star city
FOR ECONOMIC DEVELOPMENT

BUSINESS RETENTION
& EXPANSION PROGRAM

MINNESOTA OVERVIEW
1989

Minnesota Department of Trade and Economic Development

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Business Retention and Expansion Program

In a continuing effort to assist Minnesota communities in retaining and creating jobs, the Department of Trade and Economic Development (DTED) sponsors the Minnesota Business Retention and Expansion (BRE) Program.

The BRE Program was established in 1986 with three goals:

*To establish and strengthen relationships with existing Minnesota businesses;

*To create an early warning system for development opportunities and threats, such as plant expansions or closures;

*To identify community strengths and/or weaknesses for formulating future business development and attraction strategies.

Implementation of the program relies on a partnership between DTED and the local community. Each participating community selects which companies community volunteers will survey. Minnesota Star Cities are required to survey all of their manufacturers on an annual basis; small communities will usually survey a number of retail businesses as well.

The department provides a training manual, instructional videotapes and a brochure for use by the community coordinator and volunteer interviewers. A standardized survey instrument and data processing services are also provided, and a report is generated for the community.

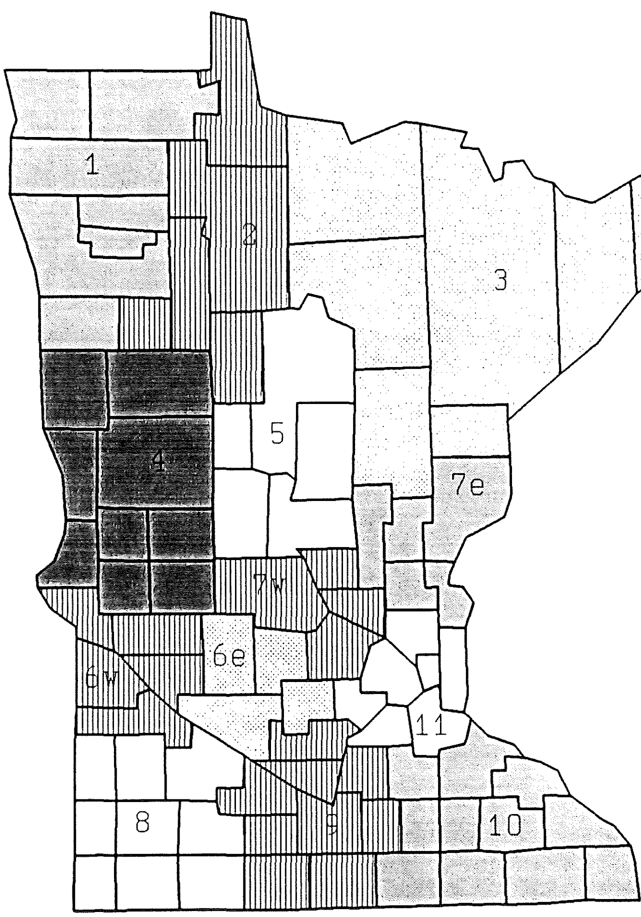
Each community is given a customized report with the results of the community survey. The report explains comparisons between the community, its region and the state as a whole. Information is provided by business type, either manufacturing or service/retail, and in aggregate.

The report consists of an executive summary containing graphics, tables and text comparing local, regional and statewide results. Although the graphics and chart format are consistent from community to community, each report reflects local results and each text varies accordingly. An appendix provides complete results of the survey.

Program Participation

During the period between August 1 and December 31, 1989, 87 economic development organizations active in over 100 communities participated in the Business Retention and Expansion Program. Participation has grown from 37 communities in 1987 and 66 communities in 1988 to current levels. No other state currently implements such an extensive program.

Map 1 Business Retention and Expansion Program Participation



Region	Firms	Percent
Minnesota	1,462	
1 - Northwest	72	4.9
2 - Headwaters	56	3.8
3 - Arrowhead	117	8.0
4 - West Central	53	3.6
5 - North Central	60	4.1
6e- Mid-Minnesota	98	6.7
6w- Upper MN Valley	22	1.5
7e- East Central	88	6.0
7w- Central	136	9.3
8 - Southwest	33	2.3
9 - South Central	174	11.9
10- Southeast	199	13.6
11- Metropolitan	354	24.2

Community volunteers, elected officials and city staff interviewed company representatives, usually the owner or plant manager, from 1,462 firms across the state. Six hundred-thirty five companies identified themselves as manufacturing firms and 776 as service/retail firms. The latter included agriculture/forestry/fishing; mining; construction; transportation/utilities; wholesale trade; retail trade; finance, insurance and real estate; and services. Map 1 displays the distribution of firms by region.

Data was collected on employment levels and wages, location factors, future plans, community services and business assistance needs. (A survey form with summarized data is attached in Appendix 1.)

This report concentrates on manufacturing firms, including service/retail data only where it is relevant to business retention and expansion. Service/retailers, unlike manufacturers, are primarily dependent upon local clientele when making business decisions, and some of the factors examined in this report are of secondary importance to their business concerns. However, due to improved technology and centralization of retailing, some locational factors are becoming increasingly relevant to service/retailers; for example, good road conditions in rural Minnesota may be a top priority for an out-state shopping mall which attracts customers from a wide area.

The list of interviewed businesses does not represent a random sample; the metro area in general is underrepresented and Minneapolis/St. Paul/Bloomington are entirely excluded. However, the sample does represent the largest and most important businesses in the participating communities.

Survey Results

This report focuses on the survey responses of owners and plant managers from 635 manufacturing firms and provides summary results from 776 participating service/retail firms. The firms surveyed were those most likely to create new jobs, cause expansion of the tax base and provide spin-off economic growth in a community. Loss of these companies might result in a rapid decline in the service/retail business sector, and other areas as well, including the housing market and the population (especially school populations).

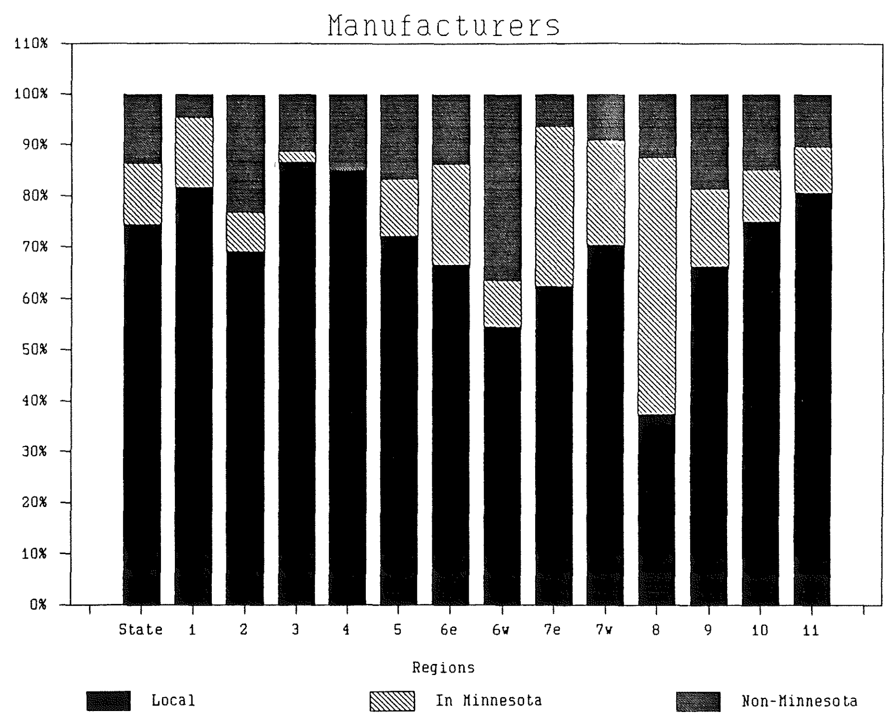
The results will be displayed for the state as a whole and also by region. All 13 of the development regions had communities which participated in the Business Retention and Expansion program during August through December 1989. Metropolitan manufacturers comprise the largest regional share (24 percent) of the sample. Regions Ten (14 percent) and Nine (12 percent) were the next largest contributors to the sample.

