home.

This example illustrates one type of business that ACEnet serves, and the broad range of services ACEnet provides to help businesses grow. The rest of this case study will examine ACEnet's experience in helping a wide range of micro- and small-scale firms gain access to markets. The case will:

1. Describe the specialty and natural food markets, with a particular view to the opportunities and barriers these markets present to micro- and small-scale producers.
2. Describe ACEnet's program and strategy for helping entrepreneurs succeed in these sectors.
3. Explain how ACEnet's program has evolved as ACEnet has learned more effective strategies.
4. Document ACEnet's accomplishments and challenges in implementing the Food Ventures program.
5. Point out lessons learned from the ACEnet experience that will help in the design and implementation of other ATM programs.

II. THE MARKETPLACE

ACENet's Food Ventures program supports the expansion of small and micro businesses in the natural and specialty food sectors. This section of the case study describes the natural and specialty food markets as the basis for understanding ACENet's activities. A brief overview of the sectors is followed by a discussion of the specific advantages small businesses in the sectors enjoy and the challenges they face.

The Natural and Specialty Food Sectors

The natural and specialty food markets are growing at a rapid pace compared to the mainstream food sector. In particular niches, such as certified organic food, demand far exceeds supply. In response, the retail landscape is shifting. Mainstream food stores, as well as natural and specialty food chains, have edged in where specialty shops, natural food stores and cooperatives previously stood alone. This new market structure is discussed below and also is depicted in a sub-sector map in the Annex.

The natural and specialty food markets present opportunities and challenges for small-scale producers. On the one hand, micro- and small-scale producers are particularly well positioned to serve these markets. By virtue of being unique, homemade, community-based or all-natural, microentrepreneurs' products are in line with what the market demands. On the other hand, there are formidable barriers to creating quality products that can be produced on a large scale, fit a particular market trend and achieve widespread distribution to chain grocery stores.

The Demand for Specialty and Natural Foods

Natural foods are defined as products that "do not contain any artificial ingredients and are minimally processed."³ Consumers of natural foods may be persuaded by nutrition concerns and/or environmental values. Specialty foods, also known as gourmet foods, are "food, beverages and confections ... of the highest grade, style and/or quality in their category."⁴ Priced higher than their mass-market grocery counterparts, specialty foods involve more labor-intensive processing than their counterparts. For example, they are typically produced in smaller batches. Many food products are called "specialty" because of their limited seasonal or regional availability. In the eyes of consumers, their appealing marketing and packaging also differentiate them from common grocery items. For example, they may be packaged in unusual glass jars with artistic labels that tell a story about the producers. In recent years, the natural

³ June Holley, "Small Food-Processors: Research and Recommendations," *Cause Marketing Handbook*, National Association for the Specialty Food Trade (1999), p. 7.

⁴ "From Kitchen to Market: Selling Your Gourmet Food Specialty," National Association for the Specialty Food Trade (Chicago, Ill., 1996).

and specialty food markets have come to overlap significantly. Consumers of natural foods now demand exceptional taste, and consumers of specialty foods require healthful ingredients. The common

Demand in the Specialty and Natural Food Sectors: The National Context

Magnitude: More than \$48 billion in sales in 1999 with an estimated real annual growth rate of 5 percent. For organics alone, \$4 billion to \$5 billion in sales with an annual growth rate of 24 percent.⁵

Chief markets: Aging, affluent baby boomers and childless young professionals. Qualities they seek: freshness, convenience, healthfulness. Concerns include: health, the environment.

Growth niches: Organic products: Lack of access, not high prices, is the key barrier to sales. Also ready-to-eat products, snack foods, medicinal foods and condiments.

Dynamics: Ever-changing preferences and a desire for new products require constant product development and differentiation. Packaging, graphics, labeling and price are key.

Microenterprise niche: Consumers wishing to support low-income entrepreneurs, local and rural economies, environmentally friendly producers. "Homemade" is in demand.

Microenterprise marketing strategy: To serve and expand the microenterprise niche, educate consumers about the sources and producers of merchandise. Execute a "Buy Local" campaign.

characteristics are quality and uniqueness.

Regional markets are particularly promising for ACEnet clients. Because it is relatively undeveloped, the Midwest market is one of the fastest growing in the country. Until recently, the Midwest had been bypassed by the growth in natural food chain stores such as Wild Oats and Whole Foods. However, Ohio's first Wild Oats store opened in 1998 in Columbus. It has been the chain's best-performing start-up and was quickly followed by a new store in Indianapolis, with several more Ohio stores to open in 2000. The growth potential seems to be particularly true for organic products, where supply is not keeping up with demand. Historically, consumers in the Midwest and north central regions of the U.S. were the least likely to purchase organic products. However, this

⁵Organic products are products free of chemical agents, including herbicides, pesticides, growth stimulants and similar agents used in growing or processing. Brian Keating, "North American Natural Foods Industry: Growing into the Next Century," *The Gourmet Retailer* (July 1999), p.35.

small market share is now largely attributed to the lack of availability rather than consumer preference and higher prices.

The extent of the local market for ACEnet clients' products is less clear. Although the city of Athens is relatively prosperous, the eight surrounding counties are poor and sparsely populated, with a total population of only 238,500. The region has an unemployment rate of 12.6 percent compared to the national rate of 4 percent. Yet ACEnet finds that the local demand for natural and specialty foods, particularly for high-quality local products, is underdeveloped. Developing local markets through a Buy Local campaign was an early ACEnet strategy. The majority of ACEnet's most successful clients have developed a business base by first targeting local markets.



Specialty foods are often packaged in unusual jars with artistic labels.

Producers, Retailers and Marketing Channels

Small companies constitute the vast majority of specialty food manufacturers. However, large manufacturers are now entering these markets by purchasing smaller companies or developing their own products. Larger companies can get their products on the shelves of national grocery chains more easily than can smaller producers. Their economies of scale, physical production capacity and ability to attract financing give them a competitive advantage.

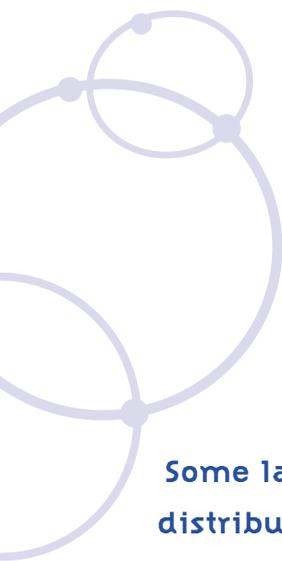
The retail market for specialty and natural foods is changing rapidly. Larger stores and chains represent an increasing portion of market share.

Supermarkets: Supermarket sales now represent up to half of all natural and specialty food sales. They have been drawn to the market by the demand for these products, the potential to attract new customers and high profit margins.

Specialty and natural food chains: This new breed of retail outlet is expanding rapidly. In 1998, the two largest chains, Wild Oats and Whole Foods, increased sales by 25 percent and opened 30 new stores.

Independent specialty food stores, natural food stores and cooperatives: No longer the primary outlet for natural and specialty foods, these stores still capture a major share of the market and tend to be the testing ground for new products.

Mail order, e-commerce, department stores and farmers markets: These retail outlets capture a relatively small share of the market,



Some large distributors now market products under their own name... This leaves less shelf space for the products of independent firms.

but e-commerce is rapidly expanding.

There are three major ways in which specialty and natural food products reach customers. Products move:

1. From large producers to large retailers.
2. From small producers directly to small and large retailers.
3. From small producers to distributors to small and large retailers.

Distribution

Understanding distribution, the process by which products get from the manufacturer to the retail outlet, is a key to understanding the natural and specialty food market. Distributors physically deliver products to retail outlets with which they have a business relationship. A producer who wants to access regional markets must find a cost-effective way to deliver the products. Some ACEnet clients use commercial shipping services, others arrange to have their products delivered by other entrepreneurs and still others transport it themselves. These methods tend to be costly, limited in scale or unreliable. Having at least one distributor often determines profitability and enables entrepreneurs to expand their regional sales.

Before they will carry a new product, distributors require the producer to have a regional track record of reliable production. They also expect the producer to demonstrate sufficient demand and production capacity to make it profitable to handle the account. These requirements can pose a formidable "Catch 22"-like barrier for small producers: Significant sales require a solid distribution system while distributors require a history of significant sales.

The world of distributors is complex. Figuring out which distributors to target can be challenging for ACEnet clients. The specialty and natural food sectors have their own natural and specialty food distributors, such as United Natural Foods and Tree of Life. However, distributors of mass-produced food items, such as Gordon and Abbot, now capture some of this business. In addition, some mainstream stores or chains rely only on a few distributors for their specialty and natural food products.

Some large distributors now market products under their own name, contracting out production to independent firms. For example, Tree of Life stocks 90 percent of the natural food shelves of Kroger stores, much of the space with its own brand. Wild Oats also stocks some of its shelves with its own brand. This leaves less shelf space for the products of independent firms. At the same time, Wild Oats con-

tracts out the production of goods or puts its label on independently developed products. This gives entrepreneurs the option of manufacturing for Wild Oats, which potentially provides several ACEnet clients with substantial business.

Distributors, like retailers, are getting bigger. Those willing to accept small accounts are unusual. Even small distributors require a minimum volume; for example, 60 cases of products. These requirements are reinforced by the growth in size of distribution chains as competition results in mergers and, therefore, fewer companies. This trend will make it even more difficult for small producers to access distributors.

Microentrepreneurs and the Natural and Specialty Food Markets

Microentrepreneurs in the natural and specialty food sectors must overcome many hurdles to successfully market their products on a large scale. However, for entrepreneurs who are “market-ready” and have appropriate products, local and regional markets hold great potential:

- Consumers seek precisely the high-quality, home-grown products characteristic of small-scale manufacturing. Mass producers buy small firms to acquire this type of product.
- New products do not require the backing of large advertising budgets. Unlike the mass-produced food market, large-scale producers exert less control on the natural and specialty food market.
- Many consumers in this market “shop their values.” If educated about the benefits of doing so, they often prefer to buy quality products from small, local producers.
- The pricing for specialty foods enables producers to

“The (specialty food) industry gives small businesses the opportunity to turn perishables into quality to make money.” — Producer of organic specialty foods

One ACEnet client sells his dried exotic mushrooms at an upscale farmers market in urban Findlay, Ohio. He notes that their exclusivity and gourmet cache offset the higher price customers pay for his goods. “You just don’t get that when you buy something in Kroger.”

Casa Bueno, a thriving Athens restaurant, buys many products from ACEnet clients. Advertising with the slogan “organic food grown in your own backyard,” management attributes part of Casa’s success to its reputation for local sourcing.

capture significant value-added qualities without the economies of scale involved in mass production.

- Relative to mass producers, small-scale firms may have greater flexibility and agility to respond to retailers' needs, such as different-sized packaging.

The Challenges Microentrepreneurs Face in Growing Their Enterprises

Industry Knowledge

Industry Trends

Learning what sells:

- Products
- Pricing
- Qualities
- Packaging
- Product lines

Regulations

Learning what is required for:

- Production
- Organic certification
- Labeling
- UPC coding

Markets

Learning what are:

- High potential markets
 - Processes to access them
 - Distributors to access them
 - Requirements to sell in them
-

Skills

Marketing

Developing:

- People skills to develop contacts
- Promotional skills to represent product

Business

Learning to:

- Determine competitive and profitable pricing
 - Project costs, break-evens, production capacity
 - Track, manage and deliver orders
 - Implement useful business planning
-

Technical

Developing production skills to maintain safety and quality while increasing volume

Production Capacity

Needs

- Technical support for labeling
- Low-cost sources of inputs
- A high-volume production facility
- Financing

Microentrepreneurs must begin with the production skills, start-up capital, transportation, childcare and the determination needed to grow their businesses. Beyond that, operating profitably requires detailed industry knowledge, a broad set of skills and the financial and physical capacity to produce. These requirements are summarized in the following table and are further described below.

