Minnetonka Local offers business development & retail support to grow & enable Twin Cities’ west metro entrepreneurs, specifically those in the lower income segment, increasing local products while building community engagement.

Acara Challenge 2015
Domestic Division

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I. Executive Summary

The Twin Cities’ suburbs are more diverse than one may think, with the western suburbs seeing a shift in socio-economic and racial make-up. These changes bring the increased needs for affordable housing, food support and employment opportunities. While existing non-profits offer a range of basic support services, there is not local entrepreneurship development support or the diversity of local businesses unlike Minneapolis and St. Paul proper. The western suburbs have the opportunity to develop local resilient economies by proactively embracing the changing neighborhood demographics.

Minnetonka Local provides business development and retail support to grow and enable local entrepreneurs, especially for low and moderate-income individuals in the western suburbs. Minnetonka Local will offer access to mentorship, business education, financial services and long-term, shared retail and workspace in the Lake Minnetonka area to sell high-quality craft and artisanal goods. This venture aims to increase local products and income across socio-economic backgrounds while providing a unique community engagement platform. Community partners will be key to package existing Twin Cities’ services like business development education, complementary interventions and financial support as well as to leverage best practices from successful neighborhood models. Founder Alana Buckner has adopted the Twin Cities as “home,” and she is dedicated to positively contributing locally by helping provide economic empowerment opportunities for our neighbors.

II. Problem Statement

The primary focus Minnetonka Local intends to address is economic disparities at a local level, which are intertwined with individual, community and structural factors.

With the changing neighborhood demographics in the Twin Cities’ west metro, communities are faced with the need to adapt for the future. This includes the increased need for affordable housing, transportation, food support and employment opportunities for financial security. In a 2013 Brookings Institute study, the Twin Cities’ rise in suburban poverty was quoted as among the highest in the nation, and one of the causes is increased gentrification in urban cities, pushing poorer residents to the first ring suburbs. “The changing map of American poverty matters because place matters… Place intersects with core policy issues central to the long-term health and stability of metropolitan areas and to the economic success of individuals and families…”

In the generally affluent western suburbs, the non-profit Interfaith Outreach & Community Partners (IOCP) responded in 2011 by opening a new 40,500-square-foot headquarters (double its previous capacity) in Plymouth to expand its programs to support “long-term stability” for struggling families. In 2013-14, IOCP served over 5,500 individuals with 399

1 Institute on Metropolitan Opportunity. School and Housing Demographics in the Twin Cities (2012).  

2 Jodi Pfarr, Phil DeVol, Ruby Payne—Bridges Out of Poverty

3 The Brookings Institute. [http://www.brookings.edu/research/books/2013/confrontingsuburbanpovertyinamerica](http://www.brookings.edu/research/books/2013/confrontingsuburbanpovertyinamerica)
west metro families receiving rental assistance. 67 new affordable housing units have been developed since 2001, but the Metropolitan Council projects that the IOCP service area will need more than 1,800 by 2020. IOCP also reports that families living in apartment neighborhoods often lack healthy connections with each other and with the life and opportunities of the community, and this is of concern for new and diverse residents. Similar to other Twin Cities’ metro areas, the western suburbs are experiencing an increase in immigrant and refugee populations, including Somali and Liberians, with individuals interested in small businesses like artisanal goods.

While 2013 legislation increased the state minimum wage, it is estimated that a metro area couple with two children would have to work more than four full-time minimum-wage jobs at $7.25 per hour - or 155 hours a week - just to meet the cost of basic needs (about $58,000 annually). It is noted that 63% of minimum wage earners are female, and interesting to note is that in Lake Minnetonka communities, “women are paid only 67% as much as men,” which is reported as the largest gender-wage gap of $25,000 versus the state average of $10,771. These indicate income-growth opportunities for low-earning individuals and especially area women.

