APPALACHIAN BY DESIGN:
BUILDING A SOCIAL ENTERPRISE FROM THE GROUND UP

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ACADEMIC ABSTRACT

Appalachian by Design (ABD) is a social enterprise that creatively addresses the isolation and lack of job opportunities that have been perennial problems in Appalachia, particularly for women. The organization introduced machine knitting in the region and then built the support systems to grow the industry through a technical knitting apprenticeship. The initial effort proved to be successful and, within two years, twenty women were involved in a budding home-based industry that became known as Appalachian Knitwear. The case explores the organizations growth and the struggle to uphold the organizations social mission in the ever changing handloom knitwear competitive market environment.

EXECUTIVE SUMMARY

Appalachian By Design was founded in the spring of 1992 by Diane Browning as an outgrowth of her work for Women and Employment (now the Center for Economic Options), a non-profit community-based organization that supports business development for rural women. ABD developed a social enterprise to creatively address the isolation and lack of job opportunities that have been perennial problems in Appalachia, particularly for women. The organization introduced machine knitting in the region and then built the support systems to grow the industry through a technical knitting apprenticeship, a distributed production network and a national marketing program. The initial effort proved to be successful and, within two years, twenty women were involved in a budding home-based industry that became known as Appalachian Knitwear, which continued to operate under the auspices of Center for Economic Options (CEO).

Appalachian by Design is Born

In 1992, Ms. Browning organized eight women to respond to an opportunity in the handloom knitwear market, producing sweaters for Esprit’s “environmentally friendly” Ecollection. As the knitwear project grew, it appeared that there was enough demand for contract services to spin off Appalachian knitwear as a separate entity, including entering the wholesale market with its own designs. In 1993, a feasibility study was conducted by business consultant Karen Jacobson and legal consultant Jonathan Sowash to determine if the idea was viable. Although the research revealed opportunities for a quality producer of hand loomed products, Jacobson and Sowash also presented some clear-eyed predictions as to the challenges that lay ahead:
“The apparel manufacturing industry in this country is largely in decline, faced with intense competition from offshore production. Segments of this industry that produce more complicated designs in small quantities, such as handloom apparel, compete successfully with offshore sources because low volume orders cannot support the costs of the overseas travel and shipping required for close monitoring of quality and are not as attractive to Asian producers. . . . Competing in a small, high-priced niche against other similar hand and machine-made designs will be a considerable challenge; a wholesaler’s potential to do so will rest on its ability to produce a high quality garment and convey to the customer the value of both the quality and the social concepts behind the product. These concepts — made in USA, environmentally responsible, supporting rural communities — are still gaining in popularity and are not likely to be fully exploited by the market anytime soon.”

Regarding the organizational structure, the study recommended forming a for-profit that would handle all the business transactions and a non-profit guild for the knitters for training and education, while the knitters themselves would be sole proprietors of their knitting businesses. The for-profit would have shares that could be distributed to the guild and the founding non-profit, CEO.

With a sense of the challenges and after considerable debate as to whether to incorporate the broker function as a for-profit or non-profit company, Appalachian By Design was incorporated as a 501 (c) 3 tax exempt corporation in 1994. ABD’s strategy fuses micro-enterprise, workforce training and asset development to meet the organization’s mission. However, the framework it found that best fits its strategy was identified in a 1995 report by the Aspen Institute titled *Defining and Assessing Sector Initiatives* written by Peggy Clark and Steve Dawson. Clark and Dawson studied programs that focused on services and supports for one occupation sector and set forth the following definition of a sectoral project:

- Targets a specific industry
- Develops deep knowledge of the sector by becoming a “player” in the industry
- Implements training and other strategies that benefit low-income individuals
- Works toward systemic change”1

**Rural Appalachia Environment**

ABD targeted handloom knitting because it can be done in homes, which fits the lifestyles of many Appalachian people. Much of the region where ABD worked — West Virginia and southwest Virginia — is rugged, mountainous terrain that is difficult to develop commercially. The only work available to most women outside the home involves driving long distances to service jobs that offer minimum wage, little autonomy and few rewards. In addition to the scarcity of quality jobs, childcare and adult daycare services are hard to find. The environment contributes to women in West Virginia having the lowest formal workforce participation in the U.S.