Information Hurdles: Industry Trends, Regulations and Markets

Often, microentrepreneurs are isolated from the market in which

Knowing What's on the Shelf

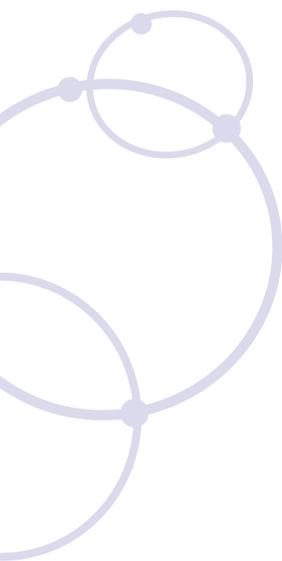
Entrepreneurs need to have a visceral sense of the taste and look of competing products, in addition to understanding what makes them specialty foods. They must know:

- The foods currently in demand.
- Their prices.
- The qualities consumers seek in these foods.
- What kind of packaging sells.
- What constitutes a product line for their particular type of food.

their product will compete. They are less likely than large firms to attend trade shows, read the relevant trade journals or engage in costly and extensive market research. Yet, a seller of dried mushrooms will have a much greater chance of success if he or she regularly reads the Mushroom Growers Newsletter. A good grasp of industry trends is essential to developing a high-end product with a realistic and clearly identified niche on the retail shelf.

Government regulations present microentrepreneurs with another information hurdle. The U.S. Department of Agriculture (USDA), Food and Drug Administration and state of Ohio all regulate the production and marketing of food. To operate legally, entrepreneurs must learn:

- The regulations governing safe and sanitary production processes.
- How to meet nutritional and other labeling requirements.



- How to obtain organic certification, when applicable.
- When to file forms and how to obtain approval of their production facility.

Making sense of regulatory requirements can be difficult. Regulations change, are not well documented and are geared toward large industrial processing centers.

To succeed, entrepreneurs also need to learn which retail outlets hold sales potential for their product and how to access these markets. For any particular product, some markets hold greater sales potential than others. For example, Wild Oats accepts a range of ACEnet clients' products but has proven to be a particularly promising market for baked goods.

The process for getting products on the shelves also varies by retail outlet. In addition to requiring deep discounts, some markets expect a new product to be accompanied by cardboard "shelf talkers" and other promotional materials. Using their distributor may also be a

Getting the Product to Market

Dan's IGA, an Athens convenience store, stocks new local products solely on the basis of a drop-in visit and tasting. Casa Bueno, an independent restaurant, expects an appointment and samples but little more. In contrast, the Kroger grocery chain has a costly, defined process by which products are screened and tested. The company requires documented sales data and references from smaller retailers, along with large discounts for new products.

prerequisite. Therefore, producers must learn which distributors are best for the markets they wish to enter. Supermarket chains usually expect manufacturers to demonstrate the capacity to reliably service an entire region. To make matters more complex, these "systems" often can be circumvented through capable marketing and by developing personal contacts. By cultivating an advocate within one store of a chain, producers may be able to avoid some of the red tape and costs of entry.

Marketing, Technical and Business Skills

"They may have a good product, but they may be defensive about it."
— Procurer for a local restaurant in reference to ACEnet clients.

A viable product and a good understanding of target markets are not the only keys to selling a product. On top of this, an entrepreneur needs the people skills to develop contacts with distributors and retailers. Attending trade shows and visiting stores repeatedly are crucial to developing these contacts. Then, the producer needs to have the confidence and ability to convey that he has an attractive, high-quality product that will be in high demand. “Pounding the pavement” and promoting products can be an unfamiliar concept to overloaded or inexperienced microentrepreneurs.

“A good product will be promoted (by distributors, brokers and retailers) provided there’s a relationship.” – Broker for natural foods

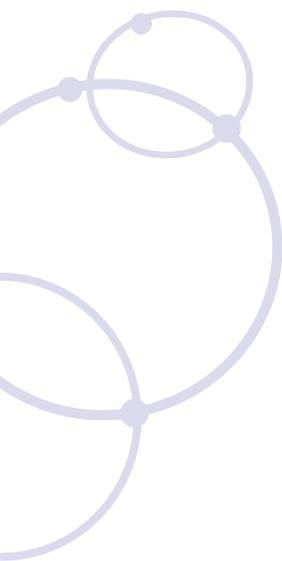
Production processes are likely to change significantly as volumes increase. The entrepreneur must learn how to maintain quality and prevent spoilage when producing larger quantities of goods. The safety hazards inherent in food production grow as production is scaled up. Safety measures also can affect the quality of the product. For example, the higher temperatures necessary to safely preserve large quantities of produce alter the taste of some ingredients.

“There’s a difference between preserving (in your home kitchen) and what’s required for safe, shelf-stable production on a larger scale.”
— ACEnet technical assistance provider and expert in the food-processing industry.

Microentrepreneurs may need to acquire additional business management skills to grow their enterprises. To operate at a profit and service their markets reliably, microentrepreneurs need to be able to:

- Price the product to compete and cover costs.
- Project break-even volume and the capital investment it will require.
- Forecast costs under various production and distribution scenarios.
- Project production capacity.
- Track and manage costs.
- Track, manage and deliver orders.

In addition, to be profitable over time, microentrepreneurs need a realistic vision or business plan that clarifies what they are trying to accomplish and when. This is especially the case in terms of volume, markets and distributorships, as well as how the microentrepreneur expects to achieve these objectives.



The Physical Capacity for Large-Scale Production

To increase production, microentrepreneurs often require:

- Technical support to produce attractive labels that meet regulatory requirements.
- Assistance in identifying sources of low-cost ingredients, labels and

Co-Pack or Establish a Commercial Kitchen?

As a producer's business outgrows the home kitchen, the producer has two challenging options:

1. Find a larger processor that will package the foods, a system called "co-packing." In southern Ohio, co-packers are often hard to find, are located far away, have large minimum production orders and charge high prices for start-up.

2. Obtain equipment and establish a small commercial kitchen. This usually requires finding costly equipment at an affordable price and meeting licensing and other regulatory requirements.

The Wise Herbalist, an organic tea producer, found that the closest available co-packing facility was in Atlanta. To use the facility, she would have had to chop and sift her tea more finely than she currently does, a time-consuming process that would have lowered her productivity. She was able to find a catalog business that allowed her to blend teas under its label, using her normal production process.

packaging.

- Access to a production facility with appropriate equipment, storage and loading capacity.
- Capital to procure labels, packaging, ingredients and, in some cases, equipment.

However, accessing these inputs at an affordable cost can be difficult unless a producer buys in sufficient bulk.

Despite these many challenges, microentrepreneurs have the potential to develop strong markets, particularly regional ones, as the case of one ACEnet client illustrates:

Uncle Cleo's Salsa

Cleo and his wife, Liz, were living on the edge after Cleo lost his industrial job. They moved back to their home, a small cottage on a rural road about two hours from Athens. They attempted to earn a living selling "junk" at a local flea market. In addition, they sold jars of Cleo's



Italian sauces, which they made from their own homegrown produce using an old family recipe. Production was small-scale and sales and profits hovered between \$200 and \$300 per month. According to Cleo, the best thing that happened to him was the day a U.S. Department of Agriculture (USDA) representative shut down his sauce business, telling him he could not sell sauce made at home. The USDA official told Cleo that he should talk to ACEnet if he wanted to legally produce and sell sauces.

When Cleo and ACEnet started working together, Cleo learned how to produce using safe processing techniques in ACEnet's Kitchen Incubator. Then, Cleo learned what products were hot in the food business – salsas. He developed a label and found out where to purchase appropriate, affordable jars in large quantities. He also had to identify sources of commercially grown produce. Once his product was developed and legal, Cleo shopped it around in his truck to as many outlets as possible, from bait and tackle shops to local grocery stores. He put out samples and placed the salsas in the stores, collecting any proceeds from the retailers later. To accommodate the retailers, he developed a creative wooden display shelf. Sales rose to \$800 a month, and Cleo and his wife began to spend all of their time – more than 60 hours a week – producing and selling salsa. Still, it was not a sufficient living and the two-hour commute to Athens to produce was grueling.

The couple's next steps led to their business taking off and accessing regional markets. First, they moved production from the incubator to a new kitchen they built in their garage. Then they performed a proper costing, identifying better suppliers and reducing costs from \$1.35 to 70 cents per jar. With a legal, quality product and local track record, Cleo marketed aggressively and landed accounts at two regional



grocery chains, Big Bear and Kroger. To handle local distribution and sales, Cleo hired an entrepreneur to be his product representative, and to keep sales high he hired “samplers” who hand out free samples at grocery stores on weekends. His sales have reached \$3,625 per month. Cleo is now looking for a distributor to handle more of the marketing so he can further increase sales and focus on expanding production. His vision is to be bought out in the next few years for “big money.” His advice to other food producers: “Be persistent, sacrifice and reinvest in the business, get help, get capital and enjoy the success you have!”

Targeting Local, Regional or National Markets?

“Local products are in a class of their own: (Local and non-local products are like) apples and oranges.” — Manager, Athens IGA store.

ACEnet staff and their clients have faced choices about which markets — local, regional or national — they should target.

In and around Athens, many consumers prefer local products and are willing to pay for them. Many of the information and skills requirements discussed previously do not apply to local markets. Making contacts with store managers is easy; required quantities are small and distances to markets are manageable. Local retailers have moderate expectations: They simply want to see a reasonable number of high-quality products provided, serviced and sold.

No graphics or other features identify the baked goods of one ACEnet client who produces only for local markets. Yet, the taste and natural ingredients of Millie's pies make them a fast-moving item in the local IGA store.

Despite their advantages, local markets tend to be too small and labor-intensive to generate a profitable sales volume for many products. Distributing stock, replacing dated or damaged merchandise and physically maintaining shelf space is time-consuming. Even in local markets, the lack of distributors is a barrier to achieving scale and profitability.

Regional markets provide the potential for higher volumes of sales through fewer buyers. They also present higher hurdles for new entrants, as previously discussed. Of these hurdles, distribution is perhaps the most difficult for ACEnet clients to overcome.

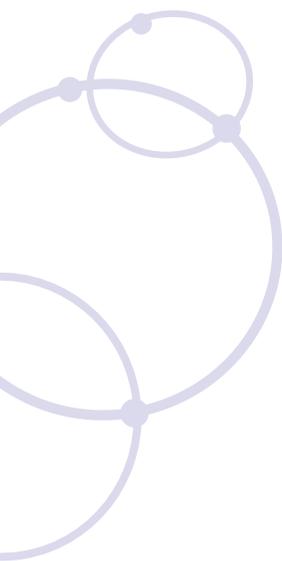
For the vast majority of microentrepreneurs, national markets are inaccessible. Serving national grocery markets requires high-volume production capacity that in turn requires large capital investment. Large distributors almost exclusively serve these markets. To represent a product, they require a well-developed market base. In addition, national grocery chains sometimes require producers to pay for expensive advertising and to rent shelf space, a practice referred to as “slotting fees.” Thus, the cost of reaching national markets is prohibitive for most microentrepreneurs.

For those who aim to develop local economies, national markets are of less interest anyway. The usual path for smaller-scale businesses that successfully reach national markets is to be bought out by a national firm that will take the product to the national production and distribution level. When that happens, production facilities are often relocated along with the jobs they may create.

One exception to breaking into national markets may be the Internet. However, the microenterprise field has much to learn about e-commerce and its benefits and costs to micro businesses. E-commerce presents similar barriers for small-scale producers, some opportunities for access and some additional, different challenges. Similar challenges include developing market knowledge, market-ready products and business skills. Depending on the market channel used on the Internet, different additional opportunities and challenges arise. For example:

- Internet sales through existing, large-scale retailers such as Dean & DeLuca can be as challenging for small producers as selling through a national grocery chain.
- By accessing virtual malls or listing products on auction sites, producers can control the quantity offered, are likely to attract small orders and, therefore, can produce in manageable quantities. They also can ship their products without a distributor. If stock





falls low, advertisements and listings can easily be removed without presenting an image of unreliability.

- Hosting a company Web site circumvents much of the cost and knowledge involved in gaining access to other company sites and markets. Major challenges include the costs of designing and maintaining a site, particularly a secure site where customers can use credit cards, and attracting enough appropriate customers to the site.

