



Grassroots

ECONOMIC DEVELOPMENT



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Overview

Why Thinking Small Matters in the 21st Century

Grassroots economic development is a bottoms-up strategy that emphasises helping the vast majority of companies that have 5 employees or less.¹ This ebook breaks down the underlying economic trends that necessitates a grassroots strategy for cities competing for relevance in the 21st century, what a grassroots strategy looks like, and how any city could implement it.



Part 1:

The Changing Economy



Globalization



Digitalization

Together globalization and digitalization represent the creation of new markets and the expansion of old markets. It's becoming easier to build a business overnight and export products and make sales across the globe. Never before have so many markets been this large, accessible, and this ripe for disruption.

Globalization:

The development of an increasingly integrated global economy especially by free trade, free flow of capital, and the tapping of cheaper foreign markets.

Digitalization:

The "easy and cheap connection of information technology systems," which connected nearly everyone in the developed world and reduced communication costs to almost zero.²

Part 2:

Trending Perfect

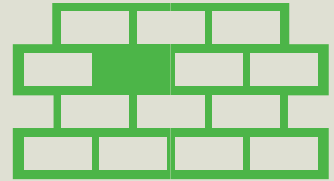
These trends are creating the conditions, or trending towards the conditions consistent with perfectly competitive markets. Perfect competition is unattainable in practice but markets do move along a scale between perfect monopoly and perfect competition. Here are the main conditions of perfect competition.³



**Buyers & sellers
have access to perfect
information about price**



**There are no
transaction costs**



**There are no barriers to
entry into or exit from
the market**

We see globalization and digitalization moving many markets towards these conditions. **As more markets are moving towards perfect conditions, we can expect to see them exhibit another characteristic of near perfect markets - more firms entering the market and smaller average firm size.**

Part 3:

What do they look like?

A more perfect economy means more competition. Firms have to be more efficient and more nimble.

Example: New digital companies competing in old markets

BuzzFeed

VS.

The New York Times

Example: Firms in completely new markets, such as sellers on:

amazon

Etsy

U B E R

ebay

airbnb

Part 3:

What do they look like? (continued)

Ecommerce & Niche Product Producers:

Larger markets allow for greater specialization. Crowdfunding platforms, like Kickstarter, validate new products and help overcome production cost barriers.

Brick and mortar firms:

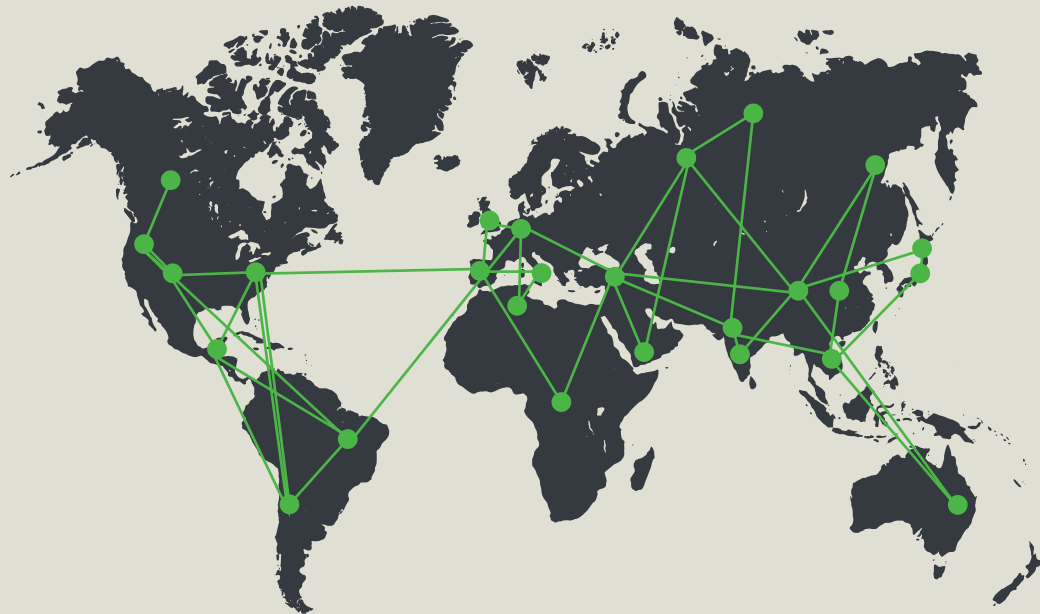
Don't discount the mom and pop shop. Traditional firms can embrace the internet to expand markets and enhance marketing prowess. Also, a resurgent demand for local businesses is a part of vibrant communities.