Unlike Minneapolis and St. Paul, the western suburbs do not have neighborhood entrepreneurship support infrastructure. On the consumer front, there is a market interested in purchasing more goods made and available from their local community, and there is not currently a dedicated local-only retail outlet.

III. Solution

Minnetonka Local’s proposed solution is two-pronged. First, we will provide business development training as needed to enable and grow local entrepreneurs, targeting those with artisanal products. Our organization does not intend to recreate successful regional entrepreneurial trainings and financial services’ offerings, rather it will partner with existing organizations to drive support to the western suburb at-need population – connecting with others to create value. We will foster a community of up-and-coming crafters and existing successful entrepreneurs for mentorship and engagement.

Second, we will sell the locally made products via a shared Minnetonka Local retail front for sustainable community outreach, high-quality branding and financially sound practices. The Minnetonka Local experience will connect sellers and buyers, represent the market offerings, and foster community interaction. Profits will be shared between individual sellers and Minnetonka Local for reinvestment in marketing and retail expenses. The resulting impact is increased individual income and local spending power. Local goods for local folks.

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4 Minnesota Without Poverty. [http://www.mnwithoutpoverty.org/#!resources/c17k3](http://www.mnwithoutpoverty.org/#!resources/c17k3)

5 Robins Consulting. U.S. Census Bureau's American Community Survey.
i. Anticipated Impact

**Social Value: Support entrepreneurs & impact the greater community**

We are committed to providing economic empowerment opportunities via small business development support to individuals interested in small business, particularly those in the low and moderate-income segment. The community access to opportunity, networking and education will allow residents to increase income, experience economic-social mobility and contribute back to their family and local economy while reducing social services needs overall. The western suburbs can be stronger when all the people living in the community have more sustainable opportunities for success and prosperity.

**Financial Value: Contribute to the local economy**

The financial return of Minnetonka Local is intrinsically tied to the social impact, as Minnetonka Local aims to sell local products and generate a return to the individual seller and the umbrella organization for reinvestment to grow the core business and number of entrepreneurs supported. Considering other models, Minnetonka Local could generate a 40-60% margin on artisanal products, with 60% of the sale returning to the entrepreneur and 40% going to Minnetonka Local for further growth. As sales increase, this will allow Minnetonka Local’s retail front to scale from a pop-up shop model to long-term – a year-round storefront. Studies have shown that each dollar spent at independent, local businesses on average generates at least three times more direct local economic benefit versus a dollar spent at an “absentee-owned formula business.”

**Potential Impact Measurements:**

<table>
<thead>
<tr>
<th>Input</th>
<th>Output</th>
<th>Outcome</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work with local entrepreneurs • Provide training, mentors &amp; financing via community partners</td>
<td>High-quality, branded products</td>
<td>Sustainable sales via Minnetonka Local retail</td>
<td>Increase individual income and local reinvestment</td>
</tr>
</tbody>
</table>

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ii. Customers

The first group of target customers is the local community entrepreneurs, targeting those who produce artisanal gift-like items and prioritizing those below the state low and moderate-income limits. Based on the target products and minimum wage data, these individuals may be more often women and from the growing immigrant / refugee population.

We have identified two sourcing channels for these craft sellers:

- Nonprofit client sets
  - For instance, IOCP in Plymouth has received requests in the past year from at least 5 immigrant women interested in selling small crafts and jams.
  - Partner with non-profit employment services’ teams and low-income housing outreach to identify existing producers. Target apartment complexes (i.e. 16 identified in Wayzata, Minnetonka, Plymouth).

- Existing Etsy sellers
  - This allows us to immediately sell ready-made, high quality product lines to feed revenues to Minnetonka Local and reinvest in the non-profit client set. The added benefit to crafters is creating a physical community for local support, mentorship and potentially joint product improvement / collaborations for additional products.
  - At least 80 existing local producers. Estimates: Plymouth (25), Orono (5), Wayzata (10), Long Lake (3), Medina (6), Minnetonka (25+).
  - Example of items: clever t-shirts, accessories, natural oils, candles, hand and toiletry bags, jewelry, Lake Minnetonka art, hats, gloves, scarves.
  - Initial outreach to Etsy sellers has generated interest in selling items in a local shop arrangement that eliminates their need to scale individual product lines, instead benefiting from shared retail front and increased local sales.

