

BREWING UP COMMUNITY:
EXPLORING THE POTENTIAL OF COOPERATIVE
BREWERIES FOR COMMUNITY DEVELOPMENT

by

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When I chose to enroll in the Community Development graduate program in the fall of 2015, I had no idea how profoundly this course of study would alter not only my professional career, but my sense of purpose. I could not have imagined that midway through the program I would be offered the opportunity of my lifetime to serve as the first Community Vitality Director for my own hometown of Webster City, Iowa. The role has competed for my time and energy, making my studies a more significant challenge to complete, but every day I am using the skills and knowledge I have acquired to engage the residents of our rural community in a fight to preserve and promote a greater quality of life in the face of tremendous economic challenges.

Thank you to my advising professor, Dr. Jane Rongerude, who never gave up on me, even when I would avoid correspondence, unable to face my own lack of progress on this report. Thank you for your gentle nudges and words of encouragement, and for seeing me through to the finish. You believed in me through all the times that I did not believe in myself, and for that, I can never repay you.

ABSTRACT

This report considers a simple question: Can a cooperatively-owned brewery help build local social infrastructure and contribute to economic resiliency? As microbreweries continue to grow in popularity and take an increasing total market share of the beer industry in the U.S., more communities are seeking to attract this amenity, not just for the economic boost, but because breweries serve as symbols for vital communities both large and small. Rural communities enjoy substantial benefits from breweries, which provide a basis for tourism and a desirable amenity that helps to attract potential residents. The cooperative model offers the potential for more rural communities to have a brewery and for local breweries to share wealth, become invested, expand their economic resiliency.

Cooperative breweries are community-based and social enterprises. This report investigates two cooperative breweries and in doing so, explores the motivations for choosing the cooperative model, the process and challenges of forming a cooperative brewery, and the intended and perceived effects of their formation for the members and communities in which they serve. Using Flora and Flora's theory of entrepreneurial social infrastructure, I make sense of the preconditions, challenges, and consequent social benefits of this model in their successful development. The goal of this report is to provide insight for other community developers, local officials, and residents who want to consider whether this model is a good fit for their own town.

Keywords: Cooperatives, Rural Development, Community Development, Social Capital, Entrepreneurial Social Infrastructure, Breweries

INTRODUCTION – COMMUNITY VITALITY IN WEBSTER CITY

Our Rural Story

On November 1, 2017, I became the first-ever Community Vitality Director for the City of Webster City. The city previously had an economic developer on staff, but a young, progressive city manager named Daniel Ortiz Hernandez had the vision to transform the role, giving it a broader focus and a new title that reflected that change. Gone were the days of “smokestack chasing” where local jurisdictions worked under a growth-at-all-cost mentality, providing lucrative incentive deals to attract new industries. As the Community Vitality Director, not only do I have what may be the coolest job title in the state, but I am also allowed to think holistically about the health of my community. For me this is not just a job; it is personal. Webster City is where I was born and raised. I am working every day with my fellow residents to improve and retain the high quality of life that I experienced growing up here for the next generation, my own children included. I often joke that my job is to convince myself and my kids to stay in the community, or at least make us sad to leave.

The work that I do for Webster City is supported by my education in the Great Plains IDEA Community Development graduate program and is principally founded on the work of Jan and Cornelia Flora and their Community Capitals Framework (1992) which seeks to achieve balance between the seven kinds of capital in a community thereby promoting a healthy ecosystem, economic security, and social inclusion for all residents. Having started my graduate program two years prior to the creation of my position with the city, I had the advantage of making Webster City the primary focus of

my studies, and was able to hit the ground running, armed with the both my long, intimate knowledge of the community, as well as a thorough theoretical and analytical perspective from my coursework.

Webster City is a rural community nestled along the banks of the Boone River in North Central Iowa, about an hour north and west of the state's capital city of Des Moines. Webster City is home to an estimated 7,830 people (US Census, 2017), the lowest number since its peak in 1980 at 8,572 (Webster City Comprehensive plan, 2013). Once upon a time, many family farms surrounded Webster City and depended on the community as the center of commerce and daily life, but decades of farm consolidations changed the makeup of the community and surrounding county, starting a decades-long economic decline and population loss.

Like many rural communities buffeted by the sweeping changes in the global economic system stemming from changing technology and economic relations, Webster City suffered the loss of our largest employer, Electrolux--a washer and dryer manufacturing facility--in 2011. Some of our other manufacturing industries that had formed or moved the Webster City to serve Electrolux also closed or contracted in the wake of its departure (Henderson, L. IISC 2018). Then many downtown businesses and service companies folded after losing a substantial portion of the customer base. By the spring of 2013, the city's main street had 14 vacant storefronts. However, the hardship was not only financial. Too often, we tend to measure the impacts of such a loss through an economic lens, but it is important to recognize that much of the community's life was organized around those three plant shifts. When the town lost the factory, it also lost a significant part of its identity and social bonds that tied it together. The very

pattern, rhythm, and hum of daily life, as it was known before, was forever changed.

The informal channels of communication that ran through the plant were severed. Many friendships and even families were forged on those factory lines alongside the washers and dryers. Everyone knew someone that worked there. Since the plant closed, many of the discussions at town halls, workgroups, and committees focus on a loss of strong community ties, a lack of shared identity, and a lack of shared vision for the future.

The community also made it known that they never again wanted to place all of their proverbial “eggs in one basket” and leave the fate of their town to one company. At first the vision of City’s leadership did not align with the community’s desire for economic diversity. Local officials chose instead to pursue traditional smoke-stack chasing and sought to recruit a company large enough to fill the hole left behind by Electrolux. Unfortunately, those efforts were not very successful. The city lost \$790,000 in economic development incentives when the electric car company it was attempting to woo went bankrupt without ever building a factory (Hsu, 2013).

Webster City could have been decimated and emptied by the Electrolux plant closure, but instead its residents are still holding strong and working to rebuild and revitalize their community. The first step was H.E.R.O. (Help Entertain & Restore Organization), a grassroots movement turned non-profit that refurbished and reopened the town’s movie theater, one of many businesses lost after the plant closure (Fleishman, 2018). The idea for restoring the Webster Theater started with just a few individuals that lamented the loss of an icon from their youth and an essential asset for the community’s quality of life. In less than a year, H.E.R.O. succeeded in raising the nearly \$250k needed to upgrade to digital equipment and rehabilitate the interior, and

has been successfully operating since September 2014. They even raised additional funds a year later to pay for new seats in the theater. H.E.R.O. demonstrates the ripe potential for communal and cooperative ventures in Webster City and similar communities (Henderson, 2018).