Company Headquarters and Market Areas

Figure 1 displays the regional comparison of corporate headquarter locations. While more than 85 percent of all headquarters were located in Minnesota, no region had all of its headquarters located in the state. Region One, with nearly 100 percent, had the most in-state headquarters, while Region Six West, with less than 70 percent, had the least. Region Eight had the largest percentage of non-local headquarters, accounting for almost two thirds of its total.

A high level of local ownership and, to a lesser extent, Minnesota ownership, provide several benefits. Headquarters locations are less likely than branch plants to suffer layoffs and are more likely to have a large number of highly paid employees. Local leaders are guaranteed easier access to corporate decision-makers. Finally, headquarter communities are more likely to enjoy greater philanthropic benefits than branch plant communities.

Figure 1 LOCATION OF COMPANY HEADQUARTERS

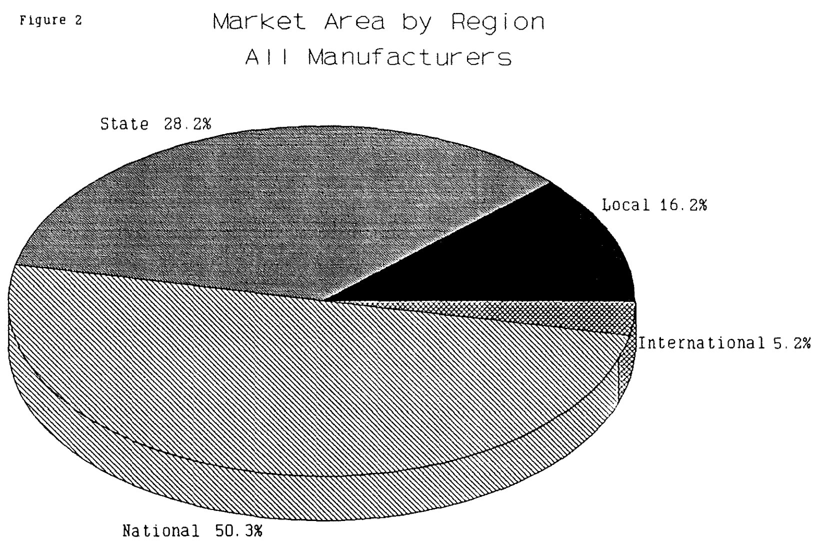


Market Area

Firms were asked to estimate the percentage of sales to local, state, national and international markets. These market shares were then averaged to arrive at a typical Minnesota manufacturer. Figure 2 displays the average market areas for the state and Figure 2a depicts the regional percentages.

On average, manufacturers sold almost half of their goods within Minnesota, with 16.2 percent sold locally and 28.2 percent sold elsewhere within the state. The national market accounted for slightly over 50 percent of sales, and approximately 5 percent were exported.

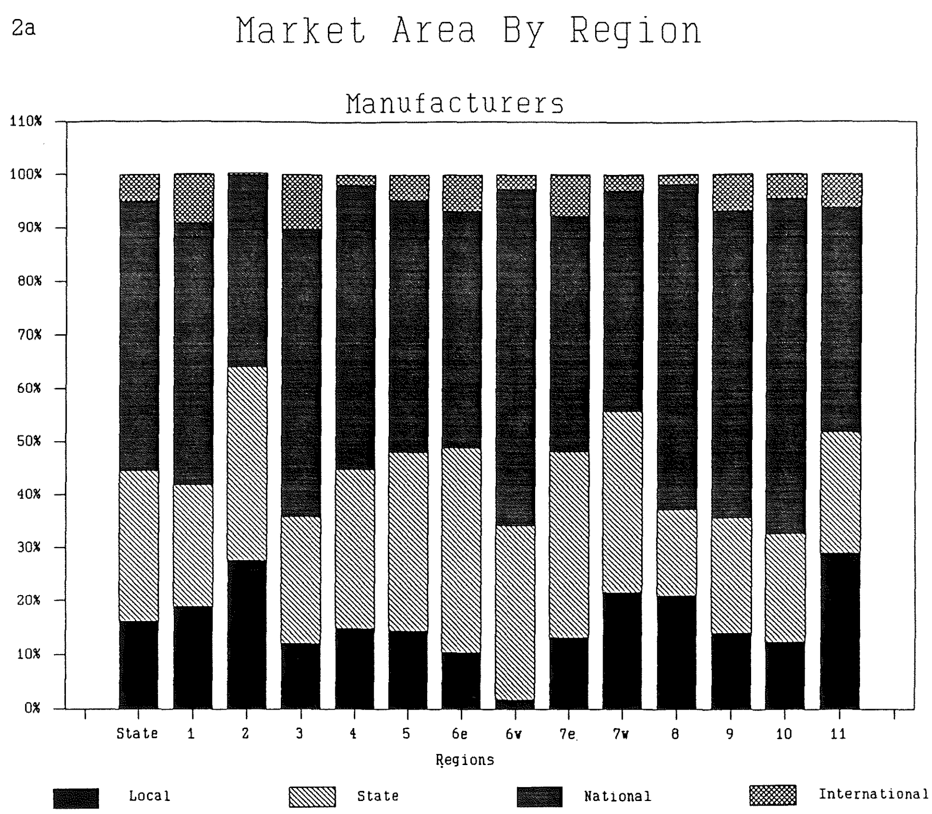
Figure 2



Region Two manufacturing firms showed the greatest dependence on local and Minnesota sales; over 60 percent were generated within the state. Regions Seven West and Eleven also reported high sales in Minnesota, while regions Eleven and Two conducted the most business locally. Regions Three, Six West, Eight, Nine and Ten showed the most marked lack of dependence on Minnesota markets.

Two-thirds of manufacturing firms in greater Minnesota sell a portion of their goods to the Twin City's market. The five highest ratios of state to local sales occurred in central Minnesota regions; these sales may be explained by the manufacturers' proximity to the metro area.