The other key customer segment is our end-consumer. Since we aim to focus on gift-type, boutique products, the assumed key consumer is the purchasing head of household who likely are women aged 30-65 living in the western suburbs in a middle-to-high income household. Based on initial customer interviews, there is interest in a local boutique as well as pop-up shop model if high-quality, unique products are available. Price point can be high based on quality and branding. The key potential value-add messaging is that 100% of spending is distributed and reinvested locally, and consumers have voiced they want to know the story of each producer for a personal, meaningful community connection.

iii. Differentiation

Minnetonka Local’s name speaks for its differentiation – selling Lake Minnetonka locally produced goods. What may surprise individuals is the goods will represent the area’s diverse range of residents. There is not currently an offering of this type in the area. The western suburbs have a number of retail gift stores that offer high-end luxury (national and global) items, in addition to the typical retail chains. In a few commercial hubs like Excelsior and
Minnetonka, there exists stores that sell a sub-set of locally made Minnesotan items, but they are not specific to the Minnetonka region nor tell the story of the producer. Minnetonka Local will feature solely local goods with the unique stories of enterprising community members.

In Minneapolis there exists I Like You and Dig’s selling Etsy-like products, and Junket: Tossed & Found offering re-sale of used goods. These locally owned business models are of interest to shape Minnetonka Local’s retail front for success. Etsy is the e-commerce model to buy handmade goods, with the option to search Etsy sellers by location. Minnetonka Local would provide the opportunity to touch, feel and see products before purchase.

As mentioned, Minnetonka Local will employ a partnership model to offer business development support – this means packaging services from various potential partners. We are confident that our strong community / nonprofit network and integrative approach will facilitate formal partnerships for the most advantageous training models. In addition, we will engage the rich community of local business leaders to mentor entrepreneurs.

<table>
<thead>
<tr>
<th>Services</th>
<th>Potential Partner Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship / Business Development</td>
<td>Neighborhood Development Center, African Development Center, SCORE, WomenVenture, metroIBA</td>
</tr>
<tr>
<td>Regional Nonprofits</td>
<td>IOCP, CEAP, ICA, PRISM</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Anchor Bank, Sunrise Bank, SBA loans, Metropolitan Consortium of Community Developers</td>
</tr>
<tr>
<td>Local Economic Development</td>
<td>Twin West Chamber of Commerce, Excelsior-Lake Minnetonka Chamber of Commerce, etc.</td>
</tr>
</tbody>
</table>

iv. Market Analysis

Minnetonka Local is poised to elevate the local goods market in the western suburbs. The “buy local” trend is mainstream in the food (Whole Foods, co-ops, farmers market, restaurants) and now craft beer market (note 2014 Acara Challenge business Mighty Axe Hops as a prime example). Local shops and goods are also gaining ground across Minneapolis and St. Paul, with stores like I Like You, Hunt & Gather, HoneyShine, Dig’s, Junket, and many more reshaping the shopping experience in urban neighborhoods. I Like You utilizes a consignment model with 60% of the sale paid back to the producer, which is of interest to us. On a national scale, Etsy is capitalizing on the local trend with agreements with Anthropologie and West Elm to sell curated Etsy goods in stores.

“It didn’t take the “local food” (locavore) movement long to go from an exotic concept to becoming a mainstream fixture on thousands of menus in restaurants, coast-to-coast. Next up: Everything else, local. Products made locally, brands that sell exclusively through independent stores, or small shops that understand and serve the unique needs and special tastes of a local market. Localvore becomes localshop in 2014.” Rex Hammock

The local movement to the Twin Cities’ suburbs was evident during the 2014 Christmas / holiday shopping season, with Ridgedale Shopping Center offering multiple pop-up Minnesota-made shops. Commercial centers have been offering more flexible lease terms since the recession, and mall-leasing departments are making a concerted effort to utilize empty space for short-timers who are testing brand identity and product strength. These investments still require capital on-hand that small artisans lack.