During my first two years on the job, we did a considerable amount of community engagement and survey work as part of a community rebranding project that we completed through a year-long partnership with the University of Iowa. Community feedback confirmed that the residents are primarily concerned with two areas: (1) the need for greater communication and connection within the community, and (2) the overall appearance of the community--mainly the downtown and parks, which are perceived to be run-down. The community's perceptions are consistent with the findings from the Small Towns Project, a 20-year longitudinal study of rural towns in Iowa included Webster City as one of the focus communities (Iowa State University, 2019).

The Small Towns Projects followed Webster City from 1994 to 2014, and the report presents a compilation of survey responses in which the residents assessed their quality of life, describe their social environment, and the level of attachment to and involvement in the community during the past two decades ("Sigma Study," 2014). The most significant decline in the rating of government services was regarding the condition of the parks, which are reported to look more rundown over the years. Most troubling, however, is the decline in the sense of community in Webster City. The percentage of respondents who felt they could find someone to talk to if they just wanted to socialize dropped from 82% in 1994 to only 49% in 2014. Fewer than 25% of the respondents in

2014 believed that new residents were welcome in leadership positions, down from 50% in 1994 (<https://smalltowns.soc.iastate.edu/community-profiles/>).

Returning to my earlier comment about convincing myself to stay in the community or at least be sad about leaving, it would appear that there is a reason for concern in regards to the rest of the community. When asked that question in the survey, only 38% of respondents said they would be “sorry to leave” the community--a massive drop from the 78% who felt that way in 1994 (Iowa State University, 2019).

Building off the research findings from the Small Towns project, David Peters found that social capital and civic engagement mattered more to perceptions of high quality of life than income/poverty and employment levels (2017a). Regardless of whether a community is growing or shrinking in population, the recipe for a high quality of life is to enhance bridging social capital, increase civic engagement, and create a culture of openness and support (Peters, 2017a). A town’s leadership can foster positive perceptions by working to encourage participation in local projects and organizations, being open to new ideas and alternative solutions, and investing in its physical assets to prevent the appearance of being run down (2017b). The three elements of high quality of life (bridging social capital, civic engagement, and a culture of openness) can also be used as indicators of Entrepreneurial Social Infrastructure (ESI) (Peters, 2017; Flora, et al. 1997). The ESI framework will be explained in greater detail later in this report.

A Brewery in Webster City

Throughout my course of study in Community Development, I have focused on community wealth-building strategies and community-based enterprises, primarily cooperatives. In January of 2018, when I learned about several community members who were interested in attracting or developing a brewery for Webster City, I presented the cooperative model. They immediately latched onto the idea and decided they wanted to learn more about this strategy for forming a brewery. None of the members of this group had prior experience with brewing beer nor a desire to become a brewer in the future. Instead, they were focused on bringing the experience to their own town that they enjoy when visiting other breweries. The group was not interested in just another “bar.” They wanted the kind of relaxed and communal feeling they have experienced in other breweries, a place where they can also bring their kids or pets to enjoy a sense of comradery with their fellow community members.

The brewery group has continued to meet. I have helped them reach out for cooperative technical assistance Iowa’s Institute for Cooperatives and Cooperative Development Services out of St. Paul, Minnesota. In the summer of 2018, I also traveled with some members of this group to tour two cooperative breweries in the Twin Cities to learn more about their experiences. In November of 2018, Iowa Area Development Group’s Foundation pledged a \$10,000 grant towards the cooperative brewery group’s effort in recognition of its innovative nature and potential for economic impact on the community. I chose to conduct this study to better understand cooperative development and aid their efforts.

This report builds on the intersection of two emerging trends in rural community and economic development: (1) the increased focus on placemaking and amenity development for attracting and retaining talent/workforce, and (2) the reemergence of broadly-shared ownership models to counteract the growing inequities of wealth distribution. Both trends potentially herald a movement towards a "people-based" economy. For rural communities that are struggling to attract investment and entrepreneurs, broad-based ownership models provide a fruitful avenue for developing attractive placemaking amenities.

I aim to answer the question of whether a cooperative brewery can help build social infrastructure of our community and contribute to local economic resiliency. The following questions also shaped the lines of inquiry for this study.

- How can the cooperative model be used for developing quality of life amenities in rural communities?
- Why have some communities been successful at developing cooperatively-owned amenities?
- How can communities create the conditions necessary to support this model of ownership?

As part of my investigation, I interviewed a total of seven people from two cooperative breweries: High Five Coop in Grand Rapids, Michigan and Black Star in Austin, Texas. The interviews covered topics related to the founding, operations, and outcomes of a local cooperative brewery. For a detailed description of my research methods, see Appendix A. For the full interview protocol, see Appendix B.

INGREDIENTS FOR BREWING COMMUNITY

Developing Quality of Place

Increasingly, community and economic development professionals in rural communities are focusing on improving "quality of place" by attracting, developing, and promoting local amenities, with the hope of attracting and retaining a new workforce (Berry, 2015). Because the jobs of the "new economy" agglomerate in urban centers, rural communities must offset the pull of the urban core with enough natural and cultural amenities to make the commute to cities or the lower pay of working in a rural community worthwhile to residents (Wu et al., 2008). In their article "Social capital and quality of place: reflections on growth and change in a small town," Kevin S. Hanna, Ann Daleb, and Chris Ling define the quality of place as the materialization of social capital (2009). Definitions of social capital can be traced back as far as Durkheim's emphasis on group life, but sociologist, Robert Putnam provides the foundation for most definitions of social capital today as referring to "features of social organizations, such as networks, norms, and trust that facilitate coordination and cooperation for mutual benefit. Social Capital enhances the benefits of investment in physical and human capital (1993, 35-36). Quality of place and the conception of it is as ever-changing as the dynamics of social capital itself.

A recent emphasis on developing a quality of place suggests an interactive engagement between the two. Social capital promotes the creation of quality of place, and places developed to encourage social interaction can stimulate and grow social capital. Hanna argues that if community developers and planners do not emphasize

social capital, explicitly bridging social capital, which is the connections between heterogeneous groups, then spaces may be created that actually dampen social capital or only strengthen bonding forms of capital through the exclusivity of access to the built environment (2009).