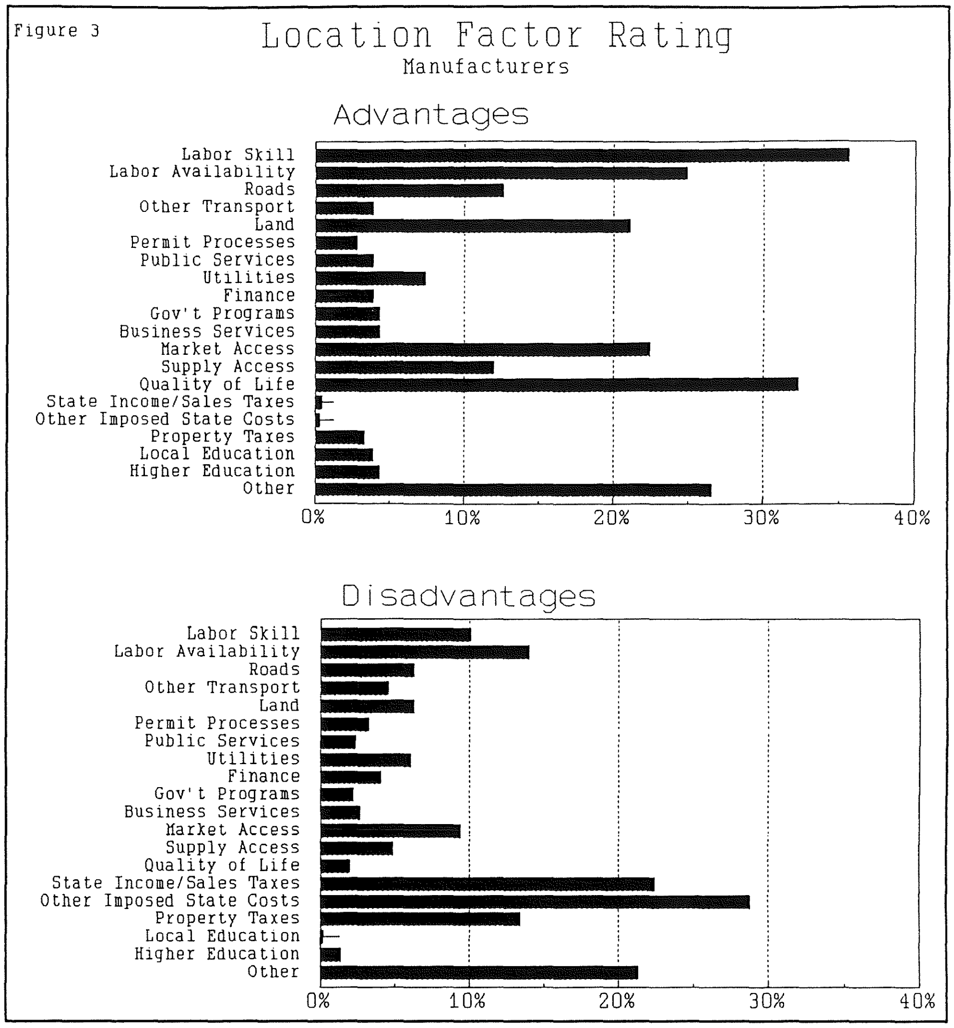
Figure 2a



Location Factors

Firms were asked to list the four leading advantages and disadvantages of doing business in their present location. (It is important to note that the percentages cited indicate only a positive or negative response, not strength of feeling.) Then they were asked to rate a series of location factors as being either very important, important, of some importance or not important. Results show which factors were most vital to the businesses in each region.

Figure 3 displays the statewide manufacturers' responses to the question of locational advantages and disadvantages in each business' present location (firms were limited to choosing four factors in each category). Figures 4 and 5 show responses for selected factors by region. The net differences between advantages and disadvantages and the absolute percentage of firms citing a factor should be examined. Businesses may cite a factor as both an advantage and a disadvantage. For example, a firm may rate labor availability as an advantage when clerical employees are readily available and as a disadvantage when maintenance workers are not.

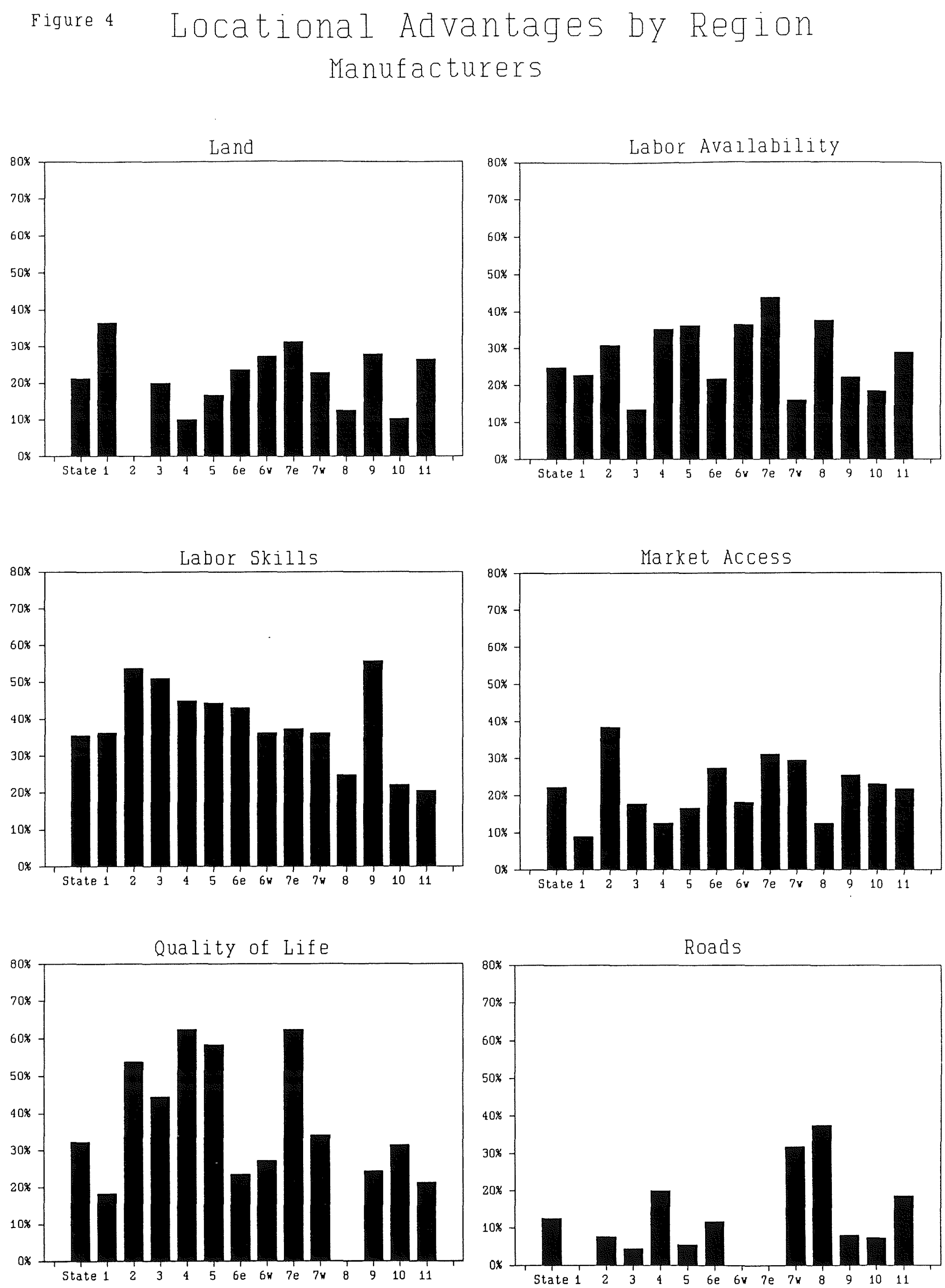


While labor skills, with 35.6 percent, rated as the highest locational advantage among Minnesota manufacturers, only Region Six West did not also list it as a disadvantage. Region Seven East rated both the advantages and disadvantages of labor skills at nearly 40 percent. In all other regions, the percentage citing labor as an advantage was significantly higher than those claiming it as a disadvantage.

