NORTHERN LIGHTS TOURISM ALLIANCE

Summary Report
March 2000

Local sponsors:
Iron Range Resources & Rehabilitation Board (IRRRB)
Northern Lights Tourism Alliance (NLTA)
University of Minnesota Extension Service Tourism Center
Tourism & Business Retention & Expansion

Tourism has emerged to be a dominant economic activity worldwide. In Minnesota, it generated $10 billion in gross receipts in 1997, up 11 percent from the year before. The northeast region of the state showed the highest average annual real growth, over 10 percent in real terms over 1996.¹

Business Retention and Expansion (BR&E) has become a key element of local economic development efforts. While the attraction of new businesses and the encouragement of new business start-ups are important parts of an overall economic development strategy, many communities now recognize the need to do a lot more to assist existing businesses survive and grow.

In Minnesota almost four times as many jobs (7.8% of all jobs) were created by business expansions as were created by start-ups (2%) from the 3rd quarter of 1997 to 1998. On the other hand, when the impact of business contractions (-5.4%) and dissolutions (-1.2%) is measured, Minnesota’s job gain from existing businesses was only a net 1.2%. An expansion or contraction is defined as a change in employment to an existing plant/business location. A start up or dissolution is defined as the creation or closing down of a separate plant/business location.² This “churning” of business creation, dissolution, expansion, and contraction is a natural part of a local economy. The BR&E challenge to a community is to capture the expansions while taking preventive actions to reduce the number of dissolutions and diminish the contractions.

It was with these thoughts in mind that the Northern Lights Tourism Alliance (NLTA) embarked in a tourism BR&E project.

Objectives of the NLTA Tourism BR&E Program

The NLTA’s BR&E Program has three key objectives:

1. Illustrate the economic importance of the travel and tourism industry to the TTRA;
2. Demonstrate the area’s appreciation to our tourism businesses for their contributions to our local economy; and
3. Develop action plans to remove obstacles for continued and balanced growth of the region’s travel and tourism industry.

Added objectives include identifying and helping to solve problems that area businesses are having, assisting firms in using State of Minnesota programs, and building community capacity to sustain growth.

Program Sponsors

The Iron Range Resources and Rehabilitation Board (IRRRB) and the Northern Lights Tourism Alliance (NLTA) were program sponsors. The Carlson Tourism & Travel Endowment of the University of Minnesota Extension Service Tourism Center provided scholarship support. Technical support was provided from the University’s Tourism Center and Department of Applied Economics.

NLTA Tourism BR&E Program History

The Northern Lights Tourism Alliance BR&E Program started with preliminary discussions late in 1998, leading to a presentation to the NLTA staff and members early in 1999 by Dan Erkkila, BREI Certified Master Consultant and associate director of the University’s Tourism Center.

¹ Minnesota Department of Trade and Economic Development, Office of Tourism, Economic Impact Estimates: Domestic and International Travel in Minnesota, October 1999.
Center, about the BR&E Strategies program. Shortly thereafter NLTA decided to move ahead with a BR&E project.

In February-March of 1999 a Local Leadership Team was formed and the overall coordinator, Marlene Pospeck (NLTA staff), submitted the application to the BR&E Strategies Program and successfully requested scholarship funds from the Carlson Tourism and Travel Endowment of the University of Minnesota Tourism Center. The University of Minnesota’s BR&E Strategies Program approved the application.

Members of the NLTA BR&E Program

Leadership Team
This group coordinated the local program and included:

- Karen Anderson, Virginia
- Joanne Nading, Babbitt/Embarrass Area Development Association, Babbitt
- Chad Perkins, Duluth
- Marlene Pospeck, IRRRB/NLTA, Eveleth.

Task Force
Other NLTA members participated as Task Force members. This group, along with the Leadership Team, addressed red flag issues, and set priorities for action and implementation of selected projects. Task Force members also participated in firm visits.