People now have access to more information that allows them to carefully weigh all aspects of quality of life before deciding where to reside. Prior thinking held that if a community attracted the jobs, the people would follow, but it seems that now the job is no longer necessarily the driving force for deciding where to live (Østbye, Moilanen, Tervo, & Westerlund, 2018). Quality of life matters, highlighting valuable assets within a community such as access to outdoor recreation, low cost-of-living, available and affordable housing, racial and ethnic diversity, and support from family and friendship networks. As such, the mantra for community and economic developers is shifting towards the need to attract people to attract jobs and further investment. Though not without controversy, the work of Richard Florida and his concept of the “Creative Class” probably best embodies this strategy (2012).

Breweries

For the past decade, one of the most coveted amenities for giving a boost to rural economies is the microbrewery. Microbreweries first became popular in urban communities but have since flourished in rural areas. According to the Brewers Association, U.S. beer volume sales were down 1% in 2017, whereas craft brewer sales continued to grow at a rate of 5% by volume, reaching 12.7% of the U.S. beer market by volume. Craft production grew the most for microbreweries. Retail dollar sales of craft

increased 8%, up to \$26.0 billion, and now account for more than 23% of the \$111.4 billion U.S. beer market. Since craft breweries are also strong draws for regional tourism, this translates to new dollars circulating in the community, a significant gain for communities that have lost some of their previous export industries.

Yet, for communities, breweries provide more than just an economic boost; they are also widely considered to be another "third place" similar to coffee houses, which provide a fun and attractive meeting place and event venue for community members of all ages. The term "third place" was first defined by Sociologist Ray Oldenburg in his book entitled *The Great Good Place* (Oldenburg, 1989), where he defines the Third Place as where people spend their time aside from the first place (home) and second place (work). Specifically, Third Places are conceived as places people meet up to have a good time and build relationships. Pubs, or as they are better known in Europe by their formal name, public houses, have long met the definition of a third-place since before the term was coined. In the United States a more recent trend of microbreweries has been gaining in popularity and filling that third-place role.

In his article for *The Atlantic* entitled "Eleven Signs a Community will Succeed," writer James Fallows describes the eleven attributes of towns that are thriving in an era when so many others are failing (2017). Number eleven on the list, and what Fallows describes as the most reliable signifier of all, is the existence of a craft brewery, whether in a town large or small. What is unknown is whether it takes a particular kind of community to support a brewery, or whether in fact, a brewery can help catalyze the comeback. A small town in Nebraska bet on the latter when a group of community members came together to invest in a brewery, and they proceeded to recruit a master

brewer out of Bend, Oregon. That brewery has been serving as a support and siren's call to more businesses in the tiny town of 2500 people (Seigler, 2017).

However, the appeal of craft breweries is not just about the promise of economic revitalization. Breweries are known for providing an alternative atmosphere to a typical bar. It is not uncommon to see families with children in local breweries, or board games spread out on the tables. Breweries are known to host innocent events such as trivia nights and even yoga classes. In his September 2017 article for the Smithsonian, journalist Jim Morrison asks the question, "Are craft breweries the next coffeehouses?" There was a time when people doubted whether every community could support the coffeehouse with their fancy, high-priced concoctions, so why not expect the same from a brewery? In the article, Morrison quotes sociologist Ray Oldenburg "Though a radically different kind of setting for a home, the third place is remarkably similar to a good home in the psychological comfort and support that it extends," he writes. "They are the heart of a community's social vitality, the grassroots of democracy, but sadly, they constitute a diminishing aspect of the American social landscape" (Morrison, 2017).

Another common trend among craft breweries is their philanthropy in the communities they serve. Many provide a portion of their proceeds to non-profits or hold fundraising events for local causes. Some larger breweries have established their foundations to manage their charitable giving. Peace Tree Brewery in Knoxville, IA, has a donation request form on the website. Recently, the owner, at a recent rural development summit, said that the next big plan for the brewery which has expanded into two new branches since it opened in 2009, is to strengthen its philanthropic impact

in the communities they serve rather than expanding to further locales. Community Beer Co. in Dallas, Texas helped raise funds for Hurricane Harvey relief.

As stated previously, in their perceived role as a "third place," breweries can be defined as one form that meets the criteria as a quality of place that enhances social capital through its development. An even more recent trend of cooperatively-owned breweries might bring that sense of belonging and connection to another level. In cooperative breweries, the initial startup costs are raised by selling member shares, making each member a real owner of the cooperative. Every member has an opportunity to run for a seat on the board of directors, and every member has one vote, making a cooperative brewery genuinely democratic and community-owned. My theory is that a brewery that is cooperatively owned can help strengthen social capital even more than a more traditional ownership model for a brewery could.

Cooperatives

The International Co-operative Alliance (ICA) defines cooperatives as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (International Co-operative Alliance, 2020).

The ICA also provides seven worldwide, generally acknowledged principles that guide a cooperative. They include voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for the community (Deller, 2009). While there is no mechanism to ensure that cooperatives

consistently adhere to these seven principles, it is not hard to see that cooperatives have the foundation to play a vital role in community development (Zeuli and Radel, 2005).

Democratically run, employee-owned cooperatives have the potential to repair our broken economy and maldistribution of wealth and capital. Cooperatives are more stable through economic downturns and will not leave a community for cheaper labor. The profitable increases in productivity are instead rooted and broadly distributed in the community through the shared ownership structure (Democracy at Work Institute, 2015).

In the three-part report on Building an Inclusive Economy by the Democracy Collaborative, authors Marjorie Kelly, Steve Dubb, and Violeta Duncan list cooperatives as one of six models of broad-based ownership with the potential to combat income inequalities between people and regions by building community wealth (Kelly et al., 2016) They list the benefits of cooperatives to community development as the ability to provide quality goods and services to areas avoided by traditional businesses, retaining and recirculating business profits in the community through local ownership, fostering stronger communities by building social networks and cohesion, and the creation of quality jobs in the community. Taking the prospect of a cooperative brewery as an example, it may either stay small enough in scale that profits are secondary to the desired service it provides to the community, but can easily be scaled into a significant economic engine for the community if the product is successful enough to engage in distribution outside the community, acting as an economic multiplier as well.