The rural economy requires creative job development efforts. Low-income individuals often patch together a variety of resources (both cash and non-cash) to support their families. Many of these are acquired in the informal economy, through timber-cutting, carpentry, hunting, gardening, canning, babysitting and sewing. These tasks not only constitute necessary economic activities, but are seen by many people as integral to their rural way of life, connecting them to nature, to their history, to their families and to their neighbors. Home-based work is often a good fit in this environment because it can help people achieve their goals while balancing work and private life.

**Incorporation as a Non-Profit**

The decision to incorporate ABD as a non-profit was driven by the fact that there was not an existing handloom industry in the region, and building one would require considerable development effort, which could be financed only through public and private grants. Another contributing factor was reluctance on the part of the knitters to form an owner-operated collective, which was an essential piece of the ownership structure recommended in the feasibility study. There are few cooperative owned operations in the region, and there were not many success stories to inspire people.

ABD’s mission also played a role in the decision. “If we had opted to organize a for-profit, we would have gone offshore to get the lowest production cost,” Ms Jacobson commented. “But if your mission is to create jobs worth having, you don’t. There is a lot of creative tension there. We were very open with the knitters about the pressures in the market. Often we hit it on the head, providing good compensation for knitters and meeting the market.”

Karen Jacobson, who co-authored the feasibility study and went on to work for ABD on a part-time basis in its early years, commented that funders were very interested in creating job opportunities through the intervention of a third party. “It was partly a coincidence of timing. It was where economic development was going, and we were right there,” she reflects.

Throughout the organization’s lifespan, there was an expectation that ABD would evolve into a worker-owned cooperative. ABD spent time training the staff and knitters about the financial side of the operation and created a steering committee of knitters to give the workers a voice in decision making and to build a participatory feeling. However, the knitters never warmed to the idea of ownership. Ms. Jacobson observed that while a few of the women showed some interest, “for the most part the knitters really felt themselves hourly workers. They wanted to clock out at five.” In part, this reflected the fact that many of the women chose to work part-time in order to address other priorities in their lives.

**Becoming a Player in the Handloom Industry**

Unlike many rural areas in the Northeast, there was not an existing handloom industry in the Appalachian region before Appalachian by Design came along. ABD developed a comprehensive technical knitting apprenticeship, while at the same time developing a distribution and finishing center and national marketing program. As the venture grew, so did
the vision that over time the region would be known for beautiful knitwear similar to Ireland or the Faire Isles of Scotland. Following are ABD’s major milestones:

<table>
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<th>Milestones</th>
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| 1992  | Secured contract with Esprit to knit 800 sweaters  
       | Built sales solely through contract orders for the next five years |
| 1993  | Created training program and curriculum.               |
| 1994  | Incorporated in the State of West Virginia.               |
| 1995  | Established Finishing and Distribution Center and hired finishing staff. |
| 1996  | Renovated former Sears’ retail store into Finishing and Distribution Center 
       | and moved operation. Enhanced training program by giving trainees knitting machines to take home during the training period. |
| 1999  | Shifted training program to one-on-one training with peer trainers, 
       | decentralizing the training function to the wider network and establishing natural mentor relations. |
| 2000  | Opened retail store at The Greenbrier’s Art Colony.  |
| 2002-2004  | Re-branded the wholesale line to Appalachian Baby Design as a result of the baby line’s growth. This change enabled ABD to concentrate design efforts in one category and better direct marketing dollars. Designed and tested the Greenbrier Collection. Introduced a Retirement Program with nine knitters participating. |
| 2005  | Appalachian Baby Design line sells through 150 retail accounts. 
       | Greenbrier Collection is offered at The Greenbrier with plans to expand marketing to trunk shows and other resorts. |

Finding a Niche within the Niche

The feasibility study and subsequent market research along with its track record in the Appalachian Knitwear project gave ABD confidence that it could find a niche within the handloom industry. In the beginning, the business was almost totally dependent on filling orders for sweaters from clients such as Esprit, Hot Knots, and other apparel companies. By 1995,

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2 During its start-up years, ABD served primarily as a broker for knitting contracts. Knitting and shipments to customers were organized around two lead knitters, one who had a knitting store in Garrett County, MD, and another who worked from her home in Spencer, WV. Knitters knitted the sweaters, hand sewed the seams, buttons, and labels and returned the sweaters to these “production centers.” In response to price pressure from customers and to exert more control over the processes, ABD set up its own finishing and distribution center in Lewisburg, WV.