- Judy Edwards, Virginia Economic Development Authority, Virginia MN
- Matt Kapsch, Babbitt Economic Development Association, Babbitt MN
- Julie Hoftius, Cuyuna Range Chamber of Commerce, Crosby
- Carroll Kukowski, Aitkin Area Chamber of Commerce, Aitkin
- Kevin Leecy, Fortune Bay Casino, Tower
- Heather Lionberger, Ely Winton Historical Society, Ely
- Barb Stordahl, USDA Forest Service, Aurora
- Louise Condit, Hoyt Lakes
- Connie Sabetti, Eveleth City Council
- Madonna Ohse, Orr

Volunteer Firm Visitors
Along with the Leadership Team and Task Force, an additional group of community members participated in firm visits. These visitors participated in the two-hour training program and visited two to four firms.

- Norman Condit, Hoyt Lakes
- Ione Tomasetti, Chisholm
- Deb Maki, Aurora
- Bill Forsberg, Ely
- Mike Weckworth, Ely
- Lisa Olson, Ely
- Viola Lahtonen, Babbitt
- Shirley McKibbon, Virginia
- Eve Mester, Babbitt
- Bob Villebraun, Virginia
- Keith Shouse, Deerwood
- David Riddle, Virginia
- Gary Rantala, Embarrass
- Linda Cazin, Town of White
- Paul Ivancich, Ely
- Paul Knuti, Embarrass
- Rita Baudek, Babbitt
- Sylvia Jerdee, Orr
- Mary Somnis, Eveleth
- Judy Edwards, Virginia
- Dave Durbin, Ely
- Gordy Anderson, Two Harbors

Firms Visited
The NLTA had a desire to focus on businesses that are, or could in the future be, serving visitors interested in cultural and heritage tourism. Firms were selected with this in mind, along with others supporting tourism and travel and service/retail businesses. The NLTA represents businesses spread across the entire Taconite Tax Relief Area – geographically a large region. In order to keep the project manageable, and because tourism BR&E projects had been done in Cass, Crow Wing, and Itasca counties since 1992, this project focused on firms not covered in earlier efforts. This project covered firms in the counties of Aitkin, Cook, northeast Crow Wing, Lake, and St. Louis.

During May and June, the Leadership Team, Task Force, and volunteer visitors conducted 73 firm visits. The NLTA thanks all of these firms.
for their willingness to take the time to be involved in the survey and help improve the business conditions for all businesses serving the traveling public in the region. A complete list of the firms that were interviewed is included at the end of this report.

**State Review Panel Members**
The state review panel included a team of 11, made up of University of Minnesota and St. Cloud State University faculty, state agency personnel, and Northern Lights Tourism Alliance staff. The panel reviewed the survey results and suggested actions the community might pursue to address firms’ concerns and needs. Panel members also provided information on programs and resources available to help the community meet the needs of local businesses. A list of the participants in the state review panel meeting follows.

- **Dr. Randy Baker**, St. Cloud State University, St. Cloud
- **Tim Campbell**, Minnesota Office of Tourism (DTED), Duluth
- **Michael Darger**, University of Minnesota BR&E Strategies Program, St. Paul
- **Dr. Dan Erkkila**, University of Minnesota Extension Service Tourism Center, Grand Rapids
- **Dr. Bill Gartner**, University of Minnesota Extension Service Tourism Center, St. Paul
- **Kent Gustafson**, University of Minnesota Extension Service Tourism Center, St. Paul
- **Glenn Kreag**, University of Minnesota Sea Grant Program, Duluth
- **Dr. Veronica Long**, University of Minnesota Extension Service Tourism Center, Grand Rapids
- **Steve Markuson**, Minnesota Office of Tourism (DTED), St. Paul
- **Cynthia Messer**, University of Minnesota Extension Service Tourism Center, St. Paul
- **Marlene Pospeck**, IRRRB/Northern Lights Tourism Alliance, Eveleth

**IRRRB’s Economic Profile**

A brief overview of some of the demographic and general economic trends for the IRRRB counties involved in this BR&E project (i.e., Aitkin, Cook, Crow Wing, Lake, and St. Louis) was provided in the *Tourism BR&E Research Report* (September 20, 1999). This also included an overview of tourism activity in the state. If interested, please contact NLTA staff at the IRRRB office for a copy.