The University of Wisconsin's Center for Cooperatives provides information about the different types of cooperatives (<https://uwcc.wisc.edu/about-co-ops/types-of-co-ops/>):

- Consumer cooperatives are owned by members who use the co-op to purchase the goods or services that they need.
 - Worker cooperatives are businesses that are owned by their workers. Ownership allows the worker-members to control the operations and strategic direction of the business and to directly benefit from the business's success.
 - Producer cooperatives are owned by people who produce similar types of goods or services.
 - Purchasing cooperatives combine member demand to achieve better pricing, availability, and delivery of products or services. The members of purchasing cooperatives are businesses or organizations, rather than individual consumers, that use the cooperative to more efficiently manage their operations.
 - Multi-stakeholder cooperatives, also referred to as hybrid or solidarity model cooperatives, multi-stakeholder cooperatives are owned by two or more types of members who have different roles and interests in an enterprise that more broadly benefits them all. Member classes may include consumers (either individuals or businesses), producers, workers, or investors.
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In Iowa, most cooperative codes were established for the purpose of farmer cooperatives, petroleum cooperatives, utility cooperatives, and consumer food cooperatives, which are organized under Chapter 499 of the State Code. In 2005, Chapter 501A, a new law was passed that allows a cooperative to organize a partnership model similar to a Limited Liability Company. This law allows a cooperative to have both patron and non-patron members. It creates a business structure option that enables patron members to access equity capital from non-patron investors to assist them in capitalizing the cooperative (<https://www.iowainstitute.coop/about-us/laws-governing-coops/>). The type of cooperative formed under 501A would be considered a multi-stakeholder or hybrid cooperative--the same as the cooperative breweries interviewed for this report--as they have consumer members, worker members, and investor members.

Cooperative Breweries

According to its website, Black Star Co-op was the first cooperatively owned brewpub in the world when it opened its doors in Austin, Texas, in 2010. Since that time, it has become the model for a string of other cooperative breweries spread out sporadically across the U.S. that have opened or are in the process of developing. The Democracy at Work Institute, a national organization dedicated to the development of worker cooperatives in the U.S., put out an industry research report on cooperative craft breweries in 2015. At the time of publication, they could account for six fully operating cooperatively owned breweries, including Black Star, and another sixteen planned to open in 2015. All of those breweries were located in larger metropolitan areas, although

there are several cooperative breweries that are forming in less populated areas, including one successfully launched in Los Alamos, New Mexico named Bathtub Row Brewing Cooperative.

A handful of news articles and industry blogs have been published in the past couple of years, professing the promise of the cooperative brewery model, several of which you can find listed in the bibliography of this report. In 2016 an article in *Forbes* lambasted crowdfunding and Kickstarter for raising funds from the community to support the profits of a single or small group of owners (Nurin, 2016). Co-ops are offered up as the better alternative, and the surer way to push back against the wave of consolidations and buyouts happening in the craft beer industry. However, this new surge of co-ops in non-agricultural sectors may have crowdfunding tools like GoFundMe and Kickstarter to thank for the new comfort levels with co-ops. In this study, I investigate whether the communities and neighborhoods that have successfully started a cooperative brewery have any recent history with crowdfunding a large-scale community project or business.

Cooperatives as Community Development

To better clarify our understanding of how cooperatives can be impactful tools for economic development, we turn to Majee and Hoyt. In their report on the prospective use of cooperatives in development, they explicitly link cooperatives to social capital development due to their inherent structure, which encourages interaction and democratic decision making (Majee and Hoyt, 2011). While cooperative startup requires a great deal of trust and faith, the process itself of developing and co-managing the

business builds trust, which in turn strengthens both the business and the community. Once successfully operational, they can grow leadership and business acumen continuously and strengthen social bonds, while providing the desired amenity and other social benefits to the community. Majee and Hoyt propose that for resource-strapped communities, the collective effort of cooperative development and management enables the community to participate in and influence market forces, and enjoy more local control for sustainability (2011). Their framework demonstrates how a successful cooperative development helps groups transition from getting by to getting ahead and through the process simultaneously strengthen group ties (bonding capital) and foster stronger relationships between groups (bridging capital). They also support the idea that cooperatives, as place-based businesses providing local services, give ownership to residents, create jobs, and foster business and social relations in the community and with entities outside the community as well. In this study of cooperative brewery development, I aim to support the conclusion that cooperatives provide rural communities with the ability to create and support desired amenities while increasing both economic opportunity and social capital, even when they are strapped for cash.

Entrepreneurial Social Infrastructure

How can a community know whether it has what it takes to successfully launch a cooperative enterprise such as a brewery? There are two aspects to cooperative business development, the first being the more traditional steps of market research and business plan development, but the other is the engagement, education, and recruitment of membership in the broader community. Can community members who

have never participated in a community-based enterprise like a cooperative be open to the risk and have the trust necessary to literally buy-in to ownership? Are there specific attributes that would make some communities more successful than others in this venture?

I propose that the successful development of cooperatives may require some attributes of the kind of social infrastructure described in Jan and Cornelia Flora's seminal article entitled "Entrepreneurial Social Infrastructure: A Necessary Ingredient (1997)." The elements for social infrastructure provide the framework of this exploratory case study and help shape the line of questions asked of the participants. The ESI concept helps to explain why some communities remain economically vital when others do not. The three core elements of ESI are the legitimacy of alternatives, resource mobilization, and the quality of networks (Flora et al., 1997). It is also of note that the existence or non-existence of these elements is not fixed and can change and be changed with intervention (Flora, 1993). The questions used in this study follow the ESI framework as follows:

- Legitimacy of Alternatives: Questions about the openness of the community to a cooperative as an alternative model for brewery development, and the process of formation.
 - Resource Mobilization: Questions about the ability of the community to raise funds, recruit volunteers, and encourage investment.
 - Quality of Networks: Questions about the quantity and quality of relationships before, during, and following the development of the cooperative brewery.
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AN IN-DEPTH LOOK AT TWO COOPERATIVE BREWERIES: HIGH FIVE & BLACK STAR

High Five Co-op Brewery

High Five's story began in 2011 when one of the founding members pitched the idea for the co-op at a startup capital competition called 5x5. It has been a long journey since then, with the co-op finally signing a lease on location in Kentwood, MI, in August of 2018. High Five is still working on raising enough capital to open in this location, with a start date still unknown. Through the course of interviews with seven participants from High-Five, we learn why it has taken so long to launch the Co-op and what motivates this organization and its members to keep moving forward towards their goal.