Quality of life was rated next highest as a locational advantage by 32 percent of the manufacturing firms. Four regions (Two, Four, Five and Seven East) had a consensus of over 50 percent. Only Region Eight did not rate quality of life as an advantage.

Labor availability, market access and land were all rated by over 20 percent of the firms as locational advantages.

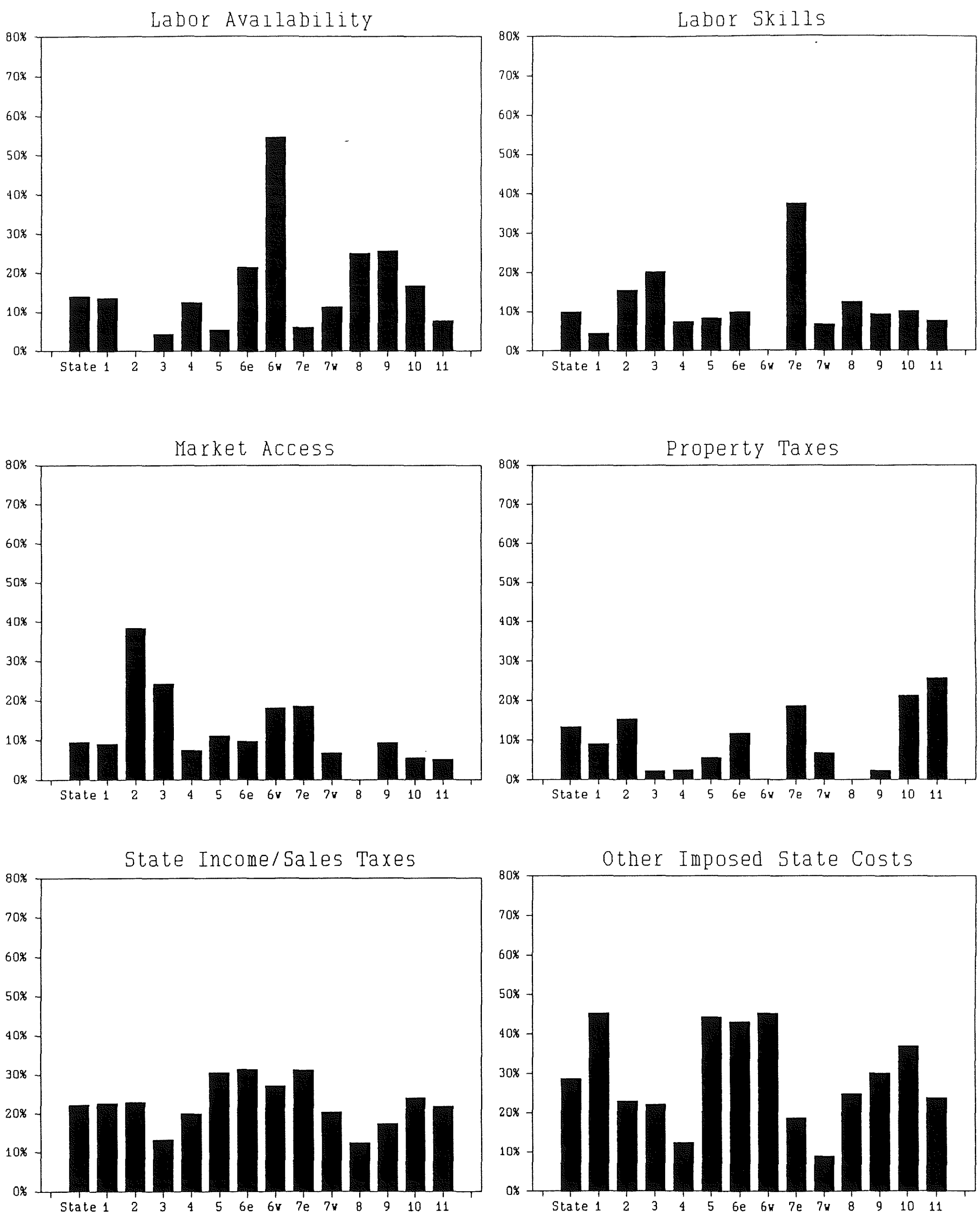
Figure 4



Locational Advantages by Region
Manufacturers
Land
Labor Availability
Labor Skills
Market Access
Quality of Life
Roads
80%
70%
60%
50%
40%
30%
20%
10%
0%
State 1 2 3 4 5 6e 6w 7e 7w 8 9 10 11

Figure 5 Locational Disadvantages by Region

Manufacturers



While each region (including six regions by over 30 percent) rated labor availability as an advantage, it was rated by all regions, except Two, as a disadvantage as well. Region Six West, however, with over 50 percent, was the only region to cite this aspect of labor as an overriding disadvantage. All other negative ratings were below 30 percent.

The percentage of firms rating market access as an advantage was more than double those declaring it a disadvantage. While Region Two rated both the advantages and disadvantages of market access at nearly 40 percent, Region Eight felt there were no locational disadvantages.

The only factors which respondents mentioned significantly more often as disadvantages than advantages relate to taxation (income, sales and property) and imposed business costs (workers compensation and unemployment insurance). Imposed state costs were cited as disadvantages by 29 percent, state income/sales taxes by 22 percent and property taxes by 13 percent.

Service/Retailers

While service/retailers expressed less overall approval and/or concern than did manufacturers, responses were generally quite similar. Service/retailers were most concerned with market access and claimed it as both a locational advantage and disadvantage. Land and labor skills were also rated as both advantages and disadvantages by this group, but all three were considered to be primarily advantageous.

1988-1989 Change

In the comparison of 1988 survey data to 1989 data, variation which occurs may be due to changes in the group survey; an increased number of firms participated in 1989 and neither year was a random sample. Still, the minor degrees of change suggest the reliability of the results.

Between 1988 and 1989, the factors which manufacturing firms selected as most important regarding locational advantages remained the same. Some variations did occur, though changes were always slight. In 1988, more firms indicated land as an advantage than market access; in 1989 the priorities were reversed. In 1989, both roads and land had dropped in importance by nearly 10 percent.

As with advantages, factors selected as locational disadvantages in 1989 were very similar to those selected in 1988. The largest change occurred in property taxes, which was rated a disadvantage by approximately 25 percent in 1988 and by only 13 percent in 1989. Both state income/sales taxes and other imposed state costs decreased as negative factors by approximately 5 percent between the two years.

Individual Location Factors

Figure 6 displays how respondents rated the importance of individual location factors without regard to their present location. An ideal location for a business would be highly rated in the areas which it considers to be most important. It is of little value to be highly rated in areas that have little influence in business location decisions.