**BR&E Survey Results**

This section presents key survey results from the 73 firms visited by the NLTA community leaders in May – June 1999. First, the types of firms visited and their characteristics are outlined. Next, three different strategies for helping these firms are presented. Under each strategy, selected survey results relevant to that strategy are reported and identified local projects are given. The State Review Panel, at a University of Minnesota meeting held on August 4th, developed the first set of local projects. Final modifications and priorities were set at a subsequent meeting of the local Task Force. Additional survey results are in the full research report.

**Characteristics of Firms Visited**
Seventy-three firms were visited between May and June 1999. Because of the NLTA’s interest in focusing on businesses catering to cultural and heritage tourism in this survey, those firms directly tied to this market were identified. Additional firms that provide services in support of the tourism and travel industry in the targeted counties were added to generate a potential list of businesses for interviews. Figure 1 displays the estimated percent of gross sales stemming from travel and tourism services.3

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3 Income from “Attraction” includes items like admission fees; “Recreation” includes activity revenues from golf, boat rental, etc.; and, “Professional Service” includes income from guiding, outfitting, etc.
Owners of firms have had their businesses, on average, for 16 years. For those that had lodging, 19% were resorts, 8% operated bed and breakfast businesses, 10% were motels, and 5% characterized their operation as campground or “other.”

For those businesses reporting working family members, interviewed firms averaged 2.2 paid and 1.9 unpaid family employees. Firms averaged 16.4 year-round, part-time paid employees and 11.8 full-time employees. The average number of paid seasonal employees reported working full-time was 21.8 in the summer and 7.4 in the winter. Part-time seasonal employees averaged 14.7 in the summer season and 16.7 in the winter months. Seasonal fluctuations suggest firms shift to more part-time labor during the slower winter season, moving to full-time workers in the peak summer months. Businesses averaged 5.3 high school and 6.7 college student employees.

Between 34-47% of the interviewed firms reported no problems recruiting labor, varying according to labor categories (full and part-time needs, year-round/seasonal). With the state unemployment rate below 3%, it isn’t surprising that part-time needs ranked highest as a problem, with nearly 20% of the firms surveyed having some difficulty recruiting these employees seasonally or year-round.

**Overview of Business Retention and Expansion Strategies**

Profits are the key to the retention and expansion of firms. While the owners of a firm might be attracted to an area because it is a nice place to live or to raise a family, a firm can only survive if it makes a profit (revenues exceed costs).

In a market economy, making a profit is the responsibility of the firm management and its employees, not community groups, local or state governments. However, the actions of these groups can sometimes help firms become slightly more profitable. The strategies and specific projects outlined below are aimed at helping firms become more profitable, enabling them to be able to survive and grow in the community.

In addition, the quality of life in a community has an important influence on location decisions, especially of smaller firms. Improving the quality and efficiency of public services so that taxpayers receive more value per tax dollar is one way of improving the quality of life.

NLTA’s BR&E strategies were to:

1. Enhance the operational efficiency of travel and tourism businesses.
2. Enhance the planning and development of tourism in the Taconite Tax Relief Area.
3. Enhance and refine the overall marketing efforts of the NLTA.

**Strategy 1: Enhance The Operational Efficiency Of Travel And Tourism Businesses**

Basic business principles tell us that firm survival depends on total income from sales exceeding total expenditures; the greater the difference (i.e., profit), the greater the likelihood
that the business is healthy and operating efficiently. Actions here could enhance revenues for tourism firms and reduce operating expenses.

Developing more effective management techniques or adopting technologies more effective than those currently used can reduce expenditures. Enlarging a firm’s market reach, adding new and repeat customers, and getting a higher dollar return on inputs may increase revenues.

Related Survey Results
Tourism is a service industry that is becoming more and more dependent on service-quality to ensure repeat business. The customer’s first (and lasting) impression of a business often hinges on that “moment of truth” first encounter with a firm’s front-line staff. In an open-ended question about specialized training needs of their employees, many interviewed firms indicated that customer service was a high priority.

Forty-eight percent of the businesses rated their employees “excellent” in the area of customer service. As customer service includes attending to a variety of visitor needs, the fact that knowledge of heritage sites, their local area’s features and attractions, and general tourists’ needs and desires had lower scores is indicative that a comprehensive sustained customer service program may be warranted. Further, 44% of the firms said their employees rated “good” to “fair” on their attitude toward their work and 46% were rated similarly on their productivity.