Founding member Jorel V. was in the audience when Dallas M. gave his pitch for the cooperative brewery at the 5x5 competition in Grand Rapids, Michigan. Dallas won the full \$5000 grant from that event for his idea. Jorel was among the first to join the steering committee that met initially at Barter Town, a vegan restaurant with a regular crowd that he described as Wobblies and anarchists. The place was filled with people wanting to know more about the Co-op brewery idea. After that, there were regular meetings, generally at the houses of steering committee members. There were a lot of interviews and write-ups with the local press, and there was a great deal of education that had to be provided to people about the cooperative model because it was an unfamiliar concept for the general public. Some of the interest and excitement was also because the community was beginning to become known for its breweries and craft beer culture, and this was a new take on it. Many of the early members were homebrewers who enjoyed

getting together to share recipes and dreamed of having a place of their own with full-sized commercial equipment for experimentation without having to give up their day jobs. Jorel V. was familiar with co-ops through the housing co-ops in Ann Arbor, MI. What drew him, Dallas, and the other early members of the project was the idealism of the seven cooperative principles and the concept of shared ownership.

...we wanted just to form something that was community own that people could be a part of, even if they did not have financial means to open their own brewery. Or even you know, the idea was to start it up in a way that if even if you had only \$150 to save up, you could join, you can become a member, you could become an owner, and you'd be able to participate in the fun side of things, as well as the democratic process of electing board members and things like that, where it was truly an organic, like, community-owned thing, as opposed to just being another sole proprietorship, you know, business. (Nick L.)

The idealism of the cooperative model quickly ran into several challenges, however. After that initial pitch contest, it would be nearly two years before the group would be able to overcome the legal hurdles of forming a cooperative of this nature under Michigan law, where cooperatives are considered a sub-category of nonprofit corporations, but nonprofits cannot be licensed to produce and sell alcohol. Nick L. recalls how, under his term as president, it felt as though there was a lot of pressure on him to navigate this complexity. When he first got involved, Nick was more involved as part of the technical brewing committee, but when he stepped up into the leadership role as president, Nick did not anticipate spending the next two years on paper, and by the end, he said: "it was just driving me crazy." Nick remained supportive of the effort but ultimately had to step away due to his new job as a brewer at another major brewery an hour away and the birth of his first child.

According to documents on the High Five Brewery website, the cooperative offers both member and investment shares. A lifetime membership costs \$150 and entitles the

member to an ownership share, invitations to member events, an equal vote in member elections, an opportunity to run for the board of directors, employment opportunities, a membership discount, brewing education, and a "bunch of cool new compadres."

During the first couple of years following incorporation, High Five realized it would need to sell investor shares in order to raise enough capital for the venture. Investors are required to first pay for a membership, after which they can buy investment shares at \$100 each with an expected 8% return on investment. In addition to the potential for a financial return on investment, if the brewery becomes successful enough to pay dividends, investors are also offered other perks for various investment tiers. The first \$100 puts the member's name on the taproom wall; for \$500, one also gets a pint glass and t-shirt, on up to a \$10,000 investment getting a name included in large print in a mural and the ability to host a private event in the space. According to the High Five Summary of Offering, a minimum subscription of \$55,000 from all investors required by the end of the offering or the investments made in the Co-op will be returned to the investor.

Jim J. came on as an early member after attending one of the meetings at Barter Town. Unlike the other members, Jim had decades of experience with cooperatives, the reason for his interest, more than for the brewery itself. It was not until a couple of years later that he joined the board and came to realize that there was still a lot of unanswered questions and only a partially developed business plan that had been adopted from another brewery. Around that time, Jim J. became more involved with helping move High Five forward. Furthermore, the group had used up the majority of its initial funds from the pitch grant on attorney fees when they were sorting out their legal incorporation and securities filings with the state. According to Jim J., "What I didn't realize that...their books

were not in order. Let's put it that way. And, they didn't really have any planning done as far as what they needed to do, what kind of money they needed. All this sort of thing, and from my experience, that does not get you very far." Knowing it would be difficult to attract any serious investors without being about to answer these financial questions, Jim set to work, helping put together a better financial pro forma.

The third major challenge proved to be finding a location for the brewery. The Grand Rapids, real estate market, was becoming increasingly competitive, and landlords had plenty of options for tenants that did not come with the confusion or complications of renting to a cooperative, where the perception was that no individual would be liable for damages. Unlike with other business models, no one person in a cooperative is going to be putting up the kind of leverage necessary to secure a place. A series of disappointments with other locations left some members with dissolution over the continuous delays. It also created a hindrance to attracting new members and investors who wanted to know how close or far the brewery would ultimately be from their residence before committing financially. It was not until 2018 when High Five finally signed a lease in Kentwood, Michigan, a rapidly growing suburb of Grand Rapids.

Despite all of the hurdles High Five faced, and the years it has taken to date with still no brewery in operation a full eight years since that Five x Five pitch competition, where the whole journey started, the members interviewed for this study credit a commitment to the cooperative principles and business model as the reason for their persistence. By continuing to hold regular meetings and successfully recruiting new board members that bring fresh energy and skillsets to the effort, the momentum continues, albeit unevenly and slowly. The group is still pushing for more investors at this stage and

asking for members to help underwrite a \$60,000 loan to start the buildout of the brewery. In the meantime, another cooperative brewery in Michigan has opened its doors. Having started their process later, and after getting advice from the team at High Five, the Marquette Brewing Cooperative, doing business as Drifa Brewing, has taken the mantle as the first cooperative brewery in Michigan.

Black Star Co-op

Gemütlichkeit is a German word with an indirect translation generally accepted to convey a sense of belonging, good cheer, warmth, and neighborliness. The word was cited several times during interviews with members of Black Star to describe the kind of space they were aiming to create in their cooperative brewery in Austin, Texas.

Back in 2006, the craft beer scene in Austin, Texas, had only started to take off, with only a handful of breweries or brewpubs in the city. It was also the year that there were changes made in Texas state law that clearly defined cooperatives, making it much easier to form one. It was in the coalescence of that moment in January, 2006 that founder Johnny L. saw a poster advertising an information meeting for Black Star Pub (as it was called then) at his place of work, Wheatsville Food Co-op. When Johnny arrived, he met the host, Steven Y., and Jeff Y. Inspired by Michael Albert's Participatory Economics Theory, the three of them ultimately formed the core of the movement to open the world's first known cooperative brewery, and spent the first couple of months brainstorming and discussing their ideas, such as having a place that was not just about the beer but for the community, worker solidarity and social justice. An essential feature of the cooperative brewery would be the worker's assembly that excludes any central management and

hierarchy. Instead, the workers would self-manage and have representation on the board of directors.