To date, most small food businesses that have tried to enter this market have invested their resources with minimal results. In fact, some microentrepreneurs have been defrauded when they marketed their products through auction sites; while others have invested significant amounts to build a Web site, only to discover they lack the funds required to market the site. In addition, most specialty foods “lend themselves to...more intimate, sensory-focused merchandising” than what is offered on the Internet.⁶ However, e-commerce is evolving quickly and is the fastest-growing area of retail sales. Its opportunities and challenges for the specialty and natural food sectors are changing just as rapidly, and bear watching.

⁶ Brian Keating, “North American Natural Foods Industry: Growing into the Next Century,” *The Gourmet Retailer* (July 1999), p. 39.

III. PROGRAM DESIGN AND RATIONALE

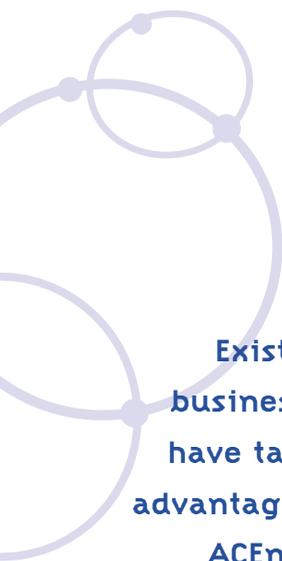
ACEnet began the Food Ventures program in 1993 to help low-income people in rural Ohio take advantage of the opportunities and to overcome the barriers presented by the natural and specialty food sectors. Agriculture is a key production sector in rural Ohio. In the face of the long-term decline of traditional small-scale farming, farmers are pursuing more lucrative activities such as organic farming and small-scale food processing. These businesses are growing in Athens County, where ACEnet is located, and in some of the eight surrounding counties where ACEnet works. Farmers often process their produce for sale at local farmers markets, and organic farmers also sell to the natural food stores. This community is particularly well organized in the several groups ACEnet helped form: Community Foods Initiative (a farmers network) and two cooperative food enterprises, Grains (a natural foods bakery) and Casa Bueno (a natural foods Mexican restaurant).

Food Ventures works with micro- and small-scale specialty food producers to help them overcome the obstacles they face in accessing high-value markets and obtaining sustainable growth. Food Ventures' primary strategy is to facilitate linkages among producers, suppliers, retailers, distributors and community organizations to develop local and regional markets.

"Increasingly, we are aware that our role is not to market or to train firms in marketing. Rather, we move small sets of firms through the process of identifying market expansion opportunities, generating creative and effective responses, all the while growing a web of relationships and knowledge of how the market works in a way that makes more sophisticated and successful actions possible on a continual basis." — June Holley, ACEnet

In playing this market development role, ACEnet has developed principles and modes of operation that guide the services they provide and marketing activities in which they engage. Some of these principles include:

- **Sector Focus:** Food Ventures is focused on specialty and natural foods.
- **Learning:** Staff, and the microbusiness owners with whom they work, are constantly learning about these sectors, including: 1) market trends and how to keep up with them; 2) what it takes for small firms to become market-ready; and 3) how to reach the markets that will bring the most return for small-scale producers.



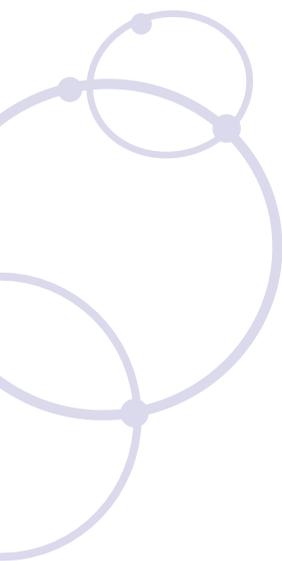
Existing businesses have taken advantage of ACEnet's network and market knowledge to expand their businesses and access labor, business partners and new markets.

- **Flexibility:** Food Ventures is an evolving program that constantly responds to businesses' needs, market opportunities and prospective partnerships.
- **Customization:** Food Ventures works with a wide range of clients and customizes services to best suit their needs, rather than offering a rigid, standard package of services.
 - **Networking:** ACEnet's primary strategy is to link producers, suppliers, retailers, distributors and community resources around immediate market opportunities and the long-term goal of developing a strong local infrastructure to support the growth of the natural and specialty food sectors in southeastern Ohio.
 - **Partnering and Leverage:** These linkages result in partnerships that bring additional services and opportunities to food producers that ACEnet could not provide directly.
 - **Leadership:** ACEnet has taken a leadership role in bringing together private sector and community players locally, regionally and nationally, and providing the resources and vision to the challenge of helping small-scale producers access specialty and natural food markets.
 - **Strategic Readiness:** Food Ventures has a vision of working with a wide range of clients, providing a variety of services and working toward customized outcomes with each population group. Although there are often not enough resources to work on all fronts at once, staff members focus on particular activities with the big picture in mind. When opportunities arise and resources become available, staff members are ready to add or shift priorities accordingly.

What are some of these population groups and pathways to success that ACEnet facilitates? Very low-income people facing multiple barriers have received job training and employment with small-scale food processors. Business starters have used Food Ventures' Kitchen Incubator and technical assistance services to develop recipes, attractive packaging and marketing strategies, and to produce the orders that have launched their businesses. Existing businesses have taken advantage of ACEnet's network and market knowledge to expand their businesses and access labor, business partners and new markets. Clients are constantly linked to other resources through a community of service providers ACEnet facilitates. Together, these players are developing an informal specialty food network that works collaboratively to develop the food sector in southeastern Ohio.

The Food Ventures vision can be characterized as comprehensive, complex, innovative and ambitious. It is not simply a service-provision plan or a business idea to market microenterprise products. It attempts to develop all players in an industry – employees, businesses, community institutions and markets. It involves multiple services, multiple target populations and multiple institutions working together in a variety of complex relationships. Finally, it envisions low-income people growing firms quite quickly and reaching higher-value markets in the context of a region that would become a leader in the specialty food sector. In designing Food Ventures, ACEnet established a challenging and innovative vision for the food-processing community in southeastern Ohio. The following sections illustrate the progress ACEnet has made so far in realizing this vision, and some of the lessons that staff members have learned along the way.





IV. PROGRAM SERVICES AND THEIR EVOLUTION

Since inception, Food Ventures has maintained its innovative vision and approach, while its specific core services evolved to meet client needs, market realities and capacity constraints. Over time, the client focus of Food Ventures has shifted as different opportunities have arisen, and staff members have developed strategies for managing the wide range of tasks they undertake and the wide range of businesses they serve. The following sections describe the evolution of Food Ventures services in three categories:

1. Core Services
2. Client Focus
3. Client Flow and Management Issues

Core Services

Food Ventures' core services change over time and include a variety of activities, including product development, technical assistance, resource provision, advocacy and promotion and running and marketing a business. Within the Food Ventures context, these general activities are delivered through the following mechanisms:

1. The Kitchen Incubator
2. Business Development Services
3. Business Linkages and Networking
4. Community Linkages and Networking
5. Reaching High-Value Markets

The type of services provided and the way they are provided also have evolved as staff learns through experience.

Kitchen Incubator

ACEnet's Kitchen Incubator is the hub of the Food Ventures program. The facility, located in a light industrial area near downtown Athens, contains:

- A licensed commercial kitchen and storage space
- A retail outlet and coffee shop
- Office and meeting space
- Access to the Internet
- A food literature library with recent trade magazines

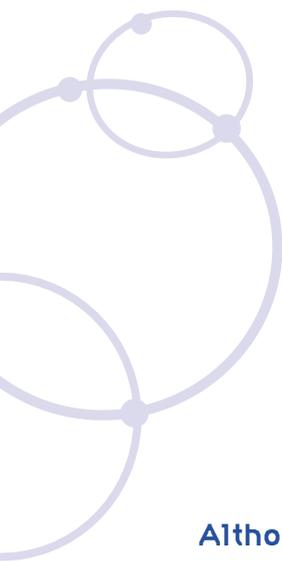
- A product library with specialty and natural food samples
- Food Ventures staff offices

Not only does the incubator offer access to specific services, but also it is a physical space for informal networking, one of the key principles of the Food Ventures strategy.

The commercial kitchen is licensed for canning and baking, but not for processing of dairy or meats. To paying tenants it provides access to storage, cooking equipment such as large ovens, stoves, mixers, boilers, sinks and counters, as well as cooling areas and refrigerated storage. Regular kitchen tenants process and jar salsas and jams, bake breads and cookies, prepare granolas and cereals and make pasta and pasta sauces. Additional businesses use the storage rooms. Access to the kitchen, larger-scale equipment and storage enables processors to test products, experiment with production processes and produce in relatively small batches without making the upfront investment in a licensed kitchen. The Kitchen Incubator thus reduces risks and start-up costs for new businesses, and provides a useful space for existing businesses to grow.

Grains Bakery: Grains Bakery was one of the original worker-owned businesses ACEnet assisted in 1986. When the incubator opened, Grains was operating in a building that was “falling down around us,” according to Adam, a worker-owner. The incubator provided more space for the same rent, reliable equipment, a walk-in freezer and access to comfortable office space and computers. Grains Bakery’s 1999 sales were \$190,000.

The incubator’s management and services have evolved over time to better serve clients and to address financial concerns. Initially, when given access to larger production facilities, clients experience what staff members call “the seduction of production.” They get wrapped up in the excitement of producing large batches and do not pay enough attention to the financial viability and marketability of their products. To help clients make sound investments and to ensure the best use of the facility, staff provides technical assistance before allowing a client to start production. When the tenant begins production, ACEnet continues to provide technical services as the client develops products and moves into regular production. Although the incubator’s physical facilities are a key draw for businesses to come to ACEnet, clients equally value the technical services offered by Food Ventures.



Uncle Cleo’s Salsa: After a USDA official told Cleo that his first flea market sauces were illegal, he learned from ACEnet about safe and legal ways of producing his sauce and got advice on packaging, marketing and production processes. He was a tenant in the Kitchen Incubator for nine months while he got his business off the ground. “I learned all about the food business from ACEnet. All I had was a recipe. I didn’t know what the heck I was doing. I’m stubborn and I don’t like to take advice, but I usually come around to ACEnet’s way of thinking.”

Although tenants are still involved in defining services, some structural and procedural changes have helped ACEnet manage the incubator well.

The financial objectives of the incubator have evolved over time. The vision was that the incubator would be managed cooperatively, generate income and be a much larger facility with more services available. Although tenants are still involved in defining services, some structural and procedural changes have helped ACEnet manage the incubator well:

- Less funding was available than envisioned, so the facility is smaller and was partly financed through loans. An expansion is under way, but has been more gradual than originally expected primarily because of funding constraints.
- ACEnet manages the incubator because there were conflicts of interest with the tenants having management control. For example, tenants wanted free services. Financially this was not viable, as ACEnet had to finance loans and pay operating costs not covered by grants.
- Fees are not based on cost recovery, but are purposely set a bit lower than the fees urban incubators charge. However, these fees will increase once the expansion is completed.
- Fees are charged in advance of incubator use, because arrears had built up from tenants not paying rent.
- The goal of income generation was delayed while the project developed. The incubator has always covered its basic costs of mortgage and utilities, but a period of experimentation and gradual growth meant that clients could not be charged income-generating fees. As ACEnet has become better known for providing good services, as client businesses have grown and as the facility expands, ACEnet is planning to increase rates and earn income from the kitchen and storage facility. Without trying to recover costs, the incubator covered about 41 percent of its costs in 1999.

ACEnet is raising funds for a significant incubator expansion that will include automated equipment, larger storage area and a loading dock. The expansion is part of the original vision for the kitchen. It will enable ACEnet to respond to requests for dairy processing; for slightly automated, larger-scale processing; and for co-packing. The vision for the future is that the incubator will generate enough funds to pay its operating costs and hire a kitchen manager.

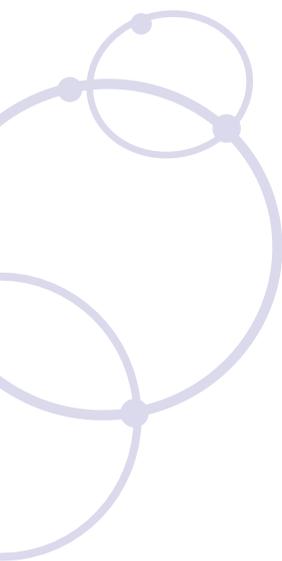


Entrepreneurs are given access to ACEnet's licensed commercial kitchen.