3 This approach of centralizing some of the functions of the manufacturing process for efficiency of scale is unique to the knitting cottage industry in the U.S. and the United Kingdom. It reduces the cost of the hand-loomed sweater, in effect making the home-based knitter more efficient. It also allows ABD to aggregate knitter production and enter larger markets than individual knitters would be able to on their own.
Esprit’s financial trouble and management changes brought an end to its relationship with ABD. However, ABD had already begun to diversify its contract customer base. In FY 95, Esprit provided 70% of ABD’s sales. The following year, sales from new customers had increased from 30% to 72% of total sales, and by the following year Esprit had vanished from the customer list.

While producing knitwear on contract allowed fairly easy entry into the marketplace, there was very little control over ship dates, designs and the size of the orders. ABD was entirely dependent on the customer’s design, marketing, and business capabilities. The apparel business is also very seasonal; plus off-shore sourcing barriers, which kept many small design firms contracting in the U.S., were beginning to decrease. As the core group of knitters developed who viewed this trade as an essential source of their incomes, it became imperative that markets be found to produce year-round income. For this reason, ABD decided to develop its own wholesale line of products that would depend not on seasonal trends or contract orders; but finding the right fit for a proprietary line took time, effort and money.

In 1997, after two years of research, ABD began marketing its own designs to the wholesale trade primarily through trade shows in New York, Atlanta, and San Francisco. Everything from home textiles to pillows was tested, but it was somewhat by serendipity that the right niche presented itself. Finding itself with an overabundance of pastel yarns, ABD experimented with a line of baby sweaters and struck the right market chord. By 2000, 80% of wholesale sales were in the baby and toddler collection.

The wholesale line was on a good growth curve, with over $300,000 in sales via 150 retail accounts. But when the economy contracted in 2001, sales started to slip. Compounding the situation was the irreversible momentum of sourcing through global supply chains, with most all textile restrictions lifted by the end of 2004. See Appendix A for the financial summary of Appalachian by Design.

In response to the growth in the baby line, in 2002 ABD re-branded the label in the national market to APPALACHIAN BABY DESIGN. All other products (pillows, throws, Christmas stockings, etc.) were discontinued. This allowed the enterprise to concentrate design efforts in one category and better direct marketing dollars. Internally there are fewer inventory costs and management, which makes the production and sales structure more efficient.

The baby line was positioned as high end craft, not apparel. A major emphasis in the development of the brand was that it was imbued with the best of Appalachia: beautiful countryside, a slower lifestyle and a reverence for family and tradition-- the qualities that are important to people when a new baby arrives. The arrival of a baby is an event where people will “trade-up” and spend extra money for a gift. These “Appalachian” qualities are inherent product characteristics that could not be copied off-shore.

4 The marketing strategy drew heavily from the concepts of Trading Up The New American Luxury by Michael J. Silver J. Silverstein and Neil Fiske, 2003 Penquin Books
Challenges of Distributed Manufacturing

Initially ABD did not plan to become a “manufacturer.” The company viewed its role as that of a broker for a network of self-employed handloom knitters. The original concept was that there would be several experienced knitters who would manage hubs where the work would be finished and distributed. ABD initially operated three hubs in Lewisburg and Spencer, West Virginia, and in Oakland, Maryland. It didn’t take long for problems to emerge, noted Ms. Jacobson.

“There were a lot of politics involved in navigating the hubs. We had to deal with ‘group think.’ There were goals for each group. If a group didn’t meet a deadline, the knitters were quick to shoot each other down. Their response was ‘shun them’ but we couldn’t turn them away because we needed their work, even if it was late. Leaders of those three hubs handled things differently. There was an increasing sense of loss of control”.