Consumers are interested in the local trend because of value-adds including service, quality source, community and the unique character and diversity added to the neighborhood and sustainability of local businesses paying it forward for more local goods and services. Minnetonka Local embraces the opportunity to fulfill the needs of consumers who are seeking the local, the authentic, the storied, the eco-friendly, etc.

v. Business Implementation

Minnetonka Local’s growth will occur in phases for scaling and iterative improvements to address risks and assumptions. We intend to be a public benefit corporation.

Pilot Proposal

The pilot phase will begin working with local artisans and selling via a pop-up shop model.

1. Work with 5 low-income individuals with entrepreneurial interest, potential, and artisanal / hand-made craft products.
   • From initial interviews, there is potential to start in one low-income housing unit with 5 neighbors – facilitating a relational “trust group” model.
2. Curate hand-made products from 5 local Etsy makers.
   • Host community events with all 10 crafters for mentorship and collaboration.
3. Develop & test entrepreneurship support prototype.
   • Based on all initial customer needs, shape needed services with community partners.
     o I.e. for small inventory purchasing, work with MCCD on microloans.
   • Engage local business owners to build community network and broader support.
4. Begin local sales via pop-up shops.
   • Minnetonka Local to provide shared promotion and branding support.
   • Note: we will employ a consignment agreement.
   • Develop end-customer buzz and test sales at key 2015 summer regional events, farmers markets, and potentially local Wayzata / suburban retailers:
     o Wayzata Art Fair; June 27 & 28
     o Plymouth Farmers Market
     o Minnetonka Farmers Market
     o Excelsior Farmers Market

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Growth & Scaling

Based on this pilot, Minnetonka Local plans to expand the number of products and entrepreneurs it works with and formalize the training model and partners. Since we are working with small batch production, we will need to engage more producers and grow individual businesses to scale sales, potentially employing local individuals to help scale product lines. There is the possibility to purposely grow entrepreneurs by low-income housing unit complexes, expanding community-by-community and developing producers in a cohort / trust group model.

Prior to committing to a permanent and costly long-term lease, Minnetonka Local will continue to leverage pop-up shop options beyond farmers markets and art fairs to generate early revenue and test the consumer market. This includes mall and commercial retail short-term leases, ideally in Wayzata’s commercial hub – considered the “entry point” to Lake Minnetonka. The hope is to scale Minnetonka Local for an extended pop-up shop during the upcoming Christmas / holiday shopping season.

Long-term, we want to explore the financial viability for a permanent storefront, with a flagship store in Wayzata and ideally multiple stores in neighboring communities. Another idea of great interest is a shared workshop for producers to access a creative working space and shared resources like computers, phones and tools. This could also be the future space used for group business development training sessions. This could be an added revenue generator – pricing daily / monthly / quarterly / annual membership fees to crafters to use the space and charge by services. Additionally, the space could feature workshop sessions at a fee for community members to learn how to personalize goods, creative gift-wrapping, start an Etsy store, etc. This is similar to Junket’s model.

We welcome the prospect of small businesses growing beyond the Minnetonka Local store. One option to explore is shared online sales for producers or help individual crafters grow sales nationally / globally via Etsy. If a product line is so successful it warrants its own local store, this is a home run.

vi. Financial Analysis

Minnetonka Local will generate revenue through retail sales, with the intent to sell on consignment versus wholesale. 60% of sales revenues will go back to the producer, with 40% coming to Minnetonka Local to cover SG&A / period costs. We will work with producers for consistent pricing models by product based on quality and direct product costs.