Another evolving area of the incubator is ACEnet's retail facility, the Marketplace. It is a small, specialty food shop with a café, baked goods and a small selection of prepared foods for lunch. The store offers partner businesses an opportunity to sell products, test the market for products and to gather and network. At times during the past several years, there have been active periods; for example, a VISTA volunteer organized regular events and product tastings for a while. It is ACEnet's face to the local public, a place where they can feel they are part of the ACEnet experiment by purchasing local products. Although some workers from local businesses drop in for coffee or lunch, the customer volume is not high. The store does a small volume of sales (about \$700 per week), and costs ACEnet \$38,900 (net) per year to manage (\$63,700 if overhead is included). Although the Marketplace brings some benefits to clients, staff focuses on the store's ebbs and flows depending on client, market and management priorities. At the moment, a planning process is under way to develop several more cost-effective scenarios for the store; staff will then implement one.

Business Development Services

Less visible than the incubator but equally important to clients, are Food Ventures business development services. Incubator tenants and other clients are eligible for these services, which are delivered primarily in individual consulting sessions with Food Ventures staff. Often, staff will link clients with other service providers such as the Small Business Development Center, the Enterprise Development Corp., Ohio University or private-sector business service suppliers. Frequently, staff organizes joint events such as participation in trade shows and tastings, which offer clients hands-on marketing experience. Occasionally, staff will offer short workshops on specific topics, sometimes with a guest trainer. Staff maintains, however, that hands-on technical assistance and experience are the best training tools.



The specific content of the technical assistance and technical resource provisions offered through Food Ventures falls into the following categories:

1. Market research
2. Recipe and production process development
3. Product development
4. Product pricing (costing) and information about suppliers
5. Financial services
6. Business expansion services

Market Research

Staff constantly engages in market research so that they will know the industry and be in a position to offer up-to-date product development and marketing advice. ACEnet subscribes to between 80 and 100 monthly publications. One staff member may read up to 24 trade journals in two weeks, as well as keep up with Internet sites and list-serves. ACEnet also is a member of key national organizations in specialty and natural foods, such as the National Association of Specialty Foods, and regularly attends their trade shows.

Casa Bueno Worker-Owner Restaurant: “ACEnet helped us get our salsa business going. They helped us understand the market trends, helped us organize tastings in local grocery stores and helped us see how marketing for this business would work.”

Clients face barriers in accessing and digesting this market research on their own. They often lack the time, money and expertise to focus on relevant information. Staff leads clients to information that is most relevant for their product and market. For example, in initial product development brainstorming sessions, clients are shown samples of similar, competing products; relevant labeling and packaging examples; and articles about the latest trends in their product area. Staff gathers product and visual materials from magazines and trade shows, and makes the materials available in a library. ACEnet has just started a clipping service for which clients pay. This market research is the initial information staff provides clients about their products, and was key to helping staff become experts in the field of specialty and natural foods.

Recipe and Production Process Development

The first questions Food Ventures staff asks of any client busi-

ness are: “What are you planning on making?” and “How will it be made?” ACEnet staff tastes the product, discusses the existing recipe and explores production



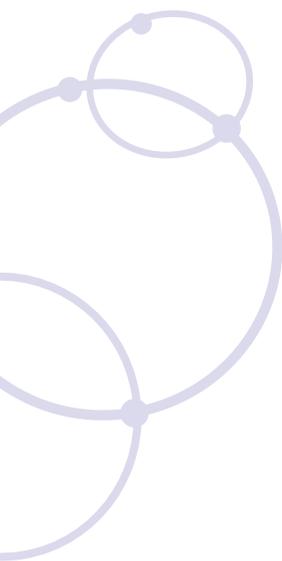
The Marketplace is ACEnet's retail facility.

options. Staff members rely on their market knowledge as they give product content advice to clients. They also arrange occasional tastings of new products at area restaurants, the Marketplace and fairs and festivals, and they encourage clients to solicit feedback from their own sources. Then, staff assesses the planned production process. Often, staff members link clients with two key partners who conduct food testing and analysis and help plan a “process schedule,” or a production plan for the recipe. (These partners are Ohio State University’s pilot lab and the Center for Innovative Food Technologies, located in Columbus.) Sometimes, the partners have good leads on how to procure equipment affordably, or make equipment available for ACEnet to use. Other times, the experts make it clear that the product cannot be legally or efficiently produced at the incubator. ACEnet tries to help such clients identify co-packing facilities. Some smaller-scale clients establish their own small commercial kitchens and Food Ventures staff has helped them find affordable equipment and set up their own kitchens.

The Paw-Paw Man: John is a promoter of an indigenous fruit, paw-paws, and has realized he needs to make and sell consumable products in order to popularize the fruit. ACEnet staff went with him to Ohio State University, where advisors there identified a machine appropriate for paw-paw processing, and lent it to ACEnet. Staff and John then experimented with different recipes for jams and chutneys, and are developing production processes for the most promising ones.

Product Development

Perhaps the most important value-added service Food Ventures provides is product development – the process of transforming a recipe into an attractive, legal and marketable item. This involves completing certain legal processes; developing a product niche and product line; and creating a product image encompassed primarily in the label and packaging. In the specialty food industry, legality is a prerequisite for selling, and the product’s image is its main advertising tool. Therefore, these are particularly important services that ACEnet provides.



There is a high demand for three specific services clients need to label their products:

1. Nutritional analysis of the product, which gets printed on the label.
2. PH testing, which determines the safety and legality of the product for bottling.
3. UPC bar coding, which enables the product to be priced and scanned.

Clients pay between \$5 and \$60 for these services, which are performed by Food Ventures staff. In addition, staff advises businesses on other labeling requirements such as including the company name and address, etc.

In addition to ensuring that their product is legal, clients are often interested in assistance with the design of their label and packaging. Food Ventures has identified a successful and affordable graphic artist who works with some clients. Although clients have an independent contract with the graphic artist, Food Ventures staff often plays a liaison role that cuts down on the expense of the graphic artist. At the same time, the graphic artist has become familiar with food labeling and packaging requirements and therefore is better able to serve clients.

Toad Ranch: The name of this salsa company came from the sound of the toads at night on the farm where the owners grow peppers. Their original label design was an aggressive toad, but the graphic artist helped them design a laid-back, relaxed toad. That's the business image today, and it is displayed on labels and T-shirts.

The Wise Herbalist: The graphic artist to whom ACEnet referred Suzanne designed a label that fits her image perfectly. He found a drawing of an earthy woman and drew in symbols from earrings Suzanne usually wore. She gets e-mail from customers who say she offers wisdom and a healing spirit in addition to her good teas. This was exactly the image she was hoping for.

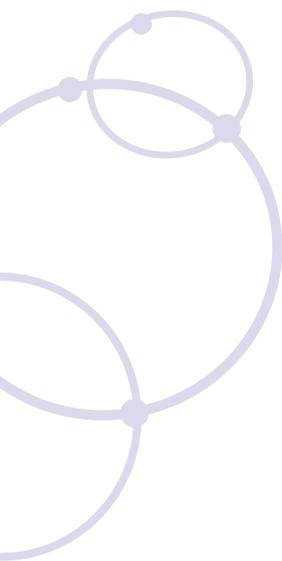
As staff members work with businesses on these concrete, tangible activities, they draw clients into an equally important, but sometimes less tangible, discussion on the identification of a product's market niche, brand identity and product line. For example, packaging, labeling and product name determine whether a product is more of a specialty or a natural food. Within these categories, is it gourmet or down-

home? Is it natural or certified organic? Because buyers are usually interested in more than one product from a supplier, staff encourages clients to develop a line of similar products. To develop a focused product line, they ask clients to envision in which grocery aisle these items would be found. A line of jams, salsa and pasta sauce isn't very feasible because these products are located in different sections of the store. In contrast, a line of jams in three flavors is more viable because they will sit next to each other on the same shelf.

The Polly Baker: Food Ventures staff encouraged Sarah to focus her bakery business on a line of cookies. She sells chocolate chip, ginger, pecan and sugar cookies. The cookies are packaged in a light cardboard container that is shaped like a bag, has a window to show the cookies and has an attractive white label. As a nod to Sarah's former career as a dance teacher, each type of cookie label has a dancer in a different position. When the cookies are lined up, the dancer is dancing along the store shelf.

Staff also identifies potential competitors from magazines and other market research information and shows these products to clients to help them understand general consumer trends. Staff encourages entrepreneurs to think about the price they are charging compared with competitors. Clients tend to price their products too low, partly because they under-value their labor and partly because they often envision competing with mass-produced items rather than specialty foods. Educating clients on the differences between these markets – and the relative viability of the specialty and natural food markets for small-scale producers – is part of the product development process.

For several reasons, product development counseling can be challenging. First, businesses are not necessarily asking ACEnet staff for product development advice. Rather, they tend to be interested in information about labeling requirements, access to the production facilities, etc. Clients usually have a vision of their product identity and where they feel it should be marketed. They often resist advice from staff. Sometimes, entrepreneurs' instincts turn out to be correct and viable, but other times they misread the market. Often, entrepreneurs do not initially take staff advice, but realize once they begin marketing their products that the staff was right after all. As their confidence grows, staff members are beginning to be more assertive in offering their opinions. For staff members, it is a challenge to balance the need to be demand-driven



and respect entrepreneurs' instincts and desires with their own desire to share market expertise and help clients develop viable products.

Product Pricing and Information About Suppliers

Another of the most important services Food Ventures provides is product pricing, or costing. Staff requires businesses to complete a costing if they use the incubator, and they strongly encourage other clients to do so. At first, staff simply tried to project pro-forma business statements. They found themselves teaching basic accounting when a client was only at the basic product development stage. Pro formas also were complex because they involve projecting sales, when often clients are just testing the market for their products. Therefore, staff developed a one-page spreadsheet that estimates the cost of ingredients, packaging, incubator rental and labor time – just the cost of goods sold, per unit. That way, clients have an idea of their gross margin per product before investing in production.

This process has raised clients' awareness of the cost of supplies and has led them to seek alternative, cheaper sources. Staff and other clients often are helpful in identifying sources because they know where other clients procure things. When suppliers have large minimum purchases, sometimes one client who buys large quantities will supply another with small orders of jars, lids or flour, for example.

Uncle Cleo's Salsa: Cleo didn't think doing a detailed costing was necessary. He told ACEnet "Trust me, I'm making money." But he did it at staff's insistence, and started paying attention to his costs and suppliers. By identifying alternative suppliers, he reduced his costs from \$1.35 to 70 cents per jar.

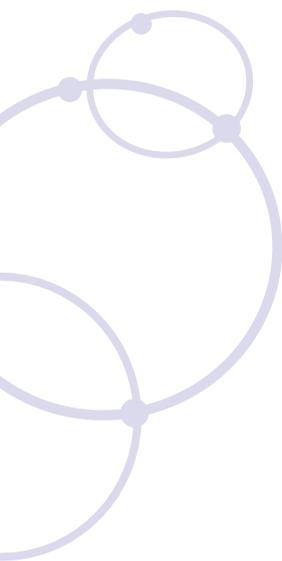
Financial Services

ACEnet also provides some capital through its ACEnet Ventures Fund, (formerly the Product Development Fund). Through this and previous loan funds, ACEnet has provided 10 loans, or product development "awards," ranging from a few thousand dollars up to \$30,000. The original fund of about \$200,000 focused on product development. More recently, the fund also has been used for working capital as businesses expanded. Overall, the fund has performed well, with a default rate of 3.8 percent. The loans have a wide range of payment options and interest rates. With the "awards," firms were to pay royalties to ACEnet for

three years on all products sold under the agreed label. At first, the fund was underused because of the lack of staff and lack of demand from clients (who were able to access capital from other local sources). Now, ACEnet has hired a full-time staff person to manage the fund. Use of the fund has increased dramatically, and plans are in development for a fund of several million dollars to reach out to higher-growth firms. This is part of ACEnet's evolving focus on businesses with high growth potential (whether start-up or existing) instead of on businesses with little growth potential.

