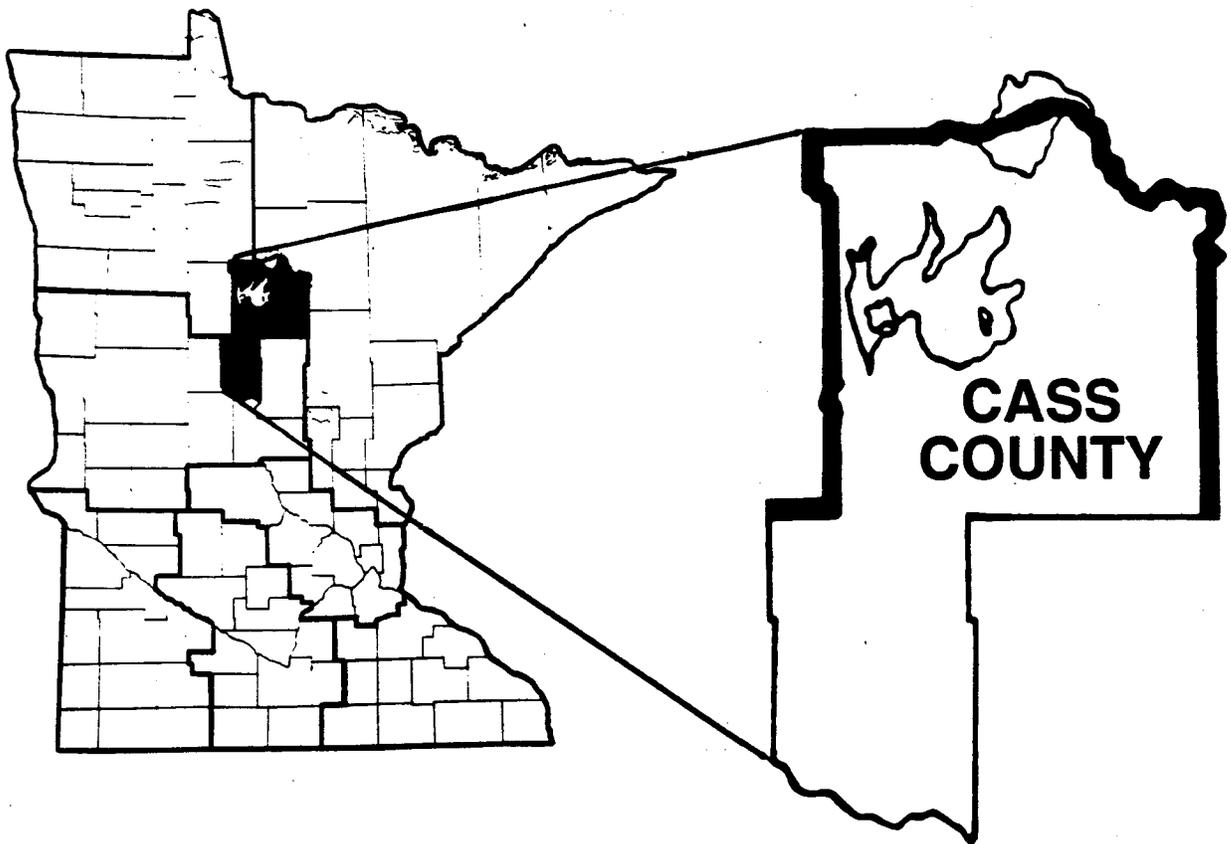


BUSINESS RETENTION AND EXPANSION STRATEGIES PROGRAM SUMMARY REPORT 1992



Local Sponsor:
Cass County Economic Development Agency

State Sponsors:
University of Minnesota/Minnesota Extension Service
Minnesota Department of Trade and Economic Development

BR&E Strategies

Business Retention and Expansion Strategies

The Cass County Business Retention and Expansion Program, sponsored locally by the Cass County Commissioners Board, the Cass County Economic Development Agency, and the Cass County Minnesota Extension Service, visited 42 firms between February and May of 1992. Twenty three local leaders participated in this economic development program which had the following objectives:

1) to demonstrate the community's pro-business attitude;

2) to assist firms in using development programs;

3) to assist firms in solving local issues; and

4) to gather economic development data and develop strategic plans for improving the local economy.