The management team and the knitters to developed a proposal recommending a centralized finishing facility to improve the price point and exercise more control over quality and production. The Board approved the plan. In 1995, ABD leased space in an abandoned Sears Catalog store in downtown Lewisburg and remodeled it into office space and a finishing and distribution center where products could be finished, inspected, labeled, and shipped. A staff was hired to accomplish these functions; most of them had worked in a sewing factory that had closed in the area. Over time, the responsibility to maintaining jobs for the ABD employees increased the internal pressure to build a sustainable venture. The up side was that ABD now had much greater control over quality, production and distribution; the down side was that it also had much higher overhead expenses.

Another ongoing problem was finding, training and retaining skilled knitters. Monica Appleby joined the Board in 1997 in the artisan representative position mandated by ABD’s bylaws. She had been instrumental in identifying knitter trainers. She recalled that while they were successful at getting people into training, about half did not complete the training or decided not to become part of the network. Others needed more steady work. “It was not a fit for a lot of people. It was surprising how quickly the pool was whittled down. It took a while before we had a steady group of good people,” she commented.

Expansion into Women’s Suit Line

In 2000 ABD opened a retail store at The Greenbrier, one of the premier resorts in the U.S. with the desire to upgrade knitters' salaries. It showcased the baby line and allowed ABD to garner retail prices. The location of the store enhanced the brand’s cachet and provided a laboratory for market and design feedback. It also was the right venue for ABD to move into its next market.

ABD had developed a critical mass of technical skills, human capital, and systems for distributed manufacturing, yet the price pressures kept the knitters’ wages relatively low between $7-10/hr. Because of its mission, the venture committed to develop a higher wage niche market through a women’s custom-made suit line branded under the Appalachian by Design Collection. The
collection was designed and tested and obtained $25,000 in sales during the nine-month test period.

The Collection contained a mix of classic suit and dress pieces knit from luxury yarn and made-to-order. The line was positioned as a good investment in a product that was made expressly to fit the customer. The industry research and test marketing had shown that there was opportunity in the luxury knitwear market, a market with an estimated $800 million in annual sales. Instead of entering the wholesale channels, ABD’s marketing strategy was to sell the product at retail prices through trunk shows at resorts and special events, with an emphasis on custom orders, a one-on-one intimate shopping experience, and service designed to cultivate a loyal customer base.

The concept got an important boost when ABD was named a finalist in the Yale-Goldman Sachs Social Business Plan Competition, which provided intensive business consulting and a demanding jury review. ABD was awarded an honorable mention. The jurist review after the competition expressed doubt whether a venture from Appalachia working with low-income women could break into a luxury market because of perception of the region. The feedback had the effect of redoubling efforts, but the original name, the ABD Collection, was reevaluated and changed to the Greenbrier Collection. The Collection developed a following through sales at The Greenbrier and special event trunk shows, but it remained undercapitalized and was considered a “bootstrapping underdog” to compete in the high end apparel industry. ABD had a very strong and committed Board with a wealth of experience in rural economic development and artisan cooperatives.

**Creating Opportunities for Rural Women**

ABD used the production of high-end knitwear to provide training, technology and an entrepreneurial outlet to its direct beneficiaries, the knitters. Survey profiles prepared in 2003 indicated the following characteristics of the company’s knitter population:

- Low-income, 60% reported household income at or below the Department of Health and Human Services poverty guidelines of $18,100 for a family of four;
- 95% were women;
- All lived in rural communities (towns under 15,000 people);
- Most were married with one or more dependents, including children, parents and/or a disabled spouse; and
- 75% were engaged in self-employment on a part-time basis, an average of 20 hours per week, which represented a critical part of family income. However, for the 25% of the knitters who worked full-time at their businesses, their earnings were the primary source of family income.

In 1995, the *Utne Reader* hailed ABD as “an example of what can happen when the goal of cottage industry is not isolation and exploitation, but access and independence.” ABD’s Board and management kept a clear focus on its social mission even as the company struggled to become financially stable. Because of its unflinching focus on mission, ABD provided many social benefits to its knitters, such as:
- Providing home-based work to low-income women (and some men) in isolated rural Appalachia; increasing their self-sufficiency and independence;
- Offering a place-based work option, eliminating commuting costs, and facilitating child care;
- Reducing isolation by creating a network of mutual support;
- Creating an opportunity for career advancement by developing a progressive wage structure and professional growth opportunities for skilled knitters;
- Providing an incubator for women to cultivate and spin off new ventures through technical and management training and access to equipment; and
- Promoting the Appalachian region and refining its image through a high-quality project.