The most important lesson from the fund is that a little capital can go a long way in helping a food-related business get started. In addition, some lessons learned from the fund include:

- Approach the loan fund like a venture capital fund, rather than a loan fund: Be willing to take risks and expect some failures and some higher returns.
- Use standard risk assessment techniques, perform due diligence, check credit records. Standards for accepting clients should be less stringent than bank standards, but the application process should be similar.
- Require personal guarantees and collateral.
- If royalty agreements are to be used, make sure they last five to seven years. Three years is not long enough to recover the investment. Include in award agreements the consequences (such as collateral collection) for noncompliance.
- Combine smaller royalties with loans rather than expecting just to get a return from the royalty; this way the fund will cover the cost of capital and still benefit when a business grows rapidly.
- Stringently require clients to submit financial statements. Make it a condition for default. Link clients with CPAs and bookkeepers to help them establish good accounting systems from the start.
- Develop easy, efficient tracking systems, including systematic pre-calls, to remind people of payment due dates and late charges if payments or statements are late.
- Make loans convertible into equity in case of mismanagement or in case the firm takes off and the fund can benefit more from ownership than from a loan.
- Provide intensive technical assistance more characteristic of a venture fund than a loan fund.



Business Expansion Services

Because most of Food Ventures' clients have been start-ups, the demand for business expansion services is just arising. Staff is developing expansion services for several reasons. First, several clients are ready to expand or are expanding now without sufficient support. Second, in order to develop more employment opportunities, Food Ventures is starting to target higher-growth firms. Third, with the upcoming expansion of the kitchen facilities, Food Ventures will be able to offer production and storage facilities on a larger scale. The business expansion services planned include:

- Access to automated bottling production, larger storage facilities, a large loading dock and a commercial kitchen licensed for dairy.
- Access to co-packing services, in which ACEnet or other area businesses will package products on behalf of entrepreneurs who have the product but are not interested in or able to engage in production.
- Access to a larger loan/venture capital fund.
- More sophisticated technical advisory services provided by the partnership with the Center for Innovative Food Technologies, and by a new staff member who has a business education background.
- Greater access to markets through an increased effort at opening doors to regional markets.
- Employee recruitment and training, possibly to be offered through a job-training "business" at the new facility.

The business expansion services form part of a recent ACEnet strategy designed to maximize empowerment and employment opportunities for low-income people. ACEnet now focuses on three tiers of clients: medium-growth businesses; high-growth businesses that will provide significant employment; and job seekers who will receive training and placement into high-growth firms.

Toad Ranch: "Toad Ranch and ACEnet grew up together, learning from each other as we grew. ACEnet's start-up funding was somewhat helpful, but now that ACEnet has a MBA on board, they are really able to help with cash flow, accounting and other issues a growing business like mine is facing."

Business Linkages and Networking

ACEnet's third core service is also one of its cornerstone operating principles: that small businesses can effectively work together to overcome market constraints. ACEnet's role is to facilitate productive linkages. Food Ventures' initial effort to facilitate business linkages focused on holding formal networking meetings. These were not well attended because entrepreneurs were averse to meetings, there were few common interests and the goal of networking for the sake of it was not addressing an immediate, expressed need. Instead, relationships among businesses have formed as entrepreneurs meet casually in the shared facility, around the coffee table and at Marketplace events. In addition, staff encourage restaurant clients to host food tastings when they have live performances or special events. Staff members also organize joint attendance at local fairs and regional trade shows. In the context of these events, clients get to know one another and make personal or business connections that add value to their business, or give them personal mentorship and support. Also, as staff members work one-on-one with clients, they often identify ways in which businesses can work together. They introduce clients to each other and plant the idea for a potential partnership or business deal. However, they do not negotiate the deal.

Finally, the most recent effort to support the development of the network is the local Foodnet list-serve. There are about 40 participants, including ACEnet clients, technical assistance providers and other partners. The list has been well received by clients, with

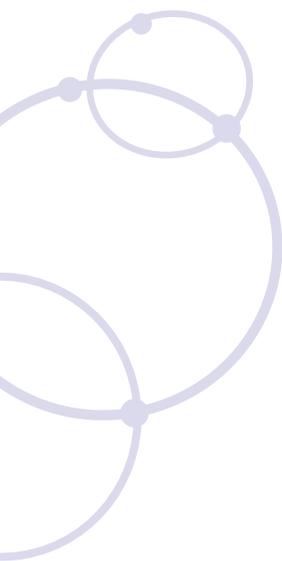
The Wise Herbalist: One thing that has helped Suzanne adjust to the isolation of being a rural entrepreneur is personal support from others like herself.

The Polly Baker: It has been helpful for Sarah to get to know other entrepreneurs. She is a lurker on the list-serve, but follows it regularly.

minimal input from staff.

Some of the concrete relationships that have emerged as a result of evolving business linkages include:

- Businesses sharing information about affordable, good-quality supplies; for example jars, lids, display cases, flour and tomatoes.
- Occasional joint procurement of supplies. For instance, producers



just testing their products can obtain small quantities of jars and lids from Casa Bueno, which purchases them in bulk.

- Occasional “co-packing,” when a larger-scale business agrees to process and package a smaller business’s product. Toad Ranch Salsa did this for a client when that client had an unusually large order.
- Two clients have organized community events, a chili pepper festival and a paw-paw festival, which brought together local businesses, government officials and community development organizations to attract tourism and attention to the area’s growing specialty food sector. ACEnet played a role on the organizing committees and sponsored the festivals.
- Businesses attend fairs and trade shows together. In the summer of 1999, clients attended more than a dozen fairs and festivals under ACEnet’s banner.
- A partner business, Grains Bakery, distributed products to a regional outlet, Wild Oats in Columbus, on behalf of several ACEnet clients.
- Finally, many clients report that they receive significant personal support from interacting with other food producers.

These partnerships have added value to the food businesses

Casa Bueno: In the beginning, Casa Bueno bought jars and lids from Toad Ranch, and even used its large facility once when they had a big order. They also purchase flour with Grains Bakery (for the restaurant) and get a better price that way.

Toad Ranch: ACEnet staff considers Toad Ranch a lead entrepreneur in the network. Chris, the owner, recently spent an afternoon giving tips to other food producers, and he has organized a local chili pepper festival. He sells small quantities of supplies, recommends suppliers and makes his facility available to ACEnet members. This is all part of his “conspiracy of hope” to build a viable local economy.

with which ACEnet works. The next areas staff members plan to focus on are increasing the numbers of partnerships and joint business activities, particularly marketing, distribution and co-packing.

Community Linkages and Networking

In addition to facilitating business-to-business linkages and networks, Food Ventures develops partnerships with a wide range of com-

munity organizations to spur them to develop relevant services for food-related businesses. These include:

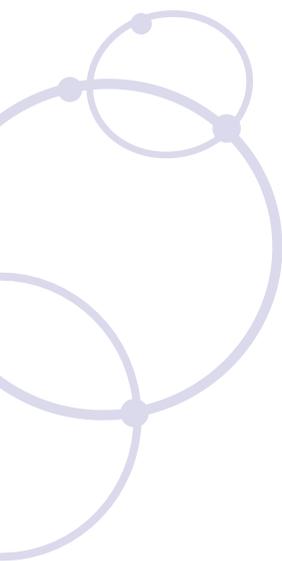
- Partnering with Ohio State University in Columbus and the Center for Innovative Food Technologies in Toledo to provide product and production testing and technical assistance to food producers.
- Working with the local Chamber of Commerce to identify Athens as a specialty food production center.
- Working with local agricultural extension offices, Rural Action and Community Food Initiative to address food-supply issues.
- Working with Ohio University's business school to link entrepreneurs with technical assistance.
- Developing Buy Local maps with a local institute.
- Working with banks and community lenders to educate them about the potential and viability of lending to food producers.
- Educating insurance agents about the types of insurance required by local food processors and helping to negotiate reasonable rates for small-scale producers.
- Working with municipal leaders in organizing food festivals.
- ACEnet also regularly refers clients to the small business and women's business development centers.

These partnerships are part of ACEnet's strategy of building a community infrastructure for the specialty and natural food sectors. ACEnet is now engaging in regional efforts to build similar relationships among organizations with an interest in the food sector. Although strong community support is key for addressing supply and production constraints, it is equally important for developing markets.

Reaching High-Value Markets

In addition to the significant focus on product development and production, Food Ventures also has worked to help food producers reach local, regional and national markets. National markets proved challenging for small and microenterprise clients, while local markets were more accessible but smaller. As a result, ACEnet has decided to focus on regional markets.

Developing local markets was the easier task. First, many clients had their own contacts locally that helped them get started. Second, ACEnet had access to two markets through its own program and relationships: the Marketplace and Casa Bueno, the cooperative restaurant that had a long-standing relationship with ACEnet. Staff also



provided “door opening” services to several local grocery stores, other restaurants and shops, many of which were also clients. In partnership with other community groups, staff developed a specific Buy Local campaign at fairs, festivals and other community events. ACEnet played a key role in attracting media attention to this campaign and, as a result, to local producers and shops that carried their items. The campaign also included fliers with information about the importance of supporting local farmers and businesses and keeping jobs in the area. In addition to the fliers, the campaign included signs designating products as “Athens Made,” which are featured at the local Kroger store, among other places. ACEnet also developed a relationship with the Chamber of Commerce and provided information about local food producers that was included in Athens tourist brochures. These are circulated every year to the students at Ohio University and to other visitors.

Although there is some debate among clients, staff and local buyers as to the viability of local markets and the extent to which ACEnet’s efforts have contributed to developing local markets (some say it would have happened anyway), ACEnet’s efforts have been substantial. It is clear that there is a high demand for local products. More than 75 local grocery stores and restaurants stock food products of ACEnet clients, which represent most of the potential outlets in and

The Wise Herbalist: “Don’t rely on the local community to support your business. Even if they like you, they just can’t afford or aren’t interested in natural, specialty products.”

Pesto, Spice & Co.: An incubator tenant, Tamera started selling catering services and pasta sauces through local contacts and in local stores. ACEnet helped her get into Wild Oats. Independently, she developed a relationship with FORC, a local distributor of natural foods.

around Athens. One local grocer said he would stock any local product because they sell. However, this seems to be truer for widely consumed items such as pies than, for example, organic herbal teas.

To attempt to reach national markets, ACEnet experimented and conducted research. Both activities illustrated that the challenges for small-scale producers were too great. First, ACEnet attempted to sell to Wild Oats at the national level. To do so, they needed to go through Wild Oats’ main distributor, United Natural Food. The distributor demanded advertising fees, slotting fees and large minimum orders.

They were interested in ACEnet developing a brand associated with a common cause, which led ACEnet to research cause marketing. ACEnet found that cause marketing on a national scale is complex and expensive. The cause needs to be clearly and consistently articulated by all producers in the cause group, yet ACEnet clients have different niches. This diversity made it difficult for ACEnet, much less its other national partners, to develop a cause brand. Were ACEnet and other organizations to go forward with a cause marketing campaign to reach national

Toad Ranch: Toad Ranch has a strong regional market. Its next effort is to strengthen its local markets rather than look for national markets. According to Chris, the owner, national markets are risky and hard to penetrate. Local markets supply a solid customer base to fall back on, even if regional markets fluctuate.

The Polly Baker: The Polly Baker has experienced significant growth reaching regional Wild Oats stores but has not been able to keep up with these customers and has let local customer relationships slide. The owners recently decided to take ACEnet's advice to focus on six to eight regional Wild Oats stores.

markets, it would cost more than \$1 million. In the private sector this is not a lot of money, but it is prohibitive for a small community-development organization. ACEnet plans to develop a more cost-effective sub-regional brand under which clients' products would be sold.

Thus, ACEnet turned to the potential of regional markets. The main success so far has been with Big Bear, Wild Oats and Kroger. In all three cases, one client made the initial sale and then ACEnet staff helped develop the relationship further so other clients could capitalize on the opened door. In the case of Wild Oats in Columbus, the chain bought a local cooperative that was being supplied by Grains Bakery. The chain continues to purchase from Grains. From there, ACEnet staff met with the store manager, bringing along samples of ACEnet clients' food products that were market-ready. The manager immediately purchased some products, and other clients followed up with calls that led to sales. Grains Bakery transports some clients' products and others deliver via shipping services. ACEnet is replicating this model with other stores in Columbus and in other markets in the region.