Figure 6

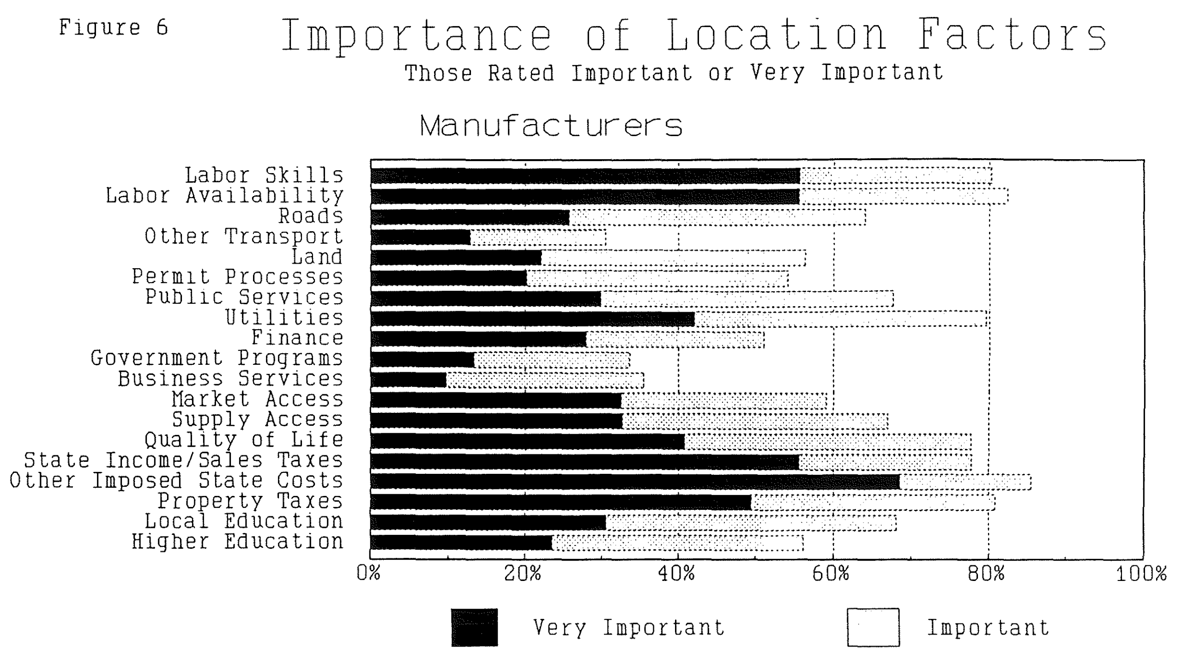


Figure 6 shows the percentage of manufacturing respondents who rated a factor as either very important or important. Imposed state costs, with 86 percent, rated as the overall most important factor, followed by labor availability (82 percent), property taxes (81 percent) and labor skills (80 percent). Other important factors included utilities, quality of life and state income/sales taxes.

While, again, service/retailers responded similarly to manufacturers, they placed slightly more emphasis on roads and business services, and less on utilities and supply access.

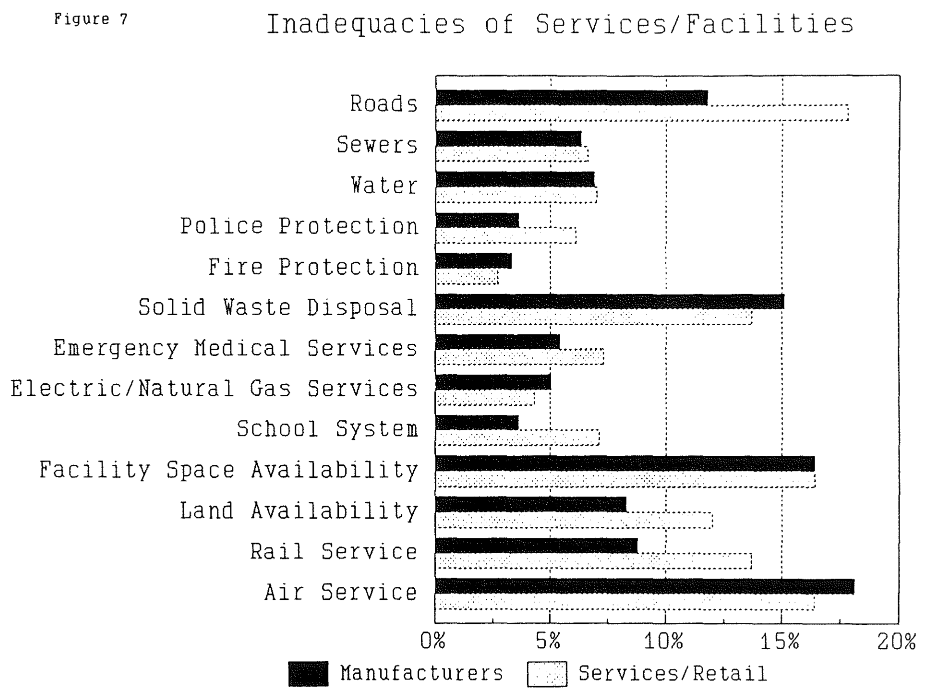
The comparison of Figure 6 to the preceding figures demonstrates the relative value of Minnesota's locational strengths and weaknesses. While the state is clearly meeting the needs of businesses on issues such as labor force, quality of life, roads, market access and land, there is indisputable evidence of dissatisfaction with the levels of taxation and imposed business costs.

Services and Facilities

The key areas of concern for manufacturing respondents regarding local services and facilities included air service (18 percent), facility space availability (16 percent), solid waste disposal (15 percent) and roads (12 percent). Figure 7 shows that no other factor was cited by more than 10 percent of the firms. Concerns over police and fire protection and the school system were particularly low, none rating higher than 4 percent.

Services and facilities also play a role in the ability of service/retail firms to remain and flourish in a community. In response to the survey, service/retailers indicated roads as their major service/facility concern, followed by facility space availability, air service, rail service and solid waste disposal.