By April, they had a set of bylaws and articles of incorporation. Having continued to hold informational meetings and parties in the meantime, they had recruited their first board of directors, and upon filing with the state, were ready to start selling memberships. Using the funds from member sales to make some homebrews, they started holding more regular parties to get the word out about the co-op and sell more memberships. They hosted the member campaign parties in public parks and empty parking lots. Early member and recent board president, Beth B. recalled those early gatherings:

...it was always in the evening, and everybody was welcome. And it was, you know, we have beautiful weather here in Austin, and so it just really had that kind of vibe that maybe you didn't know everybody there, but by the end of the party, you could, and they would all be your friends, and it was a very welcoming community.

By 2008, the cooperative had significantly expanded not only in membership but also in scope and budget. It became clear that selling member shares alone was not going to provide enough capital, so the cooperative started selling investment shares as well to Texas residents under the intrastate securities exemption. The momentum kept building until a setback occurred when the group had a location for the brewery picked out and the investor backing it ended up pulling out and killing the deal. The group lost a significant amount of money on attorney fees from the negotiation.

One of the difficulties facing the co-op in finding a location was that Austin had zoning laws that restricted breweries and limited options. It was after this setback that they reorganized and decided to become a brewpub with a full-service restaurant because it opened up more options for locations in Austin at the time.

Finally, settling on a location renewed the energy, and Black Star opened up the second round of investor shares for the build-out. Construction started in April of 2010 and wrapped up in August, with a grand opening party in December of that year. At that point, the cooperative had 1000 members but continued to grow substantially, eventually reaching 3500 members. When asked how the experience of starting the co-op compared to his expectations, founder Johnny L. said: "over budget and over time."

The lofty ideals of the founders would quickly prove challenging in operation. By 2011, one of the founding members who was working at the brewpub developed what board member Stephen R. described as "owner's syndrome", and that although he believed in the ideals of the cooperative model and had been the one who put all of the time and research into forming it, ultimately could not let go of the reins. As Steven R. explained: "...it was his baby to be fair, but he was a dictator, and they fired [him]."

Tensions also formed between the board of directors and the workers' assembly, around several issues such as workers' wages, and difficulty making management decisions without a manager in charge. The board sometimes felt as if the workers were going to run the business into the ground while the workers thought that the board was about to fire them all.

When Beth B. became Black Star Board President three years ago, she was under the impression that the co-op was doing pretty well and poised for growth. However, it became clear pretty quickly that the reality of running a restaurant and brewpub was much more challenging and money was a lot tighter than expected. It was also tricky handling investors who had an expectation that they would be receiving a return on their investment or wanting to be refunded on their initial investment as the bylaws had promised.

The co-op did pay investment dividends in 2014, which in retrospect may have caused financial problems later on when cash flow was low. In early 2017, Black Star had to put a call out to members to ask for help and patronage to get them through the financial shortfall. The call worked, and for a short time sales surged but later leveled out. The oversaturation of the brewery market and the changing economic landscape of Austin will continue to test the sustainability of the cooperative model.

FINDINGS

High Five

In addition to learning about the process of forming the brewery, I also wanted to understand, to some extent, the culture of the community or neighborhood of the cooperative. Of particular interest was whether, according to the interviewees, the community had experience with collective efforts that may have laid the groundwork in some way for the success of the cooperative brewery.

In the case of High Five and its general area of Grand Rapids and Kentwood, Michigan, there was a perception that the majority of large-scale projects were primarily dependent on wealthy philanthropists, private investment, and the city. Although grassroots efforts for community betterment--especially by nonprofits--existed, the interviewees could not point to any comparable collective project of similar scale. The lack of evident collectivism along with lack of understanding or support for cooperatives in Michigan, as previously discussed, may account for High Five's slow progress. However, when asked whether they believed that participation in the cooperative has created new associations or strengthened existing ones, they all expressed a belief that that it had. Some of the most substantial ties have come from the connections made with other breweries including other cooperative breweries. It has been their experience that the brewery culture is very welcoming and open to sharing information to aid the success of their efforts.

The desired outcomes for the brewery recall the various reasons that drew the participants to the effort in the first place, namely a passion for brewing and consuming

craft beer, and the comradery that comes with doing so collectively. They were seeking a third-place type of environment where they could feel welcome and have a sense of ownership and belonging that is unique to the cooperative model. They also expressed a deep commitment to the cooperative principles and desire to see the cooperative model spread into other business ventures.

There's no shortage of going to a cool brewery, but I can't walk into Founders [brewery] and be involved in the room process unless I want a job [there] and do that (David D.).

We hope other cooperatives and other pro-social businesses will be able to flourish, and then that we can be a part of that (Jorel V.)

...I've run into a number of people who have an interest in brewing...and so, I think that there's a number of people that would like to get into it that would use the co-op as a, you know, a resource to come in, take a class for, you know, a reasonable amount of money, nothing that's going to be terribly expensive, and then have access to resources and equipment and so forth (Jonathon K.).

I hope that it becomes kind of a community meeting place for the people in the surrounding neighborhoods so that they're not like, oh, we're all going to go out to the bar tonight. Like, no, let's go to Hive Five and hang out and, you know, get some good food, and then I'm going that it's going to be just a warm, inviting atmosphere (Nick L.).

Black Star

When asked about the culture of the community and how it affected the process of forming the cooperative and in-turn how the cooperative has impacted the community, the interviewees described Austin as a place for "can-do" artists and makers where there is no shortage of "cool things" to do go do, and sweat-equity and volunteerism were commonplace. The members interviewed have made many friendships through the cooperative and share fond memories of the early days of the parties in the parks. Nevertheless, as Beth B. points out,

The challenge is that the space does not create it. Like the community has to create that feeling. The space can help, but the right lighting and cute tables are only going to get you so far, right? So for me, that was a big need that I met.

However, the city of Austin and the neighborhood where Black Star located have gone through a tremendous amount of change and growth in the past ten years. The member-owners of Black Star are hopeful that the co-op can continue to create that space for belonging and connection but also be competitive and thrive in the environment of growing rents and steep competition.