Two clients have successfully penetrated regional Kroger markets. Each describes a process of identifying a personal contact with purchasing officers, obtaining a meeting, getting the purchasing officer

to taste the product, telling their stories and being persistent in their follow-up to secure the sale. In this way, the entrepreneurs avoided “standard” product testing fees, which can range from around \$2,000 to

Uncle Cleo’s Salsa and Big Bear Grocers: Cleo wanted to break into an Ohio grocery store chain, Big Bear. Cleo’s persistence and selling skills eventually paid off. He began by dropping off samples for the manager and was later told that the manager didn’t like salsa. After stopping by enough times, he got to see the manager and personally left samples. He followed up the next week but saw that the manager never tried the salsa. This time, Cleo opened up a jar and served the manager some salsa and chips. The manager liked it. Fortunately, this man’s father had a high-ranking position in the chain. Uncle Cleo’s Salsa is now in eight Big Bear stores.

\$6,000. To keep sales high, both entrepreneurs arrange for regular samplings at the stores. One pays the grocery store to handle sampling and another hires his own sales assistants. ACEnet is now contacting Kroger regularly to help other clients sell there.

Learning from these successes and its own market research, ACEnet began carrying out “door opening” activities with other regional grocery stores. The focus has been on specialty and natural food stores because most clients fall into this niche. Staff members also focus geographically. Last year, they concentrated on Columbus and this year they are focusing on Cincinnati. They take samples of market-ready products to department buyers and tell them about ACEnet, market the products and promote the importance of buying local products. This has generated some immediate sales, and clients also follow up with

Toad Ranch: Chris got his first entry into Kroger through a personal contact who believes in his mission, and so far has avoided product testing and slotting fees. A distributor approached him once his products were highly visible in Kroger stores in the region. He has hired individual salespeople to sell the product locally. For an investment of \$400 a week, he is obtaining 80 new accounts a week.

calls. In addition, ACEnet recently sponsored a booth for clients at the

Ohio Grocers Association Trade Show, where contacts were made with a number of purchasers. Both ACEnet staff and clients will follow up with the contacts.

The next challenge for ACEnet is to help identify or develop dis-

Grains Bakery: According to worker-owner Adam, Grains has moved in and out of regional markets. The challenge is representation and distribution. The bakery can send small packages to many stores via UPS, but to really sell, employees need to service the stores by removing expired products, arranging shelves and constantly interacting with the purchasers. They need to transport large quantities more quickly and efficiently. They can mostly manage this themselves in Columbus, but they would be able to take full advantage of other markets if these services were available in the area.

tributors for food products once the regional demand has been sufficiently established. About five ACEnet clients currently use some form of distributor, but only a few have relationships with large distributors. Clients and ACEnet are working on building a regional client base and accessing larger production facilities to meet regional demand.

Client Focus

One of the driving forces behind the evolution of ACEnet's services is client demand.

ACEnet's vision is to work with a wide range of clients, from very low-income people with multiple barriers to employment, on up to expanding small-scale food processors. However, ACEnet's client base has shifted over time, and continues to evolve. Most recently, ACEnet has been interested in targeting existing or start-up businesses that have high-growth potential. These shifts are occurring for a number of reasons.

First, ACEnet initially focused on start-up business owners because they are the ones who approached ACEnet for services. The prominent service ACEnet offered was the incubator, and, with its current facilities, it is most appropriate for starters who want to try commercial production but who do not have the capital or experience to do it on their own. As enterprises grow, they need to find larger facilities. About half of these starters had incomes below the poverty line when they approached ACEnet, and about a third are poised for growth at this



ACEnet also realized that most people facing multiple barriers to employment need work experience before starting their own microenterprises.

point. ACEnet discovered that only some of the start-ups were interested in growth, and their growth potential did not correspond with the amount of time staff ended up spending with entrepreneurs. Some businesses with only minimal sales after several years in business often took up more staff time than businesses that were doubling sales each year. Thus, ACEnet found that its focus on business starters was more expensive and labor-intensive than originally thought.

Second, ACEnet has envisioned helping very low-income people with multiple barriers to ownership and employment through a job-training and self-employment program. In partnership with the local technical school, they initiated a program called STEP, which served 14 women on welfare. Unfortunately, welfare rules were reformed midway through the program. Many participants left the program for low-wage jobs, and it was too difficult to recruit new clients into an entrepreneurial-type program when the pressure was to get clients directly into the workplace. Through this experience, ACEnet also realized that most people facing multiple barriers to employment need work experience before starting their own microenterprises. Thus, ACEnet stopped targeting the welfare population and other groups with multiple barriers. Yet, a primary part of ACEnet's vision is to create jobs, so ACEnet is troubled by the lack of an employment support program and is planning to address this issue.

Third, ACEnet found that it is more cost-effective to target growth-oriented firms. ACEnet has observed that its current client businesses fall into two broad categories: self-employment ("survival") businesses and growth businesses. Some clients are looking to earn an income from home, balance life and work goals and get satisfaction from their business, but are not interested in the extremely hard work, investment and risk involved in growing a larger business that would employ large numbers of people.

Other clients are more entrepreneurial. They work incredibly long hours, take little income from the business, take significant risks and envision a large payoff years down the road when the business grows significantly. Of the 150 or so clients ACEnet has seen, staff estimates that 40 are oriented toward growth and eight are poised for high growth. These firms are growing faster and are likely to create more jobs with less input from ACEnet. Because ACEnet's main goal is to create jobs and stimulate economic development, the Food Ventures project

has started to focus its efforts much more on those 40 or so businesses most likely to grow. In addition, ACEnet will try to attract additional small firms that are poised for significant growth and job creation, along with experienced entrepreneurs who are interested in starting food-processing businesses.

Thus, ACEnet is still striving to serve a wide range of target groups. These fall into three broad categories:

1. Firms poised for moderate growth of between \$250,000 and \$500,000 sales in the next three to five years.
2. Firms poised for high growth of \$1 million to \$5 million in the next three to five years.
3. The very poor who need jobs.

ACEnet hopes to serve these groups by focusing on business expansion services.

Client Flow and Management Issues

The third aspect of ACEnet's program that has evolved over time is its client flow and management: the process by which ACEnet recruits, serves, tracks and evaluates clients. Given ACEnet's orientation toward constant learning; responsiveness to client demand and market opportunity; flexibility; and customized services, how does Food Ventures staff manage its diverse activities and clientele?

Recruitment and Intake

Because of limited capacity, ACEnet has not actively recruited clients. Its initial client base emerged from the community of farmers and food processors already involved with ACEnet. These clients, in addition to ACEnet's non-profit and government community partners, spread the word. ACEnet does attend local festivals and fairs where a multi-purpose booth provides information about the program. As ACEnet focuses more on higher-growth firms, recruitment likely will be more proactive to attract this target group, and recruitment activities will expand geographically.

Businesses can enter the ACEnet program through a formal orientation to the Kitchen Incubator, or simply by making an appointment with a staff member. Around 20 percent of people attending the incubator orientations become tenants. In the initial interview, a staff member collects basic data, and then interviews them about their business concept and experience, in addition to their





Clients pay a fee to use the Kitchen Incubator based on the equipment they use and the time they use it.

interest and needs regarding the program. This information is entered into the client database and a client is counted at that point as receiving assistance from ACEnet. Clients are not screened for income or business viability, and no one is turned away from the program. After the initial interview, a business is assigned a staff person who will facilitate the services they receive from ACEnet and its partners.

Program Sequence

At this point, clients receive individual, customized services as described in more detail above. Services are offered by as many as four different staff people who have varied areas of expertise. In the early days, staff thought it would be more efficient to offer more standardized training. This approach was not effective because: a) clients' education levels and need for training were too varied; b) clients' businesses were often too different to make common training relevant; and c) clients were unwilling to spend time in group training because of travel time to the site and an aversion to meetings and classrooms. Clients strongly preferred individual assistance, and staff felt this type of assistance was substantially more effective than classroom training. Group workshops are offered occasionally when staff identifies three or more clients with a common need. Recent workshops included training in Quickbooks accounting software and a marketing workshop by a guest speaker, a "broker" (product promoter) in the commercial food industry. ACEnet staff used to work with clients as long as clients continued to approach staff for services, but ACEnet is now developing a system to wean clients who are not growth-oriented. ACEnet is establishing benchmarks that a business must meet to continue receiving technical assistance.

Cost-Recovery Mechanisms

While Food Ventures is developing its services and a sufficiently large group of businesses to work with, cost recovery is not a major focus. The full costs of specific services are not budgeted and tracked against revenues. Nevertheless, Food Ventures charges fees for three services and has cost-recovery mechanisms in place for two others. Clients pay a fee to use the Kitchen Incubator based on the equipment they use and the time they use it. Storage is the most regular source of income for the incubator. Fees also are charged for conducting a nutritional analysis of a product and obtaining a UPC code. These are collected at the time the service is rendered. In addition, ACEnet makes some money by selling clients' products at the Marketplace and commu-

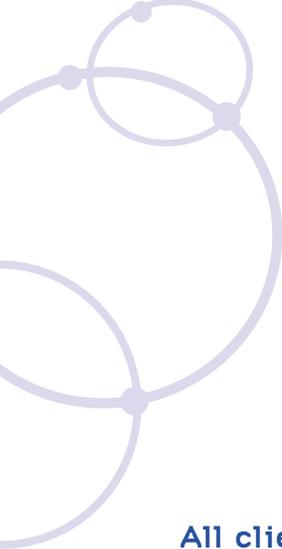
nity fairs. ACEnet purchases products from firms and then marks them up between 25 percent and 30 percent for the retail market. Food Ventures is now calculating the cost of technical assistance into the interest rate it charges for loans and buying down the interest rate through the use of small royalties attached to the loan. ACEnet also charges minimal fees for its occasional workshops, for which clients gladly pay. ACEnet is planning to introduce fees for individual technical assistance services, partly to create a more businesslike relationship with clients, partly to help prioritize clients and partly to recover more costs. This will involve identifying specific services and determining how to charge for them, which may be a challenge.

Monitoring and Evaluation

Because each client may be seen by up to four staff people, ACEnet devised a “portfolio management system” that has had its successes and challenges. It involves each staff member entering every interaction with clients into the client database. Staff members identified a list of high-priority clients they would be more proactive with. For these clients (between 20 and 25 for the three main staff people who handle clients), one staff person reads the database entries and writes a weekly report. The database itself can be time-consuming and cumbersome to maintain, but the strategy itself is effective. In weekly meetings, staff discusses the high-priority clients and the major activities for the team for that week. The meetings serve to coordinate services and strategies for clients being seen by numerous people. The constant contact with key clients also allows staff to keep a pulse on how satisfied clients are with services, and what other services would help them. These ideas are discussed regularly among staff, and changes to services evolve frequently from this monitoring method.

In addition, ACEnet conducts an annual evaluation of clients. As with many business development programs, it is challenging to collect client impact data. Each year ACEnet improves its collection system. The clients who report most regularly are those with whom ACEnet has a financial relationship.





V. ACCOMPLISHMENTS AND CHALLENGES

Through its innovative, evolving strategies and wide variety of services, Food Ventures has accomplished a great deal for its clients individually and as a group. All clients interviewed for this case study reported improvements in their bottom line that they attributed, in part, to ACEnet. In addition, businesses are positioned to increase their sales in the future because of their better knowledge of the market and the contacts ACEnet has established within the industry. Finally, ACEnet has deepened its own and others' understanding of how to intervene effectively to develop the local economy in the specialty and natural food sectors.

Current Benefits to Clients

All clients interviewed for this case study reported improvements in their bottom line that they attributed, in part, to ACEnet.

ACEnet's goal is to increase sales and create employment in the specialty food sector, particularly by developing new markets. As described above, ACEnet's work with clients has resulted in lower costs for inputs, increased prices for products and access to new markets. Aggregate data suggest that ACEnet has been able to catalyze the impact it seeks: increased sales and new jobs.

