

Angels in Khaki

I too was born in Reading (PA) and I love my hometown. But something's got to give... Everyone talks about improving the city yet I do not see results. What we need is involvement within the city residents. We need to empower our neighbors to take action and make them feel as they are a part of the solution, instead of the problem.

--Posted by: Anonymous, May 18 2005, Berks Blogs, Reading Eagle



Take heart, anonymous blogger: there is a revolution brewing in the City of Reading, right at the heart of its most distressed neighborhood. In what is perhaps, the first initiative of its kind in the country, an inner city company in Reading, Bills Khakis, is setting up a community investment fund to invest in other inner city companies in the area. Says Bill Thomas, the founder of Bills Khakis: "This fund is all about creating successful, sustainable entrepreneurship such that it helps build our own neighborhood of inner city Reading."

For Thomas, thinking outside the box is second nature. Take his decision to manufacture and sell classic nine-ounce cotton twill khakis. After months of wearing Army surplus World War II khakis as a student, Thomas figured he had stumbled across a great business idea. He reckoned if he enjoyed wearing the vintage khakis so much surely there were other people out there who yearned as much for quality, all-purpose khakis. Thomas liked the idea so much, he bet that not only were there buyers for such khakis--these people would be willing to pay upwards of \$75 for just such a trouser. The Bills Khakis business plan, Version One, was born.

The seed money for stitching the first batch of khakis came from friends. Thomas retained his day job in an advertising agency and from 1985 to 1990 ran the venture as a hobby. Production was limited to a few hundred pieces a year and sales essentially took place from the trunk of Thomas' car. By 1990, Thomas was convinced the market demand was enough to start the business in real earnest. He launched Bills Khakis like any other self-respecting entrepreneur: he moved back home and borrowed \$10,000 from his mother as start-up capital. Says Thomas with a laugh: "I found the bank was happy to give me a loan as long as it was co-signed by my Mom."

For the first few years, any earnings the business generated were ploughed right back. In addition, Thomas took up a series of part-time jobs to literally, fund Bills Khakis' sweat equity: he worked on a farm, managed a rock and roll band, ran a ski-lift, tended golf greens, and even painted a covered bridge by hand. In 1990, the company produced 350 pairs of khakis priced at \$75; by 1994, Thomas had to take on full-time and part-time employees to cope with demand. By 1995, production was up to over 50,000 khakis a year. Around this time, after four years of a proven track record, Thomas finally summoned up the courage to ask a bank for his first line of credit. Says John J. Dever Jr, who joined Bills Khakis part time in 1994 and full-time as President/COO in 1999: "Getting to the point where you can demonstrate a good track record to capital providers is tough."

Today, Thomas not only sympathizes with start-ups struggling to make ends meet-- he particularly empathizes with inner city entrepreneurs who have little access to capital from traditional sources. Both Thomas and Dever swore that as soon as Bills Khakis could afford it, the company would do something to help other entrepreneurs who might be struggling for survival in Reading's distressed neighborhoods. In January 2004, they reached the milestone when annual revenues touched over \$9 million, and set up the Bills Khakis Community Fund with an initial contribution of \$5,000. Says Thomas: "We started the fund because we love the entrepreneurial spirit. It's the engine that truly drives economics and helps people realize their dreams."

Thomas knew that his city desperately needed a dream. The City of Reading lies at the heart of Berks County, located in southeastern Pennsylvania, on the New York-Washington D.C. corridor. The entire region has suffered an economic decline with urban centers showing particular signs of wear and tear. Data from the US and Pennsylvania Department of Labor indicates that while the number of jobs nationally grew by 14.5 percent, in Berks County job growth was only 8.9 percent. The median household income in the US increased by 39.7 percent between 1989 and 1999, while in Berks County the increase was 39.5 percent and in the City of Reading the increase was only 20.7 percent. According to the 2000 Census, 26.1 percent of residents in the City of Reading lived in poverty, compared to 4.8 percent in the rest of the country. Says Kevin K. Murphy, President, Berks County Community Foundation: "We believe very strongly that the future of the whole community rests with the renewed economic activity of the City of Reading."



