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Open-Source Rural Entrepreneurial Development

by Burt Chojnowski

Community entrepreneurship programs are becoming increasingly common, especially in rural areas where success in attracting large industrial plants is less likely than in large cities. Small rural communities now aggressively promote expansions of local businesses as well as trying to identify new companies to start operations, and these efforts provide sufficient evidence for other communities to consider adopting entrepreneurial efforts.

This report examines highly successful entrepreneurial efforts in a somewhat unlikely small community, Fairfield, Iowa (pop. 9,509 in 2000). Through continued efforts to create an entrepreneurial climate and culture, Fairfield has attracted a group of business entrepreneurs who have achieved noteworthy success. Collaboration among businesses and between public and private agencies has been key to the Fairfield efforts.

Background

Fairfield, located in Jefferson County, lost 446 residents during the 1990s and is estimated to have had continued population declines through 2004 (Census). Nevertheless, the per capita income increased from \$12,049 to \$19,673 during the 1990s, a 63.3 percent nominal increase (21.5% increase in constant dollars). Fairfield's report traces the history of efforts to promote entrepreneurship in a fairly remote rural area of some of the poorest counties in the Midwest. These efforts include both the aggressive program to stimulate entrepreneurship and a new business launched by the Fairfield Entrepreneurs Association (FEA) in 1989. The program includes recognition/awards, support and acceleration of second stage companies, and mentoring and networking activities for entrepreneurs.

Boot camps and an up-to-date library are available for entrepreneurs, "art-preneurs," civic entrepreneurs, and "food-preneurs." In addition, workshops and seminars focus on youth entrepreneurs. Since 1990, equity investments of more than \$250 million have been made in more than 50 start-up companies. These companies have generated over 3,000 high-paying jobs.

Fairfield has always been a progressive community, and as early as the 1880s, was recognized as a thriving agricultural community. At that time, it was a center for "horse power" provided by the number of draft horse breeders and high-quality farm stock located in the region. A young, struggling local entrepreneur and inventor named William Loudon started applying technology to agriculture processes by redesigning components of the modern dairy barn. One of his inventions, the litter carrier, led to the invention of the manure spreader and eventually evolved into the single-track monorail system used today in factories all over the world.

At the end of the 19th century, Fairfield was home to Turney Wagon Works whose Charter Oak wagons were considered to be the "Cadillacs" of wagons. Fairfield also was an early leader in other industrial activity. Loudon Machinery Company was the largest freight customer on the Rock Island Railroad line. Neither Loudon nor Turney could have succeeded in growing their businesses in Fairfield if the community leaders had not had the foresight to intersect the Rock Island Line with what was to become the BNSF (Burlington Northern Santa Fe) after the Civil War.

¹ The author founded CoolCall, an international telecommunications company based in Iowa. He is President of the Fairfield Entrepreneurs Association and is involved in several entrepreneurial ventures as a founder and advisor.

During the 19th century, Fairfield also took steps to become an important cultural center. The Iowa State Fair, a very early state fair, was first located in Fairfield in 1854 and was held there for two years. When the Fairfield Lending Library decided to build a permanent home after 40 years, Iowa U.S. Senator John Wilson, a Fairfield resident, knew that Andrew Carnegie wanted to support the creation of community libraries and established a prototype in Fairfield. During the same year, 1892, the first golf club west of the Mississippi River started in Fairfield. The first municipal

utility was formed in the 1890s to provide electrical lighting in Fairfield even before Chicago or St. Louis established electric systems. Most communities at the time utilized gas street lamps. A 182-foot light tower was built in the city square that lit a three-block radius that included most of the town at the time. This “beacon on the prairie” could be seen from 25 miles away. Although the lights had to be changed daily, the tower was not taken down until 1907 when the city installed new electric streetlights.

History of Entrepreneurship in Fairfield

Fairfield experienced much trial and error as it worked through several stages of entrepreneurship growth and development since the current entrepreneurial revival began in about 1980. Despite a number of unsuccessful companies, Fairfield ultimately developed a concerted networking and mentoring program to increase the collective “management experience” of the community that improved the rate of success of both start-up and second stage companies.¹

Because of its entrepreneurship efforts, Fairfield was recognized by the *New York Times*, *Wired magazine*, and *Business 2.0* as a “Silicon Valley” and an early outpost of the Internet. The concentration of software, telecommunication, and direct response marketing companies located in Fairfield has created regional, national, and even international markets for goods and services that have clearly distinguished Fairfield from most communities of its size.