When asked for advice for others considering the cooperative brewery model, a word of caution from the team at Black Star:

...we were trying to be idealistic and have everyone be the owner, and everyone would bring some money. For a brewery with the overhead of...the brewhouse is itself really expensive, and you can't rely on that. I think the worker-owner would be a better model for...things that require a high capital investment... (Steve R.)

I've learned a lot of lessons about myself and about business. And you know, definitely the alternative business models are viable, just you know, being able to adapt to the market changes is probably...the biggest cautionary tale is not being set in your ways so much that when the market determines the necessity to change that you're not, you know able to do that quickly (Johnny L.)

...how important it was to train and empower the people that you're working with, whether that's on the board or at the worker level. Because burnout is real, and it really does affect co-ops (Beth B.).

The interviews showed that even with successful operation and broad support through membership, the return on investment for a cooperative brewery is often slim to none. Even when this is an accepted fact among members and investors, the road from idealism to reality is challenging.

In terms of social capital, both cooperatives identified the creation of new and stronger relationships through the cooperative, especially during its formation. However,

Black Star again provided a warning that is the people more than the place that creates the sense of community. As such, breweries, whether cooperatively owned or not, have to find ways to foster that sense of connection and belonging in order to be successful.

Lastly, the development of High Five may have gone more smoothly if the organizers did not have to work under a state code that does not recognize cooperative business structures. As a result, they had to educate an entire community about what a cooperative is, including landlords who preferred not to deal with an entity that they did not understand. Black Star had some advantage in this area -- Austin residents had a little more experience with cooperative housing and grocery stores. The state had also recently made it much easier to form a cooperative through code changes regarding cooperative business structures.

Perhaps with a stronger ecosystem of support for cooperative development in the form of knowledgeable lawyers, willing lenders, and entrepreneurial training for member-owners, cooperative formation could be accelerated. The US Small Business Association recently removed cooperatives from the exclusion list for SBA loans, which may represent a small move towards greater support for cooperatives on a national scale. Moreover, 2020 presidential candidates like Bernie Sanders, Elizabeth Warren, and Andrew Yang have spoken their support for employee-ownership models such as ESOPS and worker-owned cooperatives, which may increase awareness and support for their development if they were to be elected.

CONCLUSION

Is this the right time for a cooperative brewery in Webster City?

This study sought to understand how a cooperative brewery can help build social infrastructure and contribute to local economic resiliency. While I was able to gain insight into the process and challenges in forming and managing the cooperatives, it was harder to identify whether the process of creating a cooperative had any effect on the entrepreneurial social infrastructure of the broader community, however both groups indicated closer ties with their fellow cooperative members, and new relationships formed in the process of their involvement which indicates that they were able to draw upon and strengthen their social networks.

In terms of the legitimacy of alternatives, neither co-op seemed to encounter any challenges to the model that were politically charged, instead just related to codes, licensing, and how accommodating these structures were in either state to cooperative development. The public in both cases was generally enthusiastic and accepting of the cooperatives regardless of prior knowledge of the model. In both instances, the groups were strongly attached to the cooperative business model, even if at times it was understood that it was going to be more difficult and slower to achieve.

As for resource mobilization, Black Star has been more successful than High Five in the time to becoming operational and the number of total member-owners. Black Star currently has nearly 3500 (blackstar.coop, 2019) while High Five only has 156 (www.beer.coop, 2016). During the interviews, the perception of volunteerism and collectivism was subtle, but the participants from Black Star did indicate more activity in

this area than High Five. This could be attributed at least in part to their local contexts. Grand Rapids, the home of High Five, is better known for having a few significant philanthropists who fund major projects rather than a grassroots effort. Although participants from Black Star indicate that some of this grassroots spirit has been lost from Austin in recent years due to its massive growth over this past decade.

The differences between urban and rural settings are significant and must be acknowledged. Both cities are hosts to higher education institutions, which would imply a higher educated populace than what is found in Webster City. The median household incomes are higher as well, which can affect the ability to raise capital investment. However, rural communities also provide potential advantages to endeavors such as these. Rural community often start with higher social capital than their more urban counterparts. A rural community may also benefit from the lack of competition. In Austin, Black Star got its start when there were far fewer brewpubs, but over time the saturation of the market made it challenging for the coop to compete. In Webster City, at least at the current time, there would be no such competition. In fact, whereas some potential members of both High Five and Black Star wanted to know which neighborhood the cooperative would locate before investing, residents in Webster City will know already that the coop would be in their town, where the commercial districts serve all residents equally.

As for the economic resiliency of the communities, that too was not as relevant to these two cooperatives because the motivation for forming the cooperative brewery was most strongly tied to the idealism of cooperative principles, rather than as a means to have a brewery at all. Ideally, a future study would have the opportunity to interview

breweries that are in smaller or more rural communities. I attempted to reach out to two such breweries but was not able to get a response in time for this study.

Returning to the Webster City brewery effort, the group lost momentum after realizing the amount of initial capital a brewery would need to raise, with the brewery equipment alone costing \$300,000 or more. There were also concerns over the potential return on investment when members would inevitably have to undersign debt for the co-op in order to be fully capitalized. However, the group kept in touch through a closed Facebook group and recently met again for the first time in months. When hearing that the lessons learned from the other cooperative breweries echoed their own concerns about the amount of capital required for startup, the Webster City group changed course and decided to pursue a cooperative taproom instead. This approach does not require the same amount of capital as building out a brewery, allowing the group to avoid the necessity of investors.

Webster City has a history of grassroots, collective efforts. Although the town's social capital may have declined over the past couple decades, there is no reason to think that it cannot be brought back to life with inspired projects which provide the community with a chance to create the future it wants for itself. The most recent example of this type of effort is a new nonprofit called Local Initiative for Transformation – Webster City or LIFT WC. Inspired by the success of H.E.R.O., the mission of this new nonprofit is to identify and develop catalytic projects, services, and programs that build the social infrastructure of Webster City. The first project for LIFT WC is the restoration of the historic Elks Building. LIFT WC hopes to return the building back into the hub for community life that it used to be (liftwc.org, 2019). In fact, the brewery group

is considering the Elks Building as the future home of the cooperative taproom, so that the two entities can find mutual benefit from the partnership. This partnership would provide one more way to increase social capital and bring people together, remembering that the residents of Webster City are seeking a greater sense of connection, and for the community to become the kind of attractive place that people would be sad to leave. As Robert Putnam observed in his landmark study about civic life in Italy: “These communities did not become civic simply because they were rich. The historical record strongly suggests precisely the opposite: They have become rich because they were civic (Putnam, 1993).” Economic prosperity follows social capital, so the latter needs attention first.