Stitching a unique model

When the Bills Khakis management first came up with the idea of a fund, some ground-rules were clear. The fund would focus on inner city businesses in the Reading area, in the start-up and early stage. Each year, Bills Khakis would apportion a sum from its operating income, on a discretionary basis, to add to the fund. The fund would have to be self-sustaining. The criteria for making investments would be different from those that a bank or a private equity provider might have. In fact, only one detail was not clear: how the fund would be managed.

John Dever, who sits on the board of the Berks County Community Foundation, had a brainwave: perhaps the Foundation could find a way of managing the Bills Khakis fund? The Foundation was set up in 1994 to help local philanthropists find the best way to make charitable gifts to support their community. It currently manages more than 200 funds, disbursing more than \$2.3 million in grants a year. To Thomas and Dever it made perfect sense to have the Bills Khakis fund administered by the Foundation, for three reasons. One, the Berks County Community Foundation is a central point in the Berks County for community organizing and improvement. Two, the Foundation's reach would help widen the scope and increase the impact of the fund much more than if Bills Khakis tried to administer and manage the fund itself.

Last but not least, the Foundation provided an opportunity to make the fund a charitable contribution—leading to tax savings - for Bills Khakis.

There was only one hitch: the Foundation had never handled a for-profit fund under its charitable charter. "It was tricky," says Kevin Murphy, President, Berks County Community Foundation, "to create a charitable fund in a community foundation that would promote the idea of business development and wealth creation in the inner city. We had to think carefully to come up with a model that would use charitable dollars for for-profit enterprises."

Eventually though, Bills Khakis did manage to carve out a niche for itself under the Foundation's community investment portfolio. The solution was found in the carefully defining the use of funds and emphasizing that the purpose of the fund was to reduce poverty in distressed urban areas. The current Bills Khakis Community Fund agreement is carefully worded and the language according to Murphy, is a unique model for other community foundations to emulate across the country. According to the agreement: "the Foundation shall endeavor to make distributions from the Fund to support the furtherance of activities that combat community deterioration, lessen neighborhood tensions, and lessen the burdens of government in the City of Reading by promoting entrepreneurship as a means of improving the quality of life in the City of Reading and fostering opportunity and training for the traditionally disenfranchised."



Going forward, to ensure that the corpus grows to a level that it can start disbursing funds, and actually helping entrepreneurs, the Foundation will try to bring together more such like-minded funds and create a larger pool. Says Dever, who hopes to see disbursements take place from the Bills Khakis fund in the next three to five years: "There are a number of companies that like us are in this environment who would like to start a similar fund. If we pool our resources together we will have more scale of impact."

The idea that successful inner city companies can help other companies in the area be more successful is as radical as it is simple. According to Murphy, to pull it off, it requires a desire in the local business community to be self-sufficient— "a legacy of the Pennsylvania Dutch heritage in Reading's case", he says with a laugh. Two, it needs a strong community structure and a community foundation that is willing to think in non-traditional ways of making it happen. And finally, it needs visionary corporate community leaders who believe that making neighborhood businesses stronger is good for their own business. Says Murphy: "The Bills Khakis management dreams in Technicolor. They recognize that there's a lot of potential in their local community and want to unlock it."

Murphy points out that it would have been very easy for Bills Khakis to move out of the area--as they basically contract out manufacturing—to a place where the quality of life is better. Instead, the company chose to stay on. Today, Bills Khakis is headquartered in downtown Reading in a building that once housed the Reading Hardware Company and is listed in the National Historic Register for its architecture

and historical significance. Once the bustling hub of activity for one of the largest hardware manufacturers in the US, the building now provides a home to a restaurant, a micro-brewery, designers, artists, architects, sign-makers—and of course Bills Khakis.

The company proudly wears its love for Reading on its sleeve--as well as the decision to locate in a distressed urban area. Says the management, on Bills Khakis award-winning website: "The decision to locate Bills Khakis in the City of Reading is an obligation to our community. Too many cities have been abandoned by businesses leaving a vacuum while depleting our countryside. We hope that with the growth of our company we can inspire entrepreneurship and renewal within the city of Reading." It's no empty platitude: by setting up the fund, Bills Khakis is putting money where its mouth is.