Local Entrepreneurs and Businesses

Many Fairfield entrepreneurs started modestly. One, Fred Gratzon, began by selling brownies before forming the Great Midwestern Ice Cream Company that has received national awards. Great Midwestern grew to more than 35 employees during a period of ten years. Gratzon, displaced from the management of the ice cream company he founded, started Telegroup, a reseller of national and international telecommunication services. Telegroup had an initial public offering in 1977, and the founders at the time had stock valued at nearly a quarter billion dollars. After Telegroup’s stock crashed, Gratzon once again was displaced when Primus Telecommunications acquired Telegroup. Gratzon has gone on to become a best-selling author of *The Lazy Man’s Guide to Success* and continues to explore the commercialization of new innovative products.

across the United States. Books Are Fun caught the attention of a Chicago-based investor who provided collateral and financing to fund the rapid growth of the company.

The business was not high tech; in fact, it sold books the old-fashioned way—by peddling them. The company bought books, warehoused them, and distributed them to a network of sales representatives who then delivered them to customers. When Books Are Fun grew to more than 500 employees and \$400 million in annual revenue in 2000, *Reader’s Digest* acquired it for \$380 million, the largest acquisition ever by *Reader’s Digest*.

Another entrepreneur, Earl Kaplan, started making and selling tofu for the local market. He later tried to establish a business on the central square to sell appliances. Next, he ventured into book sales for a direct selling company. He saw an opportunity to replicate this model on his own and created a company called Reading’s Fun. The name was later changed to Books Are Fun. This company sells best-selling hardcover books via book fairs in schools, hospitals, and businesses

Both Primus and Books Are Fun have the advantage of having high-quality workforces in a low overhead operating environment. Both Primus and *Reader’s Digest* would have found it difficult to generate similar profit margins from what became top-performing divisions in another location. The development of senior management experience in these companies, as well as the wealth created by these key managers, became important resources for launching a series of companies in the Fairfield area. Locally grown companies in rural areas typically do not move away. Owners and managers simply can neither afford to replace

¹ Second stage companies are beyond the start-up stage and have products or services that generate annual revenues of more than \$500,000.

the caliber of current employees nor can they obtain lower costs for doing business in alternative locations.

Another successful company in Fairfield is Hawthorne Direct, a direct marketing advertising company that provided services in the early 1980s for Ed Beckley, who was famous for “no-money down” real estate seminars. Hawthorne Direct successfully launched the first “infomercials,” and other Fairfield entrepreneurs started similar companies, some of which moved to media rich markets such as Los Angeles. Hawthorne Direct still commands a 15 percent market share of a billion dollar industry according to a recent article in *Business 2.0*.

Other Fairfield companies rode the wave of industry deregulation during the 1980s and 1990s. The deregulation of television advertising and telecommunications were key catalysts for providing opportunities for Fairfield-based companies seeking national or international markets. Local business interactions and social networking of entrepreneurs fostered clusters and synergies among various ventures.

An early synergy occurred when local author Marci Shimoff proposed a collaborative venture (with Jack Canfield and Robert Victor Allen) to Earl Kaplan to determine its potential for distribution through Books Are Fun. The book was *Chicken Soup for the Mother's Soul*. Books Are Fun tested

the book and started buying the title in lots of ten thousands, propelling the book to the top of bestseller lists.

Several Fairfield residents developed other Chicken Soup topics that became *Chicken Soup for the Pet-Lover's Soul*, *Chicken Soup for the Gardner's Soul*, and *Chicken Soup for the Veteran's Soul*. Approximately 13 Chicken Soup authors live, or formerly lived, in Fairfield, Iowa.

Another Fairfield resident, George Foster, designed covers for many of the Chicken Soup books and has become a much-sought-after designer specializing in book covers. John Kremer, a leader in self-publishing enterprises, is also based in Fairfield. Especially interesting about the Chicken Soup story is that it was a unique cluster developed from a spark of synergy first among Shimoff, Canfield, and Allen, and later with Earl Kaplan.

Fairfield has been an incubator for many entrepreneurs and business ideas. In the 1980s, Fairfield was an early-stage entrepreneurial community that encountered many ups and downs involving starts, stops, sputters, and an occasional successful enterprise. For example, some residents of Fairfield viewed many of the ideas and people who generated these ideas as outrageous and without practicality. Also, when businesses failed, even after enjoying initial success, these efforts were frowned upon.