Part 4:

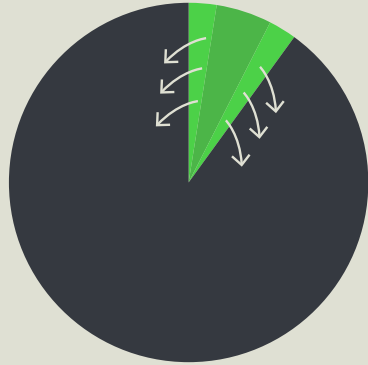
Where are they?

This new boom in digital based firms and small firms are much more nimble than their predecessors. Not only does small size allow them to move from city to city with more ease, but having employees dispersed across the country is entirely feasible. Worklife in small firms isn't just flexible in location but in hours and work culture too. The location choice for these firms and their employees prioritizes sense of place, livability, and community, more so than specific industry clusters. This places a premium on vibrant communities.



Part 5:

How big will it be?



5-10%, and growing, of population participating in new entrepreneurship⁴

95%

Of firms already employ under 50⁵

Current measures may miss changes happening on the ground

New Definition of Entrepreneurship:

- Mix of employment and entrepreneurship⁶
- "Gig" work exists in a grey area
- Common need for basic business knowledge

Doubt the Rise?

This new type of entrepreneurship is just another integration of the internet. Similar to technology adoption trends, projections for cellphone and internet use were wildly underestimated.

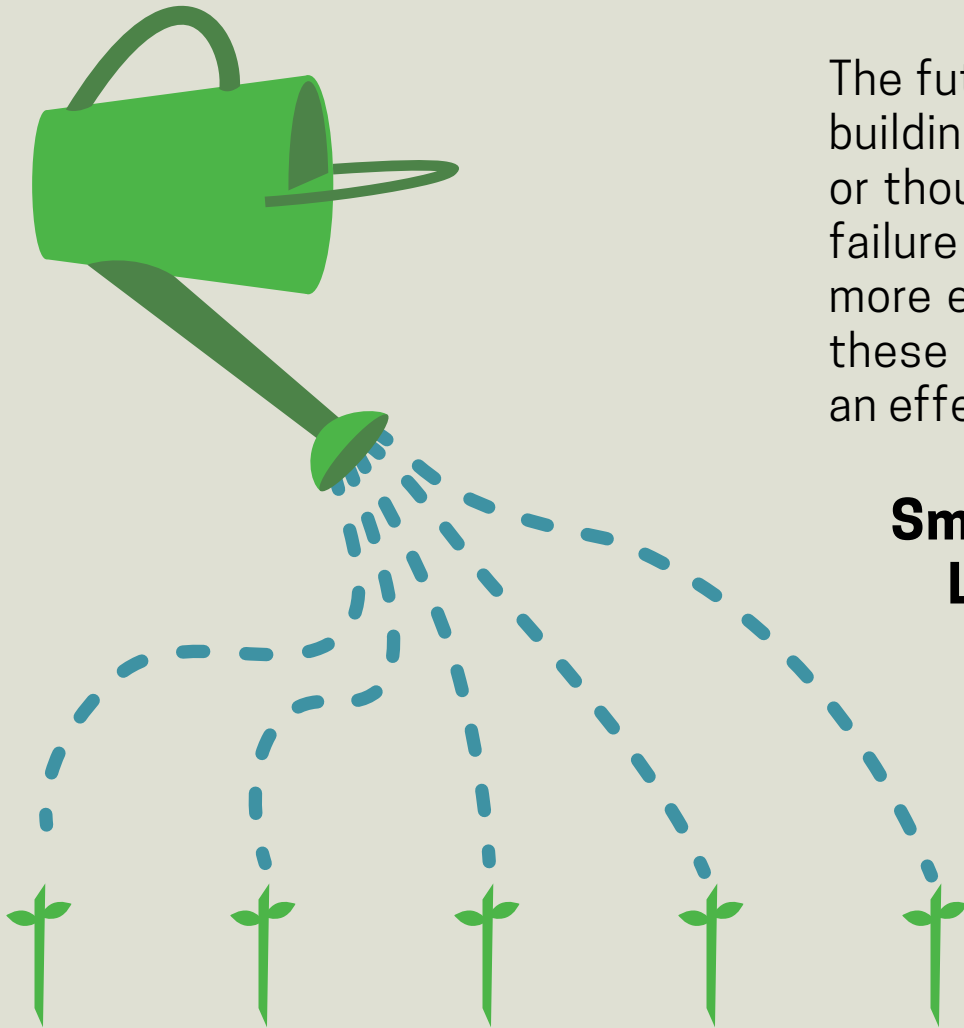
Economic Development in the Changing Economy