A higher degree of efficiency is going to be required by employees of NLTA’s tourism businesses because 66% of the firms expect more customers in the future, but roughly one-half of the businesses expect to see the number of employees remain the same (Table 1). From the standpoint of employee-to-client ratios, firms expect to do more with less.

Financial returns appear to be the greatest limitation to firms interviewed when asked about barriers to renovation or expansion. Thirty-two percent of the firms cited this problem. Planning and zoning difficulties (22%), government regulations (22%), and insufficient space available for expansion (22%) were also high on the list. Labor availability, labor housing limitations, and inadequate time to plan for the growth were low on the constraint list. Businesses indicated a great interest in enhancing or growing their businesses as information on grant and loan programs were the most popular types of information requested by firms (53%). Marketing and planning rated second at 47% of firms looking for help in this area.

Table 1. Percent of firms indicating expected changes in business factors, 1999-2001

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>Increase (%)</th>
<th>Same (%)</th>
<th>Declined (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of customers</td>
<td>66</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>Sales - total revenue</td>
<td>70</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Profits</td>
<td>64</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>Employees – full-time</td>
<td>26</td>
<td>53</td>
<td>7</td>
</tr>
<tr>
<td>Employees - part-time</td>
<td>36</td>
<td>48</td>
<td>5</td>
</tr>
</tbody>
</table>

Priority Project 1: Organize a variety of professional tourism programs working with specific businesses.
Training would include a multitude of subjects, such as customer service, business methods of customer research, business plan development, electronic commerce, marketing, finance, and management skills expertise. Special attention would also be directed at developing “new thinking” on product development and the changing environment of tourism and travel products and services.

Survey results suggest that tourism firms have a great degree of interest and need for these skills. The highly competitive nature of the industry implies that firms will need to have solid business skills to stay in the game. As information and technologies are constantly changing, a sustainable program of ongoing training is critical. Included here is the need to quickly train and assist firms with the highest potential for Internet commerce.

On-going customer service training for front-line staff and management is critical to repeat business. Further, understanding the customer is fundamental to every successful business. Business owners should be fluent in basic
customer research techniques, with options available across the spectrum of budgets. Local and regional resources are available to address NLTA business needs on this subject.

**Strategy 2: Enhance The Planning And Development Of Tourism In The Taconite Tax Relief Area**

Improving the infrastructure or underlying foundation for tourism product delivery usually means looking at the adequacy of, for example, transportation (e.g., air, rail, motor coach service), communication (e.g., telephone, Internet) or public services (e.g., fire, ambulance, recreation). A region or community’s ability to change or enhance some services may be very limited. Frequently, however, very important (overlooked) visitor needs are under local control and can be readily improved.

New product development, together with a healthy service infrastructure, is necessary in order to keep a community competitive as consumers’ tastes change. The Baby Boomer generation – those entering their peak earning years – are living in an environment of the 10-second sound bite and accustomed to getting their information in that fashion. Communities wishing to stay ahead of this group have to be thinking and looking ahead to develop today what tomorrow’s visitor will demand.

**Related Survey Results**

Surveyed businesses generally felt positive about their community’s core public services, like ambulance service, fire and police protection, health care facilities, schools, etc. (Table 2). Twenty-six percent of the firms rated their zoning and land use planning services fair to poor. Road maintenance, public restrooms, and traffic flow and signage issues rated much worse.

Tourists, or visitors to a community, come for a variety of reasons. They also have a variety of needs when they come to a community. The longer they stay, the greater the likelihood that they will require more goods and services. From the standpoint of community economics, all businesses benefit by these visitors and the benefit is multiplied the longer they stay and buy locally. Attractions and related recreation service businesses were clearly seen as a strength by visited firms (67% and 63%, respectively) and roughly half saw lodging in their community as a strength. Eating and drinking and retail stores did not fare as well. The quality of casinos and other services (e.g., car rental, laundry, etc.) were generally rated by the highest percentage of interviewed firms as being of uncertain quality.