Figure 7

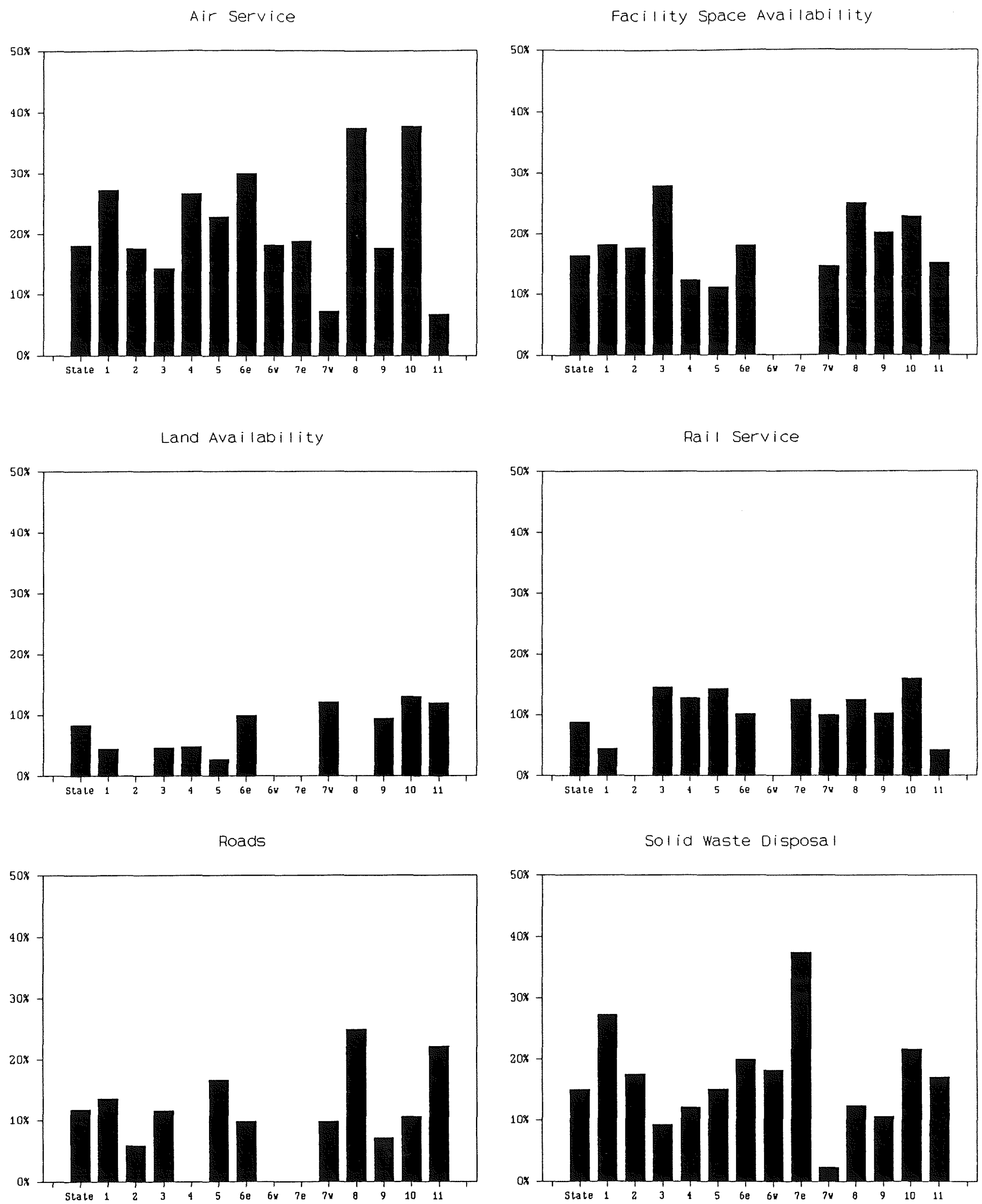


As displayed in Figures 8 and 8a, there were wide variations between regional responses. General dissatisfaction with services was highest for manufacturers in Region Ten, followed by Eight, Six East and One, and for service/retailers in Regions Three, Seven East and One. Region Six West demonstrated the lowest level of dissatisfaction for manufacturers, followed by Regions Seven West and Two. Regions Four and Eleven rated lowest in dissatisfaction for service/retailers. The ratio between group responses was largest in Region Three, with the percentage of service/retailers citing dissatisfaction nearly three times that of manufacturers.

Figure 8

Service Facility Inadequacies

Manufacturers



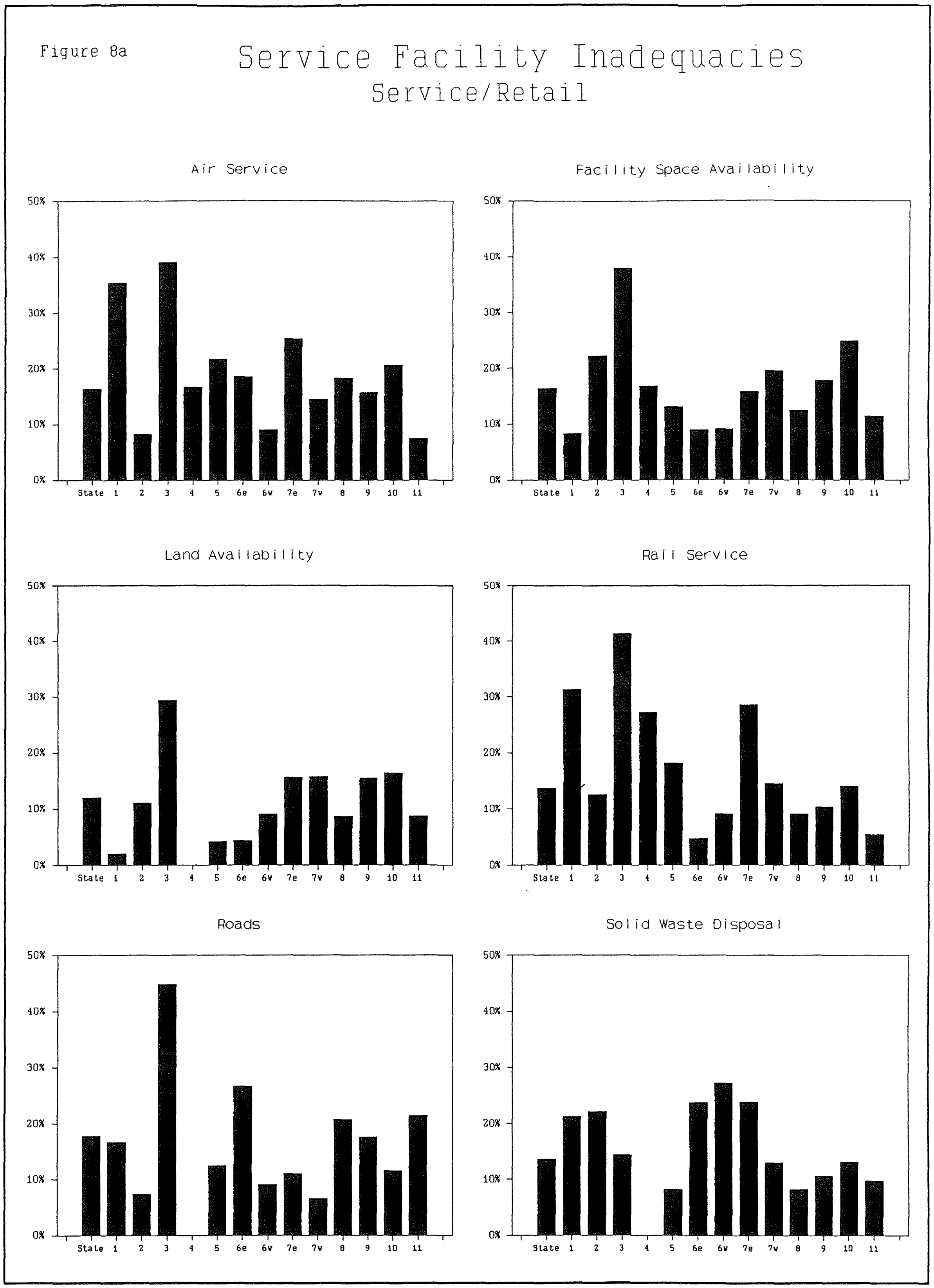


Figure 8a
Service Facility Inadequacies
Service/Retail
Air Service
Facility Space Availability
Land Availability
Rail Service
Roads
Solid Waste Disposal
50%
40%
30%
20%
10%
0%
State 1 2 3 4 5 6e 6v 7e 7v 8 9 10 11