The Grassroots Approach

Grassroots economic development focuses on enabling every entrepreneur or aspiring entrepreneur to perform better, without the expectation that they all grow to 50-100 employee firms. The reality is that the majority of businesses will never exceed 3 - 5 employees, and still fewer break the 15 employee barrier. Current economic development strategies tend to leave out this huge section of the economy.



Thinking Small for Big Impact



The future of local communities relies on building an economy by helping hundreds or thousands of small companies reduce failure rates, increase revenues, or add more employees. Together the growth of these businesses in aggregate is just as an effective driver of economic growth.

Small per capita investment
Large aggregate impact

The Benefits of a Strong Grassroots Economy

Resilience:

An economy that spans a diverse range of industries and sizes is stronger than single industry-reliant economies in the face of economic downturn. Diversity of industry also encourages creative innovations and synergies. Smaller enterprises are much more nimble than their larger competitors. Strong entrepreneurship practices emphasize pivoting and innovating when faced with a changing business environment. Small companies have the ability to adjust products and markets much quicker than large firms. Diverse and nimble economies require a bottom-up development approach.

Publicly Palatable:

While traditional economic development often faces backlash from the public for “picking winners and losers” through tax breaks and limited incubator space, grassroots economic development focuses on providing tools and resources to anyone who will use them. A grassroots approach can level the playing field for disadvantaged groups and increase the prevalence of women, veteran, and minority owned businesses in the community. Therefore, making the American Dream of business ownership accessible to as many people as possible is an important part of making entrepreneurship a viable option to the general public.

Vibrancy & Talent

Grassroots economic development helps to create a vibrant main street economy, where most small businesses accumulate. Main street vibrancy is key to organically attracting millennials, creative professionals, and other talent groups sought by large firms.

While silicon startups and innovative tech companies receive the bulk of attention when discussing entrepreneurship and economic developments, small 'traditional' businesses are crucial to developing a unique vibrant community.



Integrating with Current Development

Grassroots economic development works complementary to traditional economic development strategies. While traditional development focuses on a few big wins, (i.e. attracting or growing a few large companies) that means making just a few bets on a few companies. Grassroots economic development focuses on investing in ways that benefit all businesses. In conjunction with traditional strategies, grassroots economic development allows cities to **diversify their economic investment portfolio.**



How to Adapt

Investment in human capital:

Entrepreneurship is truly interdisciplinary. It requires knowledge and use of a wide variety of business topics. Access to a broad based education and mentorship is a crucial and low cost way to empower entrepreneurs to build stronger businesses.

Investing in proper spaces:

Small and early-stage businesses require smaller retail and office space in order to bootstrap up to a larger scale. Fully digital enterprises can utilize the home office or anywhere with an internet connection to work. Co-working space is becoming popular among these emergent digital businesses. Cities can redevelop vacant retail and office space for smaller businesses, or retool public spaces, such as libraries, to provide free or cheap coworking space.



About Hatch

Hatch is an award-winning organization that is dedicated to making entrepreneurship a viable option for everyone. Hatch has helped thousands of entrepreneurs start and grow businesses. In addition to providing entrepreneurs with the tools and resources they need individually, Hatch helps cities champion entrepreneurship within their community and prepare for their future economic needs, by investing in human capital. Hatch is located in Norfolk, Virginia.

Contact

Paul Rice

Phone: (757) 288-1815

Email: paul@startwithhatch.com

Web: 1000four.com/join/grassroots

Refereces

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