**Priority Project 2: Inventory (identify) the key regulatory conflicts and impediments to development (i.e., business inhibitors) that are created by different levels of government and facilitate changes to reduce barriers.**

Surveyed firms were clear that a number of regulatory areas are or have the perceived potential to inhibit their ability to expand or enhance business operations. A process could be undertaken to identify regulatory policies causing problems. Additional information could be assembled (e.g., administering body/agency, contact person, etc.) to assist business owners as they try to evaluate their business relative to the regulation in question.

**Priority Project 3: Develop a strategic (sustainable) tourism plan for NLTA and the region that fits into regional economic development and general plans.**

Tourism is a significant component of the economies of communities throughout the TTRA. Economic and social stresses and strains...
will only increase as rural economic issues continue to be debated. Land-use conflicts, for example, will continue to increase. The time might be right to use tourism as a catalyst for change and initiate a long-term strategic plan for sustaining tourism development in the region. This would begin with a strategic plan for NLTA. A broader plan could follow with community and regional scope. All parties could be brought to the table (ARDC, IRRRB, etc.) to move this forward, with tourism interests represented in the process.

**Priority Project 4: Develop and execute a communication plan relating to NLTA’s strategies, accomplishments and information resources. Transmit to a wide audience, including clients, organizations, policy makers.**

Effective communication is at the core of every successful organization. Like any other venture, successful communication will not happen without adequate planning and execution. An organized and consistent two-way flow of information between NLTA and its clients, partners, and others, will not only help NLTA achieve its immediate goals, but will also build support and understanding with those less directly connected to NLTA’s operations.

**Strategy 3: Enhance And Refine The Overall Marketing Efforts Of The NLTA**

The role of marketing in successful tourism development cannot be overstated. Increasing sales of tourism products and services is one means to higher profits. Steps to increase sales can include: (1) identifying new products and services that bring in new customers (or old customers doing new things), and; (2) promotional efforts to attract customers for current goods and services. The tourism industry is in a constant state of flux in response to many changes, like those involving consumer tastes (demand) and the technology or infrastructure that delivers or facilitates delivery of goods and services (e.g., larger and faster airplanes, in-home reservation systems, etc.)

**Related Survey Results**

Seventy percent of all visited firms felt that their communities were a good or excellent place to do business. The flip side of this coin suggests that 30% think their community’s business environment could be better (Figure 2).

National and regional tourism trends provide a source of opportunity for new market niches where future growth may be found. Baby Boomers are a market bringing money to more active recreational pursuits. The responsiveness of NLTA’s tourism industry to such a trend could place it in a position to capture greater economic gains.

![Figure 2. Overall opinions of surveyed firms regarding their communities as places to conduct business.](image)

The natural endowments of the area have always delineated a competitive advantage for the region -- if the industry responds to trends and brings the customer to the product. Interviewed firms saw more cultural and heritage tourism as having the highest “potential opportunity” ranking of all trends considered (78%). More than 50% of all firms interviewed also saw the two-income family, nature-based tourism, rapid technological advances, growth in seasonal homes, shorter and more frequent vacations, and more diverse populations as being potential business opportunities.

On the down side, labor shortages were seen as the most highly rated threat to business with 62% of firms voting. With automobile travel still the dominant mode of transportation to
NLTA regions, fluctuating gas prices came in as the second rated threat to business (53%).

More than one-third of the firms in the interviews have made significant changes in their products or services over the past 3-5 years in response to changing customer needs. Roughly one-third also changed business hours or their seasonal opening times, changed or redefined the market niche they were serving, and changed their primary promotion strategy. When asked who their customers are, firms thought that, on average, 54% of their clients were business or leisure travelers and 37% were local residents (37%).

Figure 3 shows how firms are keeping track of their customers, with direct observation and personal contacts (“one-on-one”) being those most popular.

As businesses track their customers, exactly what they are learning about them is less clear. Owners believe they have 42% more families with children and high growth in the numbers of childless couples and seniors. Firms knew strikingly less about the singles group and same-sex couples. The survey would suggest that much could still be learned about existing customers to NLTA firms.

Finally, we see in Figure 4 that, relative to lodging and camping occupancy rates, monthly seasonal peaks (July) and valleys (April) are still very evident and sources for product development and enhancement.