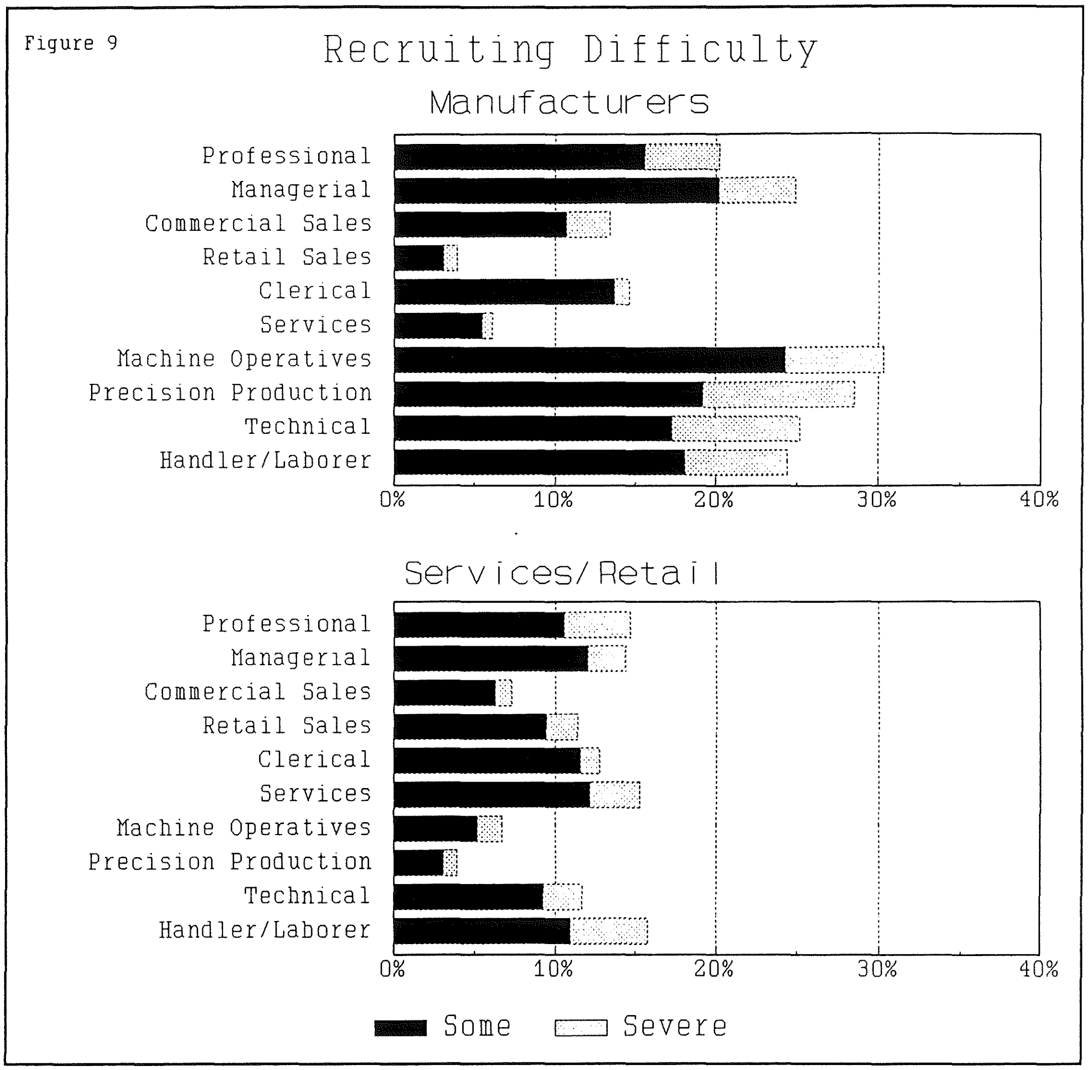
1988-1989 Changes

When comparing 1988 and 1989 data, the same factors were chosen as inadequacy concerns by nearly the same percentages.

When respondents indicated a problem with services and facilities, they were asked if they had contacted the city and to rate the city's response. One hundred twenty-nine manufacturing firms and 179 service/retail firms had contacted the city to indicate a problem. Although only 17 percent of the problems were solved for both groups, a more encouraging 54 percent and 49 percent of manufacturers and service/retailers, respectively, were satisfied that the city had made a satisfactory effort to alleviate the concern.

Employee Recruitment

The availability and quality of the labor force is a key locational issue for business firms. As shown in Figure 6, more than 80 percent of the respondents indicated that labor skills and labor availability were either important or very important in determining a good location. Figure 9 displays the level of difficulty the respondents had in recruiting qualified workers for their firms.



For manufacturing firms, machinists and precision production workers were the most difficult to recruit, followed closely by managerial and technical workers and handler/laborers. Service/retail firms in general had a lower level of recruiting difficulty. Handler/laborers, indicated by only 16 percent of respondents, rated highest.

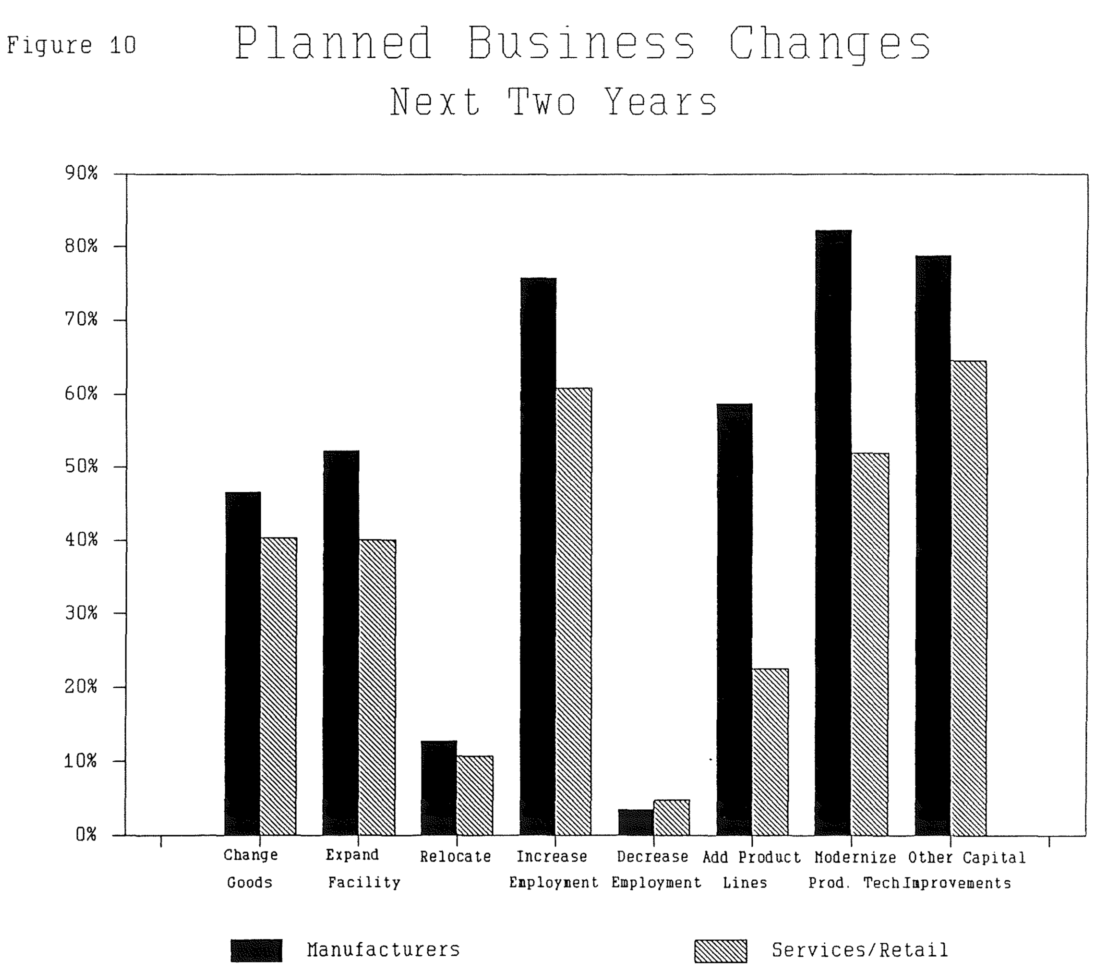
Recruiting difficulties did not alter significantly from 1988 to 1989; there were no changes larger than a few percentage points.