Through its focus on high-quality products and attendant marketing, ABD shifted the typically poor image of Appalachia to what is at the region’s core—great beauty, self-sufficiency, and a strong sense of place. For a listing of the social benefits of the ABD, see Appendix B.

**Crafting a Knitter Retirement Program**

ABD experimented with many strategies to help the knitters succeed and develop skills that would put them on track for a better financial future. The most innovative of these—and the one that the leadership team felt was a major innovation of ABD—was to address the issue of long-term financial stability for low-income women by designing a retirement savings program based on the Individual Development Account (IDA) model. IDAs are matched savings accounts designed to help low-income families build assets. To learn more about the design of the Individual Development Account program with ABD, see Appendix C.

Recognizing that the population of women from whom ABD recruits its knitters was among the least likely to be financially prepared for retirement, ABD’s leadership had wanted to establish a retirement plan but had not come up with a mechanism to make it feasible. Cindy Hounsell, Executive Director of the Women’s Institute for a Secure Retirement (WISER), met with staff and knitters at an ABD Annual Meeting that focused on retirement issues. WISER is a national education and advocacy organization with the mission of improving the long term financial security of women. Her presentation was the catalyst for ABD to develop a pilot retirement program using the model of an Individual Development Account. Despite a number of technical, financial, and legal hurdles, a relatively simple matched savings plan was created with the financial support of WISER and 12 knitters enrolled in the pilot program, which was launched in the spring of 2003.

Although development of the Retirement Savings program diverted human and financial resources at a time when ABD was already stretched to the limit, the Executive Director and the Board was as determined to make it work. As Monica Appleby recalled, “We were always

5 For more information, see the public policy advocacy and demonstration projects of IDA’s are being advanced by the Corporation for Enterprise Development. For more information, see www.cfed.org.
trying to find out other ways to compensate them (the knitters). I had no hesitation about developing the retirement program.”

**The Future**

At the end of 2005 the founder Diane Browning and Karen Jacobson sat in the offices of Appalachian by Design and wondered what was next for ABD. The organization had raised awareness of the plight of low income women in rural West Virginia, but had an outstanding no interest loan with the United States Department of Agriculture (USDA) that needed to be paid, but the organization did not have the income to make the payments.

The Board of Directors meeting was approaching and Diane had to submit a plan to the board for the future of the organization. Was the organization meeting their social mission? How could they improve the financial situation of the organization and pay off the USDA loan?
# APPENDIX A
## FINANCIAL SUMMARY

### Appalachian By Design Financial Summary

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### Expenses

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<td>($22,028)</td>
<td>$45,926</td>
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APPENDIX B
SOCIAL BENEFITS OF APPALACHIAN BY DESIGN

ABD’s Board and management kept a clear focus on its social mission even as the company struggled to become financially stable. Because of its unflinching focus on mission, ABD provided many social benefits to its knitters, such as:

Providing home-based work to low-income women (and some men) in isolated rural Appalachia; increasing their self-sufficiency and independence

Unlike some cottage industries, ABD set its rate well above the minimum wage, typically starting at $7.00 per hour. Most experienced knitters earned $7.50-$12 per hour. Furthermore, the knitters participated directly in setting the rate and other policies that affected their income.

Offering a place-based work option, eliminating commuting costs, and facilitating child care

Most employment available in Appalachia involves a long commute, and pay is not sufficient to cover child care costs. ABD enabled women to work from their homes. In research conducted from 1994 to 2001 by Dr. Ann Oberhauser, Associate Professor at West Virginia University, knitters identified three reasons for wanting to start home-based machine knitting businesses—family responsibilities, barriers to wage employment, and the loss of sustainable jobs in their communities.”