![Figure 3. Percentage of firms reporting tracking of customers by method.](image)

Priority Project 5: Conduct research to compile tourism customer profile and collect information on visitors via short, onsite surveys, etc.

Separate from broad and extensive customer profiling, short-term, onsite survey work can be conducted by businesses in communities or at specific properties. Firms don’t need to have extensive experience in market research to get useful results. Local community college staff or other groups could teach firms the basics in survey design, and data collection, and interpretation.

Future Actions

Three public meetings have been planned. They will be held in centrally located IRRRB communities to discuss proposed projects, gain support, and develop a work plan for project implementation.

Firms Visited as Part of the Northern Lights Tourism Alliance BR&E Program

- Adam’s House B&B, Hibbing
- Agate City Rocks/ Roberts Jewelry, Two Harbors
- AmericInn, Mt. Iron
Firms Visited as Part of the Northern Lights Tourism Alliance BR&E Program (continued)

AmericInn, Two Harbors
Aronson’s Boat Works, Tower
Babbitt Drug, Babbitt
Babbitt Weekly News, Babbitt
Betty’s Pies, Two Harbors
Big Blaze Campground, Two Harbors
Birch Lake Resort, Babbitt
Boise Forte Native Arts, Orr
Bonita Imports, Biwabik
Breezy Point On Lake Superior, Two Harbors
Butlers, Aitkin
Castle Haven, Two Harbors
Chapman Street Books, Ely
Cliff N’ Shore Resort, Two Harbors
Country Inn & Suites, Hoyt Lakes
Deluxe Café, Eveleth
Dorothy Molter Memorial Museum, Ely
Embarrass Heritage, Embarrass
Four Corners, Embarrass
Garden Cottage, Eveleth
Grey Wolf Lodge, Orr
Greyhound Bus Origin Ctr Museum, Hibbing
Halcyon Harbor Cabins, Two Harbors
Hallett Antique Emporium, Crosby
Hank’s Bar, Aurora
Hibbing Park Hotel, Hibbing
His & Hers, Babbitt
Homer’s Bar, Hibbing
Hoyt Lakes IGA, Hoyt Lakes
Irma’s Finland House, Virginia
Italian Bakery, Virginia
Iron Range Antiques, Gilbert
Kettle Falls Hotel, Ray
Melgeorge Resort, Orr
Mooer’s Agate Lake Resort, Crosby
Nelsons Resort, Crane Lake
Nordic Inn Medieval Brew & Bed, Crosby
Northern Ground Café, Ely
Northland Lodge, Orr
Old Howard, Hibbing
Orr General Store, Orr
Park Inn, Virginia
Pattenn Café, Orr
Paul’s Italian Market, Eveleth
Pioneer Craft Co-op Store, Two Harbors
Piragis’s Northwoods Co, Ely
Rainy Lake Saloon & Deli, Virginia
Range Free Press Gifts, Eveleth
Red Carpet Motel, Babbitt
Riverwood Health Care Center, Aitkin
Roosevelt Bar, Eveleth
Rudy’s Bar, Aurora
Rutger’s Bay Lake Lodge, Deerwood
Sisu Tori, Embarrass
Steger Mukluks, Ely
Sunrise Deli, Hibbing
Sunset Bay Resort, Aitkin
Super 8 Motel, Eveleth
Superior Shores, Two Harbors
Sweetheart Treasures, Biwabik
Tacora Theater, Aurora
Timber Bay Lodge & Houseboats, Babbitt
Treazona House B&B, Ely
Vermilion River Tavern, Buyck
Villas at Giants Ridge, Biwabik
Vince Schute Wildlife Sanctuary, Orr
Whistling Bird, Gilbert
Wild Rose Antiques, Eveleth
Zimmys & Atrium, Hibbing

Additional Information

For more in-depth information regarding the survey, please see the Tourism BR&E Research Report, dated September 20, 1999. Copies of the report are available by contacting the program sponsors listed, particularly NLTA staff at the IRRRB office in Eveleth.

Prepared By

The NLTA tourism BR&E Task Force, listed on page 2, selected the strategies and priority projects. Daniel L. Erkkila, Associate Director of the University of Minnesota Extension Service Tourism Center, wrote this summary report.

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