Fairfield Entrepreneurs Association

In 1989, a group of entrepreneurial businessmen and women collaborated to form the Fairfield Entrepreneurs Association (FEA). This organization was designed to support entrepreneurs and increase financial literacy and shared marketing acumen. The ultimate aim was to increase the success rates of start-up companies and nurture companies in the second stage of development after they generated annual revenues of more than \$500,000.

Organizing a volunteer support and mentoring team was a significant catalyst for improving the entrepreneurial culture in Fairfield, even though the organization maintained a low profile for nearly 13 years. It was the genesis of “open-source entrepreneurial development.” Open-sourcing is the natural sharing of information on the “how-to”s of business start-up financing and marketing. It involves creating a virtual pool of shared wisdom and experience. The natural result is overlapping and, sometimes, copy-cat business models. In the early 1980s, many Fairfield entrepreneurs started brokerage businesses for commodities and commodity options. Several competing oil and fuel brokerage businesses were started, beginning the creation of capital and flow of

investment into other entrepreneurial ventures. Some of this local competition created friction and even legal battles, but this competition is outweighed by the climate of sharing and leveraging ideas that were nurtured.

Open-sourcing is an evolutionary process that allows an idea to become stronger as more creativity and intelligence is added by the involvement of more people in the formation and execution of this process. It refers to open-source information on financing business start-ups, for example. Sharing contacts and experiences ranging from venture capital sources to investment bankers was a huge benefit to other entrepreneurs.

Fairfield has developed a culture of guarded openness about business ideas. Entrepreneurs know there are not too many secrets to be sustained in a small town. Thus, there is an advantage to being more open about one's businesses and operations. Most entrepreneurs participate in the start-up process one to three times without succeeding. Having access to this specialized knowledge, especially about funding opportunities, was clearly a competitive advantage

for participants and improved the financial literacy and sophistication of Fairfield entrepreneurs.

Because business ideas and models are replicable to some extent, open-source entrepreneurial development can create frictions and local rivalries; however, open-source entrepreneurial development also can be a catalyst for creating a cluster of interrelated or competing businesses. The overall outcome has worked in Fairfield because of the increase in specialized skills and management experience that has resulted. Examples of this in Fairfield are the growth of financial services, e-commerce, telecommunication, and art-based businesses.

Fostering an Entrepreneurship Culture in Fairfield

Entrepreneurs can, and should, be encouraged to network and create interrelationships. The importance of attracting and retaining talented, creative people to rural areas is a key catalyst for the cluster and entrepreneurship approach. Communities or regions without detailed strategies for attracting human capital are at a disadvantage since entrepreneurship and knowledge clusters revolve around creative people (Munnich and Schrock 2003).

What attracts creative people to a location is creativity in the form of local human talent and conditions that support and nurture creativity and civic entrepreneurship. Entrepreneurs recognize that innovative ideas are best explored and developed in a creative community environment. Fostering a welcoming social climate that is open to change, new ideas, and diversity may be a challenge, but a challenge that must be addressed (Florida 2005). Such a climate encourages risk-taking and gives people the opportunity to fail in an endeavor and try again. When people such as Gratzon are not punished for failure, they are encouraged to continue their efforts. In addition, when one person undertakes successful entrepreneurial activity, others observe this activity and begin to understand how they might also succeed.

Entrepreneurs tend to be involved in more than just start-up companies. They tend to be innovative in social and civic affairs and continue to “re-invent” whether successful or not. While they may be mega-successful the first time or the third time, past success is not a guarantee of automatic future successes.

The FEA made several efforts to promote and foster an entrepreneurial climate. First, it provided positive recognition for the growing number of entrepreneurial companies by naming an “Entrepreneur of the Year” during the annual Chamber of Commerce banquet. The local importance of

Research suggests that entrepreneurial activity is place-based—a product of local culture and unique skills or knowledge based in a specific area (see *Knowledge Clusters and Entrepreneurship as Keys to Economic Development* by the University of Minnesota, www.hhh.umn.edu/img/assets/9140/knowledge_clusters_final_report1.pdf). Although today’s entrepreneurial ventures must compete in the global marketplace, their emergence and growth are often traced to a vital mix of social capital and the entrepreneurial culture at the local or regional levels.

entrepreneurship efforts increased in 2001 when Barry Harper was named Entrepreneur of the Year and his grandfather, A. K. Harper, the founder of Harper Brush in 1903, was the first inductee into the Fairfield Entrepreneur Hall of Fame. Why was the grandson of a century-old business recognized as an entrepreneur? When Barry Harper took the leadership of the company, the annual revenues were stable at approximately \$3 million with 35 employees. Ten years later, under Barry Harper’s leadership, the company had increased revenues by tenfold, and the number of employees had tripled. Harper said that an entrepreneurial culture and the skills and support services of marketing and sales experts and graphic designers were the catalyst for the outstanding company growth. A major strategy was to sell to Home Depot and Sam’s Club early on, and these efforts have brought continual growth every year. In 2005, Harper Brush will exceed \$100 million in revenue, and the workforce will double by taking over a former Rubbermaid plant in North Carolina.