Business Plans

When respondents were asked to list planned changes for the next two years, most manufacturers were very optimistic regarding their expectations. Service/retailers, while less optimistic, indicated notable plans for growth and modernization.

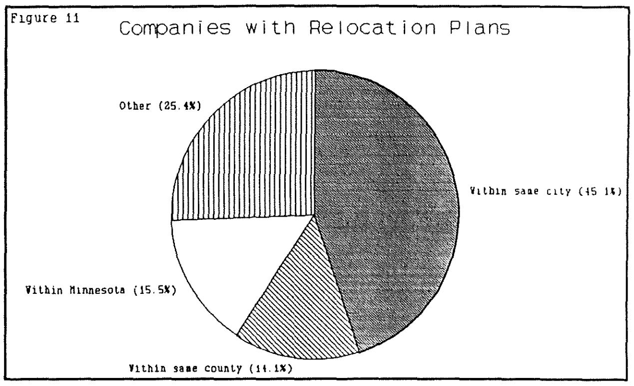
Figure 10 shows that more than 80 percent of manufacturing respondents planned to modernize their production technology; nearly as many planned to increase employment and make other capital improvements; and between 50 to 60 percent planned to add production lines and expand their facilities. More than 46 percent intended to change the mix of goods and services which they provide.

Figure 10



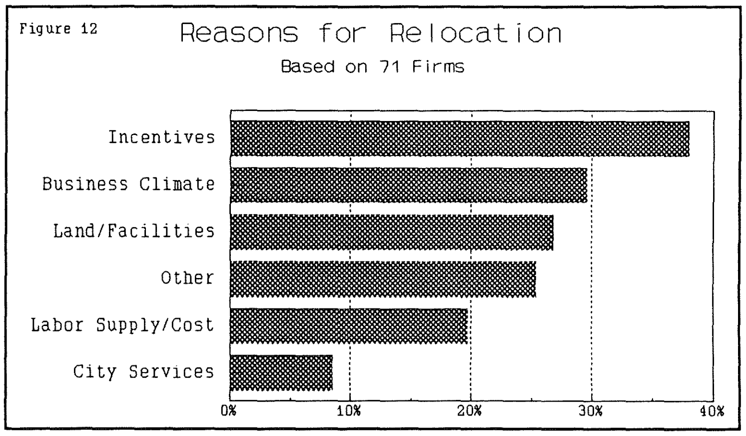
Service/retailers planned significantly fewer business changes than did manufacturers. While over 60 percent of service/retail respondents planned to increase employment and make other capital improvements, only 52 percent planned to modernize production technology and 23 percent to add product lines.

More than 10 percent of manufacturers indicated they would relocate their businesses in the next two years. Figure 11 shows where these businesses hope to move. Nearly 60 percent were planning to stay within the same city or county, while 15 percent will choose another Minnesota location. Twenty-five percent, or less than 3 percent of the total respondents, will move out of state for their new location.



From 1988 to 1989, the percentage of firms making plans to relocate within the same city instead of moving elsewhere in the county increased slightly.

Figure 12 shows that 38 percent of the 71 manufacturing firms planning relocation cited incentives from other states and communities as the reason for their move. Business climate, availability of land and/or facilities, and "other" reasons were named by more than 25 percent of the respondents. Labor supply/cost was indicated by nearly 20 percent.



Incentives and land/facilities, the major reasons for business relocation, were cited even more frequently in 1988 than in 1989, by approximately 50 percent and 30 percent respectively. The percentages choosing labor and city services were slightly higher in 1989.

Business Assistance Requests

A most important part of the Business Retention and Expansion Program is the use of the survey to identify opportunities for a community government or organization to directly assist local businesses. Both manufacturing and service/retail firms were asked if they were interested in receiving information on various government programs.

Figure 13 Business Assistance Requests

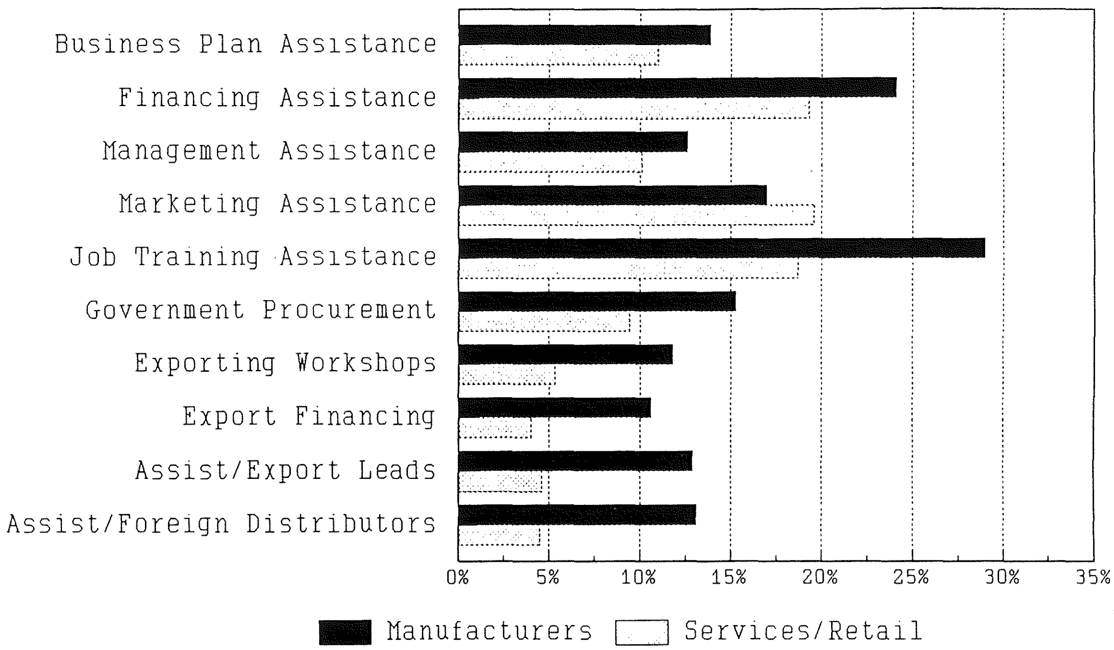


Figure 13 shows that manufacturers chose job training assistance (29 percent) and financing assistance (24 percent) above all other information sources. Marketing assistance and government procurement were both selected by over 15 percent of the respondents. Service/retailers selected marketing, financing and job training assistance, each being requested by nearly 20 percent of the firms. Business plan and management assistance were requested by over 10 percent of both manufacturers and service/retailers. Assistance pertaining to exporting was requested by more than 10 percent of manufacturers, but very few service/retailers.

Conclusion

Through the Minnesota Business Retention and Expansion Program, community leaders are able to develop stronger and more effective relationships with the businesses in their cities. The program provides a vehicle for identifying opportunities to assist existing businesses. Each community's economic development organization must apply its own resources, as well as other agencies' programs and resources, to exploit these opportunities.

Based on the survey responses, businesses already located within the state will create significant job growth in the near future. Implementation of the Business Retention and Expansion Program by local communities helps to ensure that those jobs are created in Minnesota. This program--a partnership between communities and the Department of Trade and Economic Development, and a part of the total Star City process--serves as a valuable tool for increasing local opportunities for success in creating and retaining jobs in all Minnesota communities.