Cooperative development in the US has been sporadic in its application. As discussed in this report, cooperatives have the potential to provide rural communities with the kinds of amenities and services that would otherwise not be viable under more traditional economic models. Because of the popularity of breweries and their tendency to have a robust communal focus, they provide a potential vehicle for comfortably introducing cooperative ownership models to rural communities. This study provides an opportunity for community developers to learn from the experiences of others who have formed a cooperative brewery, and in doing so to assess the readiness of their community to approach the cooperative model, identify needed intervention to support their development, and identify opportunities for cooperative structures when seeking to develop further community amenities.

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APPENDIX A: METHODOLOGY

To better understand why these communities and neighborhoods chose the cooperative model to form their breweries and how they were able to do so, the study included a combination of content analysis comprised of material made available through newspaper articles and on the brewery websites and interviews with members from each brewery for a more in-depth analysis of their experiences and perceptions.

I identified cooperative breweries for this study according to their relevance and availability. Breweries typically have some form of contact information listed on their websites, search engine directories, or Facebook. I made initial contact with brewery management via written digital communication such as email, Facebook Messenger, or the brewery websites contact form. The script remained the same regardless of the platform. I requested contact information for the board president from whoever received and responded to the initial request. During the conversation with the board president, I read from the email script and asked the board president to bring the decision to participate in the study before the board for approval. I provided a template for board resolution in support of participation. Once the brewery board voted to participate in the study as a whole, the board or board president was asked to recruit individual, willing participants to provide interviews according to the desired key roles identified for the study. This exact process was repeated for both breweries selected for this study.

I used Zoom Video Conferencing for the interviews with the participants for the study. The interviewer used a personal laptop that is password protected and meets the university's minimum-security clearance in a private setting. Zoom recordings were set

to save directly to Dropbox and then moved to Cybox. I scheduled the time of meetings according to the interviewee's availability.

This research called for semi-structured interviews to allowed me to follow the narratives presented by participants in their entirety and to take advantage of unexpected themes that may emerge throughout the interview. As a result, the protocol may have changed slightly throughout the interview; as such, the interview protocol may have varied slightly from interview to interview. The interviews covered topics related to the founding, operations, and outcomes of a local cooperative brewery. Participants in the study were allowed the opportunity to redact or retract information provided during the interview process to provide privacy and reduce any potential for harm or discomfort. The request for the redaction could be made during or immediately following the interview.

Each participant in the study was expected to provide at least one, but no more than four interviews total, with each interview lasting between 1-2 hours in length. Only one participant had to participate in a second interview, but only to repeat the same questions since the first interview failed to record. The two cases included in this study were chosen to compare perceptions between a cooperative brewery that is still in the development process and one that is well established, and potential differences in social capital before launch versus after.

A total of seven participants volunteered for interviews from High Five Coop, and Four from Black Star. After the interviews were completed, I used Otter's software to automatically transcribe the interview recordings. From these transcriptions, three main themes were identified as the motivation for forming cooperative breweries, namely a

desire for the “third place” kind of environment, an idealism of the cooperative model of ownership, and the common interest of craft beer home brewers to have a place to experiment together on commercial equipment. Additionally, there were common themes for challenges such as legal issues in regards to codes and licensing, and capital fundraising which ultimately created the need to sell investment shares which causes conflict with the interests of the traditional cooperative member-owners.

APPENDIX B: INTERVIEW QUESTIONNAIRE

Research question: How can cooperative breweries build social infrastructure in a community and contribute to local economic resiliency?

Basic information:

- What is your name?
 - What is your relationship to (name of cooperative brewery)?
 - How long have you been associated with (name of cooperative brewery)?
 - How did you come to be involved with this brewery?
 - Brewery founding:
 - Tell me the story of how this brewery began.
 - Who were the key players? Who were the champions of the effort?
 - What was the reaction of the community?
 - What were the goals with starting a cooperative brewery?
 - Did you seek out technical assistance about cooperatives, and from where?
 - Did you seek out any other kinds of technical assistance and from whom?
 - About how long did it take from the first steering committee meeting to incorporation?
 - How long did it take from the time of incorporation before the brewery started operations?
 - How did the actual process compare to what you expected?
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- Has there been any loss of momentum or enthusiasm over the duration of the process? What are some of the ways that this was addressed or overcome?
- Why did your group decide to go with a cooperative business structure over other models?
- What other models, if any, were considered?
- Who (if anyone) had prior experience as members of a cooperative?
- Do you sell investor (non-patron) shares or patron member shares only?
- Do you have a worker-owner contingency?
- Tell me about any challenges your cooperative has encountered during its startup process? How did you overcome those challenges?

Brewery Operations:

- How are your operations and memberships structured?
 - Please describe the different types of memberships available through your cooperative.
 - Who, if anyone, holds the majority decision making power? Is it proportional to investment?
 - What are your priorities/mission/principles as a coop?
 - Which has more priority for your cooperative brewery, service to members, profit-making or are both equally important?
 - Are you familiar with the seven principles for cooperatives? If so, how do you feel they are applied in this project?
 - Tell me about a significant conflict that has come up related to process of operating your brewery.
 - How did you work through it?
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- What about an example of a success? What makes this success significant to your efforts?
- Have the responsibilities for the formation and operation of the brewery been broadly shared or have they been concentrated with a few people? How do you think this has affected the process?

Questions about the local community or neighborhood:

- Has your community or neighborhood had prior experience with collective funding large amenity projects?
- Tell me about the ways in which people in your community work together to get things done
- Have there been additional social benefits to the community members involved in the co-op brewery project? For example, new or strengthened associations?

Brewery Outcomes:

- What are the needs in your community that you think the cooperative brewery helps to address? In what ways and why?
 - How has your brewery impacted your community, or how do you hope that it will in the future?
 - What lessons have you learned in your experience that you would share with other communities seeking to start their own cooperative brewery?
 - Tell me your vision for the brewery and this community in 10 years. What will it look like?
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