- **In the past year, ACEnet has assisted a significant number of businesses.** During this period, ACEnet provided about 150 businesses with a range of services, 40 of them on a more intensive basis. About 70 entrepreneurs used the Kitchen Incubator. Two businesses have graduated from the incubator to operate independently. For others, the incubator is a preferred, cost-effective production facility. At any particular time, ACEnet serves about 80 active clients. At any one time, the incubator has some 10 to 12 tenants for the processing center, and the Marketplace sells the products of about 70 ACEnet-assisted producers. Of the businesses ACEnet assisted during the past year, staff has identified about 40 as growth-oriented. About eight of these are regarded as having the potential for significant expansion.
- **According to ACEnet reports, businesses assisted by ACEnet have increased sales and generated jobs.** Based on occasional client interviews and staff knowledge of businesses, ACEnet estimates that its 40 or 50 most active clients experienced at least \$2.6 million in increased sales between 1997 and the end of 1998. ACEnet counts 54 new specialty food businesses that were started during the past two years and estimates that 146 new jobs were created during the same period. Few of these businesses closed. In addition, ACEnet placed three women with multiple barriers into jobs in food businesses that use the Kitchen Incubator.

- **These results have been achieved largely by ACEnet clients breaking into local, regional and national markets.** In and around Athens, ACEnet clients are selling their products through more than 75 outlets. Through contacts generated by ACEnet, 16 ACEnet clients placed their products in the Wild Oats natural food store in Columbus, Ohio. Six months later, these placements generated between \$300 and \$5,000 in gross monthly sales. Several of these clients' products were picked up by other Wild Oats stores in the Midwest and elsewhere. About 24 clients have reached regional markets and nine are reported to have accessed national markets. One client, The Polly Baker, gets about a call every month from a store where ACEnet staff has made a contact. Three clients have accessed distributors and one client distributes to Columbus for a few other clients.

Although it is challenging to collect outcomes data about client progress in accessing new markets, interviews with clients illustrate the kind of results ACEnet is achieving. Survey data on individual businesses was not available at the time this case study was written. However, the case examples of clients (see chart) show increases in employment, sales and market access.

Future Benefits to Clients

Due to its emphasis on building relationships and knowledge, ACEnet's efforts have laid the groundwork for future benefits to clients. Now that many Athens stores and restaurants buy local products, clients with quality products should have no difficulty selling locally. ACEnet's development of contacts within regional chains and independent stores in Columbus and Cincinnati also positions clients with high-quality products to break into new markets with relative ease. ACEnet also has invested resources in learning about and making contacts with distributors. These relationships also may yield benefits over time if these distributors consider carrying clients' products.

Clients also are likely to benefit from relationships ACEnet has simply facilitated. Interactions between clients already have resulted in access to lower-cost inputs, distribution solutions and product or production innovations. Such interactions can be expected to continue to deliver savings, sales and profits to ACEnet firms. As described above, a set of technical consultants has gained microenterprise and sector-specific expertise by working with ACEnet businesses. Clients who work with these consultants in the future also will reap the benefits of ACEnet's investment.



Business	Prior Business Status	ACEnet Assistance	Current Business Status
Uncle Cleo's Salsa	<ul style="list-style-type: none"> • Employees: Himself, part-time • Sales: \$200-\$300 monthly • Markets: Local flea market at low prices 	<ul style="list-style-type: none"> • Technical assistance on: <ul style="list-style-type: none"> - Legal, safe food processing and labeling - Procurement and financing for a commercial kitchen - Costing and accounting • Obtaining a UPC Code • Nine months' incubator access 	<ul style="list-style-type: none"> • Employees: <ul style="list-style-type: none"> - Full time: He and his wife - Part time: Two employees, distributor, samplers • Sales: \$43,500 in 1999 • Markets: Regional Big Bear and Kroger plus local stores
The Polly Baker <i>(organic gourmet cookies)</i>	<ul style="list-style-type: none"> • Employees: Part time for herself and husband • Sales: Minimal • Markets: Catering and baking for individual clients, flea markets 	<ul style="list-style-type: none"> • Technical assistance on: <ul style="list-style-type: none"> - Business strategy and product development - Packaging and labeling - Accounting • Opened doors with Wild Oats • Workshop on marketing 	<ul style="list-style-type: none"> • Employees: <ul style="list-style-type: none"> - Full time: self - Part time: husband • Sales: \$15,000 in 1999 • Markets: Regional Wild Oats (main customer) and local shops
Casa Bueno <i>(worker-owned restaurant and salsa producer)</i>	<ul style="list-style-type: none"> • Employees: None dedicated to salsa, all part of restaurant • Sales: Minimal • Markets: Restaurant customers 	<ul style="list-style-type: none"> • Technical assistance on: <ul style="list-style-type: none"> - Legal, safe production process - Labeling - Marketing strategies • Links to other ACEnet clients for joint procurement and co-packing • Incubator access • Opened doors with Wild Oats • Trade show, marketing workshop • Provides market for other ACEnet clients 	<ul style="list-style-type: none"> • Employees: Five part time • Sales: \$11,000 in 1998; \$40,000 in 1999 • Markets: Local grocery stores, Kroger, Wild Oats and one national health food distributor
The Wise Herbalist <i>(herbal teas)</i>	<ul style="list-style-type: none"> • Employees: None • Sales: Negligible, business closed • Markets: Her antique clothing stores in Columbus 	<ul style="list-style-type: none"> • Referral to graphic artist for labeling • Technical assistance in accounting • Marketing workshop • Linkage to Casa Bueno as a customer • Links to other clients for moral support 	<ul style="list-style-type: none"> • Employees: Two part time, including self • Sales: \$12,000 in 1999 • Markets: Tea catalog in Florida, Web site, local shop and restaurant
Toad Ranch Salsa	<ul style="list-style-type: none"> • Employees: Two part time • Sales: Couldn't sell the first batch of pickled peppers • Markets: Flea markets, local stores, a catalogue 	<ul style="list-style-type: none"> • "Grew up with ACEnet learning from each other" • Start-up loan • Technical assistance on financial management • Collaborated on local pepper festival • Provided mentoring, training and supplies to other clients 	<ul style="list-style-type: none"> • Employees: Six part time and self full time • Sales: \$326,000 in 1999 • Markets: Regional Kroger and Megar, Chicago-based distributor

Beyond these tangible services and relationships, the market knowledge that clients have gained from their contact with ACEnet is one of its major accomplishments. This knowledge is bound to prove profitable over time in those businesses that have the potential and determination to grow. Through product tastings, focus groups to assess labels, Foodnet, the product library and consultations with staff, clients have come to understand what sells in their market niche. ACEnet's technical services have provided them with the technical requirements of labeling for sale in larger markets. Interactions with staff and consultants have helped them learn about the logistics of markets, from brokers and distributors to retail options. They grasp how to market from a similar collection of experiences, from selling in the Marketplace to attending trade shows and workshops sponsored by ACEnet, to accompanying a more experienced entrepreneur as he peddles his wares.

Challenges

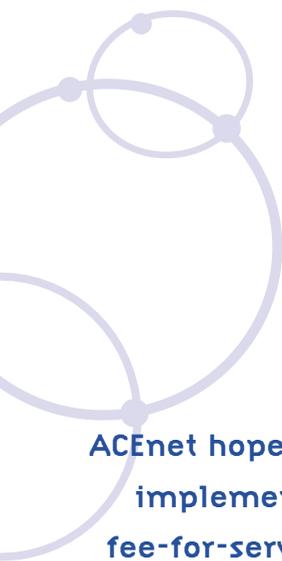
ACEnet's greatest challenge is its broad visionary approach and problem-solving capacity: It has too much to do. At present, its program staff is working at capacity. Several current tasks have been unattended because of the lack of human resources. At the same time, ACEnet has recently identified three priority groups to target and new interventions that will better support each of these groups. These interventions are challenging. Each will require a commitment of human and financial resources.

ACEnet's aim is to generate jobs locally by helping to develop a critical mass of high-growth local businesses. These businesses will require extensive services to make it possible for them to access large-scale markets. The barriers other firms face or their disinclination to grow make significant growth impossible, but they often demand extensive services, too. To date, the range of capacities of the firms ACEnet supports and the range of services each type requires have made ACEnet's job extremely demanding. Determining which firms are growth-oriented and should receive extensive services is an ongoing and time-consuming challenge. Finding inoffensive ways to avoid spending staff time on the other firms also is difficult.

As noted in Section IV, ACEnet's management has now prioritized three groups it aims to serve: Each of these high-priority groups poses challenges.

Although high-growth firms have received some tech-





ACEnet hopes to implement a fee-for-service structure that will help staff focus on the highest-priority clients.

nical support from ACEnet, staff is the first to acknowledge that these firms led the rest of its network. As their managers have learned how to expand into larger-scale regional markets, they have passed on this knowledge to ACEnet staff and clients. Facilitating rather than delivering support is central to ACEnet's philosophy. At the same time, ACEnet needs to assess the extent to which these entrepreneurs need ACEnet's services.

If high-growth businesses are to be a primary focus, ACEnet must be able to provide or facilitate the supports these businesses need: financing, distribution channels, a larger-scale production facility; and technical, marketing and management support. ACEnet is working on this. It is raising funds for a \$15-million venture capital fund and for a larger, state-of-the-art processing facility. Its recently hired MBA staff person is developing the venture capital fund and providing these firms with valuable management advice. Finally, ACEnet would like to identify an entrepreneur to develop an in-state distribution business to help businesses take the first step in acquiring accounts.

To achieve its goal, ACEnet aims to identify about 12 new high-potential businesses to support. ACEnet foresees that many of these will be based outside its usual service area.

ACEnet will have to determine how it can offer distribution, processing and consulting services to businesses that are more spread out geographically.

ACEnet recognizes that its second target group, family businesses with lower growth potential, often face barriers to growth that they cannot overcome individually. To address these constraints, ACEnet hopes to facilitate a distribution business and develop and market a regional brand. ACEnet's third target group, lower-income individuals with multiple barriers, often need job experience to secure a better-paying livelihood. ACEnet, therefore, aims to develop some form of training services for job seekers. It also expects to place most of this group in the expanding businesses of its high-growth clients.

Taken together, ACEnet priorities create a tall order. At present, ACEnet's Food Ventures staff is unable meet the demands of the many businesses seeking services. Yet, ACEnet's new priorities do not exclude many current clients. Furthermore, classifying firms is difficult. ACEnet hopes to implement a fee-for-service structure that will help staff focus on the highest-priority clients. ACEnet staff also is developing portfolio

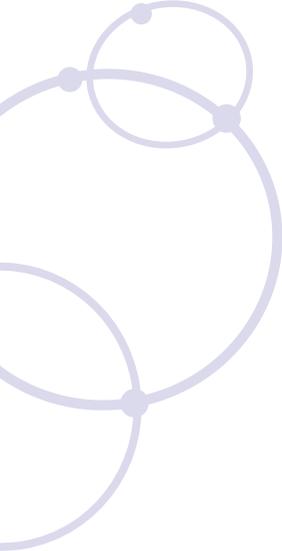
management tools, business benchmarks and new ways to structure management of clients. In addition, a deepened understanding of the barriers facing each target group is leading ACEnet to assume the new challenges described above.

At the same time, a number of challenges have been untended for lack of staff resources. The Marketplace has been minimally promoted and has been operating at a loss. Until recently, the Ventures Fund languished partly because of the lack of staff. The development of an agency business plan has been put on the back burner as efforts to raise funds for the venture capital fund and improved kitchen facility have taken priority. There are no annual budget projections for potentially self-sustaining activities such as the Marketplace and Kitchen Incubator.

A final challenge for ACEnet is how to cover more of its costs with fees for its services. Until now, ACEnet has not focused on cost recovery. ACEnet's current subsidy per client is \$4,300; if only clients served somewhat regularly are counted, the subsidy is \$9,900 per client. In 1999, the incubator covered about 41 percent of its costs with operating income; the Marketplace covered about 34 percent. ACEnet's aim is to cover, through fees, the full costs of the Kitchen Incubator and Marketplace; and 25 percent of the costs for the direct technical assistance services.