Reducing isolation by creating a network of mutual support

ABD changed the way home-based knitting worked for rural women. For example, ABD encouraged the use of telecommunications to streamline the work distributions process, while facilitating communications and connection. ABD also provided one-on-one training. By 2003, more than 80% of ABD’s knitters communicated via e-mail, an impressive accomplishment in a state that then ranked 48th in the country in online access. Further, by organizing area teams, using a peer-to-peer training program, and hosting an Annual Meeting, ABD helped to decrease the isolation of home-based workers. A central focus was to build a culture of participation in which knitters had input at every decision level. A vital part of this culture was the Steering Committee of knitter leaders who met quarterly to troubleshoot and create knitter policies.

Creating an opportunity for career advancement by developing a progressive wage structure and professional growth opportunities for skilled knitters

ABD classified its knitters in three categories: apprentice, experienced and lead. The introduction of the Greenbrier Collection created a definitive upward career track that awarded

experienced and skilled knitters. Their base hourly rate increased to $12.00 per hour, a 70% increase in their earnings.

**Providing an incubator for women to cultivate and spin off new ventures through technical and management training and access to equipment**

Many ABD knitters went on to market their services and products independently through craft fairs, galleries, design firms, and knitting seminars. ABD’s economic network established the support systems for the knitters to explore other opportunities. Some advanced to become knitting trainers and business trainers, which paid a higher wage. Some became knitting equipment and knitting yarn dealers. Some knitters formed their own clusters to market their services to design companies, contributing further to the region’s reputation as a resource for machine knitting.

**Promoting the Appalachian region and refining its image through a high-quality project.**

Through its focus on high-quality products and attendant marketing, ABD shifted the typically poor image of Appalachia to what is at the region’s core—great beauty, self-sufficiency, and a strong sense of place.
APPENDIX C
INDIVIDUAL DEVELOPMENT ACCOUNTS

Program Design

Attorney Beth Ferrier, president of the ABD Board, evaluated the options from a tax and legal standpoint and concluded that traditional or Roth Individual Retirement Accounts could be used as the savings instruments as long as a knitter had the required earned income, and that the match would be considered a gift to the individual knitter for tax purposes. The knitter could not treat the match as additional earned income that would increase their tax deduction, since there would likely be a period of time from when the knitter made the initial deposits until the match was made. The tax code ultimately drove the design of the program.

ABD decided to structure the program using IRAs that would be opened by the knitters themselves at a financial institution of their own choosing. From this point on, ABD made adaptations in the IDA model that was advanced through a national demonstration project. Their decision meant that the program would not be eligible for federal matching funds, so matching funds would have to come from private sources. The structure also did not provide incentive for private funders, since there was no clear tax deduction or credit for the funds they would be contributing for the match. Furthermore, there was no ability to set a defined holding period like IDA funders have traditionally done with collateral accounts, where there is a one- to three-year holding period before the match is made directly to a third party on behalf of the account holder. Finally, the success of the program depended significantly on ABD placing full trust in the knitters to deposit and keep the funds in their IRAs, since they would be in control of their accounts, although ABD did verify deposits before providing the match. The only penalties for withdrawing funds to use for purposes other than retirement would be those assessed by the IRS.

Results

ABD/WISER assisted nine knitters in establishing retirement accounts, each valued now at close to $3000. Six of the participants had no prior retirement savings, and their ages range from 35 to 65 years old. The program has been backed up by financial education seminars that included presentations and Q&A sessions with financial planners, a Social Security Administrator, and the introduction of a home study course.

A Replicable Model

Ms. Ferrier believes that of the many social benefits created by ABD, the retirement savings plan is the one most universally adaptable to other social enterprise ventures. “We have to expand the IDA concept to include retirement savings. That is such a large void for people on limited

7 The Assets for Independence Act (AFIA) funded The American Dream Demonstration project (1998-2002) that sparked the development of IDA accounts around the U.S.
“They are lucky to have any benefits. Most employers are going to defined contribution plans, like 401(k)s and SIMPLE plans, rather than defined benefit plans. Many individuals don’t feel like they can put aside money, even with a match. There needs to be more awareness that we have to support things outside social security. There have to be easy plans for people to set up.”

**Note:** The teaching note includes an overview of the organization, teaching roadmap, sample assignment questions and the epilogue of where the ABD is today. A four page reflection from Diane Browning, the founder of ABD using the definition of social entrepreneurship developed by Greg Dees as a framework for how the organization integrated social entrepreneurship into the fabric of the organization is available to provide to students after the case discussion.