A benefit of growing a business in a rural community with low overhead is the luxury of a longer-term incubation process. This benefit is illustrated by Eric Schwartz who moved a fledgling financial services company to Fairfield from Bethesda, Maryland, in 1994. At the time, Cambridge Investment Research was ten years old with \$500,000 in annual revenues and five employees. Cambridge is a securities broker-dealer firm that provides back-office support and financial products for registered investment representatives and advisors across the U.S.

Schwartz decided to compete in a low-margin business whose customers formerly only wanted to do business with large, established players. Thus, he had to operate in a different way, and he introduced the concept of a fee-based service as opposed to the commission-based

practice used by most investment professionals. It took several years for the concept to get some traction.

After having grown to 80 employees and \$30 million in revenues in 2002, Schwartz was named Entrepreneur of the Year in Fairfield. In 2005, Cambridge has more than 200 employees, will generate \$160 million in annual revenues, and is building the first of three buildings to house 308 employees in a 20-acre office park.

Whether engaged in manufacturing or services such as graduation photography, many Fairfield businesses have

created a headquarters with a national sales presence. Chappel Studios and Marathon Foto are dominant players in the graduation and marathon photography market. They have headquarters in what is the largest log commercial building in the world. In recent years, they went completely digital and now upload photos to a website so that customers can buy and download or order by the next day. This practice has streamlined the business from the days of film rolls, expensive developing, and many mailings of proofs and corrections to guarantee satisfaction.

Why Has Fairfield Had So Much Success?

Although Fairfield lost Parsons College and a number of manufacturing jobs, Fairfield has overcome this adversity and has become a leader among small entrepreneurial communities, garnering several national awards for entrepreneurship. It promotes open-source entrepreneurial development involving peer-to-peer networking support through the FEA. Fortunately for Fairfield, after Parsons College closed, Maharishi International University (MIU), a newly formed college based in Santa Barbara, California, relocated to Fairfield in 1974. MIU later changed its name to Maharishi University of Management (MUM). MUM attracts students from 60 countries and has the added advantage of specializing in courses on the development of consciousness, creativity, and computer science and business management. These courses are academic fundamentals for entrepreneurs. MUM promotes internship opportunities in a variety of companies, including start-ups, and this gives MUM

students an overview of how companies start, grow, and, sometimes, decline.

Middle schools and high schools in Fairfield support the education of future entrepreneurs by providing a rich array of creative and problem-solving learning opportunities. The strength of both public and private schools are the arts, music, theatre, speech, and choral reading. Most of these pursuits, along with traditional athletics, are competitive at a regional level.

Fairfield groups have competed quite successfully in global competitions for extracurricular programs such as Destination Imagination, which holds a “world-class” competition in Knoxville, Tennessee. In 2005, Fairfield had five teams compete and garnered top trophies in several categories, including two 1st places and the “Renaissance” award for being most creative.

Lessons Learned

Lacking in many, if not most, rural communities is an ecosystem or culture that supports entrepreneurial success. Typically, small towns are anti-risk taking, have a low tolerance or acceptance of failure, and lack role models and mentors. These communities have no plans for sustaining entrepreneurial companies, much less celebrating successes when they happen. Access to early stage capital or alternative financing is difficult or impossible.

significant revenue growth and expansion—is essential. Entrepreneurs are typically willing role models and mentors because they know the difficulties of the process.

The impact comes from building an “entrepreneurial class” and, hopefully, serial entrepreneurs. Building senior management experience helps sustain new entrepreneurial endeavors. Moving companies to the second stage—

The Fairfield Entrepreneurs Association has now teamed with the Community Vitality Center, the Center for Rural Entrepreneurship, the Farm Foundation, and the Kauffman Foundation to help create a learning and mentoring network of rural entrepreneurial practitioners across the country to cross-pollinate ideas and practices. The successes learned in Fairfield and other communities will be of major assistance to other locations trying to replicate these successes.

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