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

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

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

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

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

THE GOAL OF ECONOMIC DEVELOPMENT PROGRAMS
- Create Jobs
- Retain Jobs
- Grow Economies
- Improve Quality of Life

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

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

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

For more information on Littleton visit www.littletongov.org/bia/economicgardening.
WHY A GROW YOUR OWN STRATEGY?

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

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

BENEFITS OF A GROW YOUR OWN STRATEGY

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

Job Creation

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

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

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

SMALL BUSINESSES

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

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

Economic Growth

By forming new firms and creating jobs, entrepreneurs and small business owners create economic growth. Nations with more entrepreneurship have a higher gross domestic product. The same is true at the regional and local level. Entrepreneurship helps raise incomes and improve the quality of life of citizens. Research has demonstrated that regions and local economies with strong entrepreneurship bases achieve faster and more sustainable economic growth.
Social Impact
Entrepreneurs serve a critical role in the social development of communities, especially in rural areas and the urban core of inner cities. Entrepreneurs are committed to their community’s long-term growth and viability. Local entrepreneurs are likely to remain in their community and be committed to philanthropy and community service.1

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

Gain Support for a Grow Your Own Strategy
Community-wide commitment is essential to establishing a successful grow your own strategy.2 This is especially true because, at times, the grow your own approach may not be as flashy as the traditional economic development model. When successful, the traditional model can provide vivid and public victories, such as during a ribbon cutting at a major factory or a news announcement of hundreds of new jobs for the community. Local officials and stakeholders must understand and be committed to the model for the long haul. They must recognize that growing small businesses within the community will take time but can result in long-term economic growth.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**CONTACT:**

DELL GINES
Senior Community Development Advisor
Federal Reserve Bank of Kansas City – Omaha Branch
Dell.gines@kc.frb.org
402-221-5606