As for the remaining 60 percent of the costs of Food Ventures, ACEnet expects to recover these over time by expanding and then renting out space in its incubator, and through revenues from its planned venture capital fund. The Ventures Fund is expected to cover at least half of Food Ventures' technical assistance costs within two years through charges on its loans and through investments. The fund has a detailed business plan and projections against which it will track cost recovery. Before the Kitchen Incubator expansion is opened, ACEnet plans to complete an in-house business plan for the Kitchen Incubator and the Marketplace, with performance benchmarks.





VI. LESSONS LEARNED

As a pioneer in the Access to Markets program, ACEnet has learned many lessons along the way, and continues to do so. These lessons concern five areas:

1. Increased understanding of the specialty food market
2. Program features that show promise for others to implement
3. Implications for staffing and budgeting
4. Cost recovery
5. Essential partnerships

Increased Understanding of the Specialty Food Market

- The easiest markets to access are local markets, provided there are sufficient target customers.
- Regional markets are more accessible than national markets and have higher opportunities for growth. Entrepreneurial, small-scale producers may overcome barriers, although significant, if they have access to capital and technical assistance.
- A kitchen facility with limited capacity attracts starter businesses rather than firms prepared to expand rapidly. Many starter businesses face multiple barriers to growth and perhaps only a third have the will or potential to access large-scale markets. Many start-ups, however, provide essential income for individuals.
- The lack of access to distribution services can prevent even market-ready businesses from breaking into large-scale regional markets. A distribution business or less formal distribution arrangements need to be developed to address this constraint.

Program Design Features

- It is important to match the program's vision with client needs. Conflicts arise when there are differences between an organization's goals and clients' goals.
- Finding a productive channel for client input into services is important. If clients have too much control, there can be a conflict of interest in which clients design services to benefit individual businesses instead of a large group of businesses. But client input is crucial to providing proper and effective services to clients. Having open channels of communication and conducting regular surveys are some potential tools.
- Customized, individual services and action-learning work better

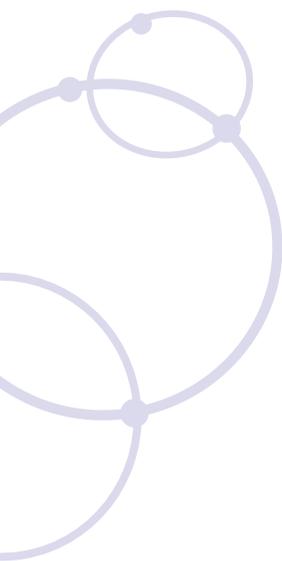
than general workshops. However, customized services are labor-intensive to deliver, which can lead to a focus on faster-growing firms for more cost-effective results.

- According to ACEnet, the best way to facilitate networks of firms is to provide informal opportunities for interaction and to suggest individual ways they might work together. List-serves should be included in this category.
- It is important to find ways to balance clients' needs for a wide array of services with an organization's capacity to provide the services. To avoid spreading itself too thin, an organization needs to find ways to focus on particular client groups and prioritize particular services. One strategy is to focus temporarily on high-demand services, and then shift as particular clients grow and their need for services changes.
- A cost-effective role for a market developer is to facilitate relationships between entrepreneurs and technical advisors, between entrepreneurs and potential customers, and among entrepreneurs. The challenge is that to attract customers, an organization needs to have at least one concrete service to provide (for example, the incubator). An organization needs to identify quality, affordable sources of technical expertise and strong market partners.

Staff and Budget Implications

- If they are available, staff with specific sector and business experience can provide value-added services more quickly than can generalists. Business skills are of great importance. Generalists can learn, but the learning curve is high.
- This case study demonstrates that in-depth knowledge of a sector — knowledge that spans from production through marketing — is an essential component of ACEnet's success. This argues for programs to strive to find staff with strong knowledge and skills in the industry sector to be targeted and/or for building that knowledge. Providing for continuing education in the sector also seems critical to program success. Programs may need to make a constant investment in upgrading knowledge, contacts and skills to stay ahead of the businesses the program is serving. In other words, services must be developed in anticipation of a business's evolution.
- It is important to formalize relationships with clients into a business relationship in which clients call for appointments, understand the services that they receive, agree to invest their time and energy





in meeting performance targets and pay for services.

- Staff needs to balance rapid customer response with efficiency and professionalism. E-mail, list-serves and scheduling appointments cut down on clients' tendency to "drop-in."
- It is useful for staff to specialize in different areas of business development and for clients to see many different staff. Regular meetings to prioritize activities and communicate about client progress are key to making this work. The challenge is to find effective and efficient communication and reporting mechanisms for staff to keep one another informed about interactions with clients.
- Monitoring and evaluation can be time-consuming and expensive. Organizations need to identify minimal information requirements and simple tracking processes.

Lessons for Cost Recovery

- When offering specific services for a fee, it is best to collect the fees upfront and to have formal agreements specifying each party's obligations. Otherwise, collection can be a problem.
- Investing venture capital with the expectation of collecting royalties later is an innovative financing mechanism, but the agreement needs to be long-term. The expectation of having some winners and some failures should be clear from the outset. Combining royalties with loans is a way to provide lower-interest capital with a way for the fund to generate a high return if sales grow rapidly.
- Cost recovery is challenging when clients are reluctant to pay because they perceive that an organization is receiving large amounts of grants funding on their behalf. On the other hand, when services are clearly defined and fees are charged upfront, clients are more accustomed to them and understand them as business transactions. A lack of focus on cost recovery leads to a lack of businesslike management practices, such as identifying the most cost-effective services and focusing on them.
- An essential prerequisite for achieving cost recovery is the institutionalized development of budget projections and review and analysis of performance vis-a-vis these projections.

Essential Partnerships

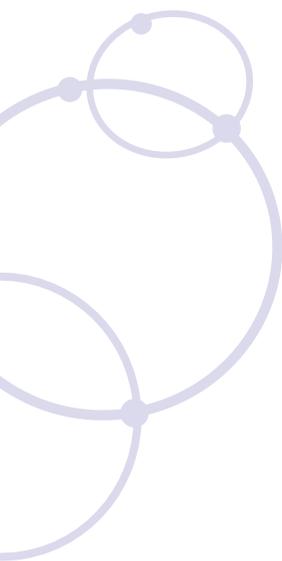
- Pursuing relationships, joining associations and developing a wide range of partnerships with others in the sector is key to cost-effectively mobilizing resources for clients.

- Partnerships with other non-profit, university and government services providers can be important for raising funds and providing clearly differentiated services. In such partnerships, organizations should anticipate issues of fund allocation, sharing credit appropriately and changing organizational cultures.
- Partnerships, referrals and linkages to sector-specific suppliers add more value for clients. In many cases, these will be private businesses. The challenge is to help make these services affordable by playing a liaison role, negotiating fees, facilitating group training and access, etc.
- The quality of external (and internal) technical expertise needs to be sufficiently high to make a real difference for clients. Advisors need to know more than clients about their area of expertise if they are to have something concrete to offer.
- The need for different types of market research varies at different program stages. In the early stages, when staff is getting to understand the industry and clients are getting market-ready, broad market research into consumer trends through magazines, the Internet and trade show attendance is important. Even at this early stage, it is important to understand how the market functions: Who sells what to whom, and how? What path do microenterprises typically pursue to become successful? Consumer trend information is not enough. Later, when clients are more market-ready, specific information about specific marketing opportunities that clients can pursue provides added value. Who can clients call at what stores? How do particular potential customers typically purchase products? What kind of guy is the buyer at Wild Oats in Columbus?
- The most useful market “research” results in building relationships with market players who open doors for clients. Actually presenting clients’ products to potential buyers is a clear value-added service for clients.
- Finally, all of the above relate to the benefits of ACEnet’s focus on one sector. If a program’s goals are to build employment and business opportunities for low-income people through marketing assistance services, it is likely that the program needs to acquire a depth of engagement in one industry sector.

Conclusion

ACEnet has proved to be a highly adaptable and resourceful



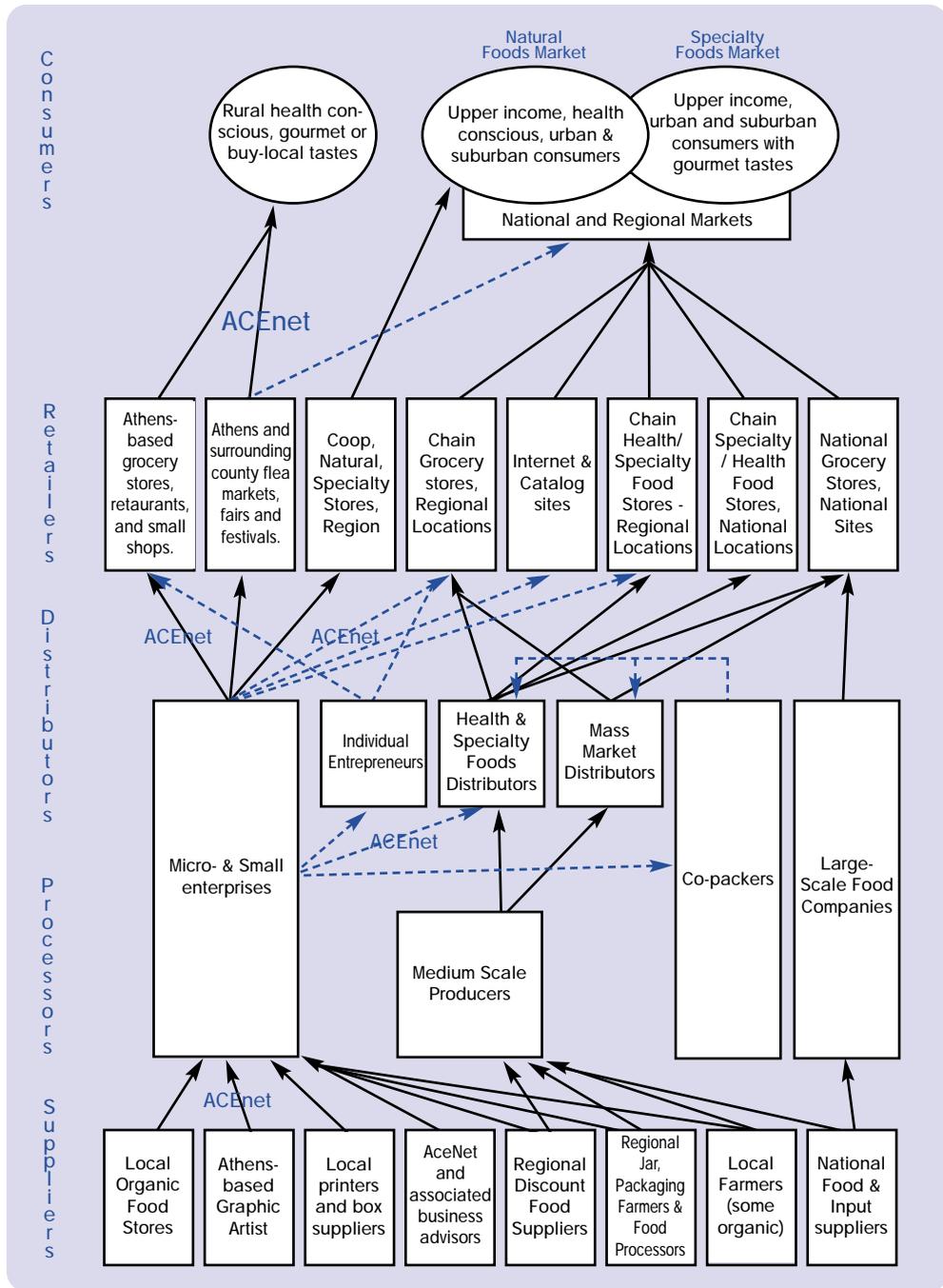


organization. Its vision has always been ambitious and comprehensive, yet staff has managed to adapt services to client needs, impact local businesses and generate employment. It has done this by providing valuable services, by building a community food-processing infrastructure and by developing local and regional markets. Throughout this challenging process, ACEnet has led the Access to Markets movement by facilitating learning networks and sharing lessons learned as it goes. We anticipate that ACEnet will meet the coming challenges with similar creativity and skill, and continue to contribute valuable learning tools to the small-business and microenterprise development fields.

ANNEX



Natural and Specialty Food Sector Map



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