We conservatively estimated average product sales price and volume based on number of pop-up shop locations and production capacity growth per year (Appendix I for details).
Year 1 we project a loss due to initial production ramp-up and program development. Year 2 will start to scale number of products and sales locations to generate a modest profit. In Year 3, an owner’s salary commences. This model assumes we maintain a pop-up shop - low overhead cost model, but as discussed in scaling, we will need to determine if the business can afford permanent rental for retail and perhaps workspace.

Producer revenue will increase as each producer and Minnetonka Local scales the business:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$10,500</td>
<td>$52,416</td>
<td>$204,422</td>
<td>$318,899</td>
<td>$568,551</td>
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<tr>
<td>-Producer split (60%)</td>
<td>$6,300</td>
<td>$31,450</td>
<td>$122,653</td>
<td>$191,339</td>
<td>$341,131</td>
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<tr>
<td><strong>Gross Profit</strong></td>
<td>$4,200</td>
<td>$20,966</td>
<td>$81,769</td>
<td>$127,560</td>
<td>$227,421</td>
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<tr>
<td><strong>Total Fixed Costs:</strong></td>
<td>$5,826</td>
<td>$19,095</td>
<td>$80,464</td>
<td>$109,427</td>
<td>$130,927</td>
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<tr>
<td><strong>EBIT</strong></td>
<td>$1,626</td>
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vii. Team

Alana Buckner is founding Minnetonka Local, and she is currently a Full-time MBA candidate at the Carlson School of Management. Alana is passionate about economic empowerment initiatives, including micro lending and business development, and she is excited by local innovative and comprehensive bridge-building solutions to address employment and wage-gap issues. She has a background in HR, talent acquisition, program management and training & development in both corporate and non-profit organizations. Alana is forgoing a corporate MBA track to work on Minnetonka Local and contribute to the Twin Cities’ economy. While she’s originally Canadian, she is proud to now call Minnesota “home.”

Alana was recently awarded a social venture Sands Fellowship to pursue this idea in 2015. She is also working on this business through Carlson School course offerings, including START-UP, to test assumptions and interview customers.

viii. Asks

1. Funding of $5000 for 2015 Pilot pop-ups including displays, branding and mailing costs.

2. Minnetonka Local is seeking an advisory board and potential business partners before the pilot launch. Of interest are individuals with experience in local retail, entrepreneurship / business development, finance and non-profit partnerships.
ix. Risks & Assumptions

We view the biggest assumptions as 1) there will be a sustainable pipeline of target entrepreneurs and products to develop and sell and 2) there is a sustainable appetite for the local goods. Based on the demographic shifts to the suburbs and the “buy local” trend, we believe there is an untapped market in terms of suppliers and buyers. From initial customer interviews we are validating these and many more hypotheses.

A pilot will allow us to start working with entrepreneurs and provide a viable sales outlet and test the market appetite. This will also help crafters develop products that match the market’s wants. To mitigate the risk of immediate product development and volume lag, we will tap the Etsy producer market for ready-made products for immediate revenue. We will test the retail sales model to identify the best locations and cycles for sales. Additionally, to implement a consignment model, we will put in place clear agreements and guidelines.

Since this venture is not trying to recreate the rich Twin Cities non-profit offerings, sustainable partnerships with existing organizations are a concern. By building relationships with non and for-profits with shared interests and goals, we hope to serve as a bridge-builder to together support our communities.
Appendix I

Financial Analysis Details

<table>
<thead>
<tr>
<th>Profit Projections</th>
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<td>Variable Cost:</td>
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<tr>
<td>Fixed Costs:</td>
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- Each producer will receive Minnetonka Local-branding support including story labels
- Transaction fees based on Shopify - credit card transactions
- Year 3 begins owner salary

Inputs to profit model – assumptions to scale:
- Year-to-year we will engage additional entrepreneurs, grow number and volume of products as well as expand community sales locations, especially during peak shopping cycles (i.e. holiday season).
- Average product sales price is based on online Etsy and retail store scouting.