The local task force followed -up on the concerns and requests helping firms handle local problems and make contacts with state programs. After research on the surveys was conducted at the University of Minnesota, the task force developed a set of long-range recommendations for the community. This summary highlights the results of the surveys and presents the recommendations of the Cass County Business and Retention Task Force.

Copies of the full report and the survey data are available from the Cass County Economic Development Agency.

The success of the Cass County BR&E Strategies Program is due to the Leadership Team and Task Force:

Leadership Team: These leaders planned the local program, coordinated the firm visits, and managed the follow-up:

Dennis Ward, Director of Economic Development

Bill Dehn, Financial Manager of Economic Development

Gordon Stobb, University of Minnesota Extension Service

BR&E Task Force: These leaders visited the firms, assisted in the follow-up and made the recommendations highlighted in this summary:

Jeannie Berg, Walker Chamber of Commerce, Director

Vic Rinke, Pine River/Backus Elementary School, Principal

John Thompson, Leech Lake Reservation Planner

John Elsenpeter, Walker 1st National Bank, President

Pat Faul, Outing LDC

Kenneth Johnson, Cass County, Commissioner

John Zaffke, Pine River State Bank, Vice President

Paul Wick, Security State Bank of Pillager, President

John Wetrosky, Pine River LDC

Joyce Van Haren, Pillager LDC

Jodie Knapp, Hackensack City Clerk

Lisa Garbe, Longville City Clerk

Sharon James, Cass Lake LDC

Brian Nicklason, Security State Bank of Remer, Vice President

Larry Hendershot, Remer LDC

Ron Barchus, Backus Chamber of Commerce

Newell Ellis, City of Walker, Mayor

Dan Doughty, Pine River Area Pastor

Gordy Winzenburg, Brainerd SBDC, Director

Bob Burk, MN Bankers Association, Executive Director-Enterprise Network

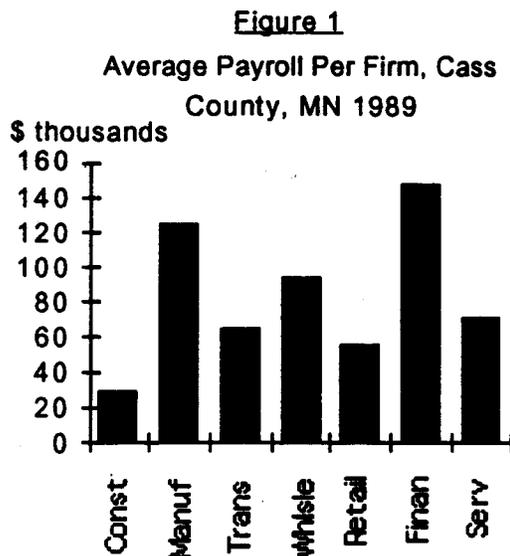
Scott Beckman, Minnesota Extension Service

SURVEY RESULTS AND ECONOMIC DEVELOPMENT STRATEGIES

Characteristics of Firms Visited

The Cass County BR&E Strategies Program visited 42 firms. While this is only about 7% of the approximately 570 firms in Cass County, they represent 45% of the manufacturing and construction firms.

The Task Force elected to focus on manufacturing firms for several reasons. As shown in Figure 1, the average employment and payroll for manufacturing firms was much higher than average. Further, these firms tend to sell more of their products outside the county, bringing in basic income.



Firms surveyed were about the same size as the average. Those with under 10 employees made up 89% of the non-farm firms in the county and they made up 86% of the survey sample, but there were a higher percentage of firms in the 10-19 employee range in our sample than in the county (12% vs. 3%).

BUSINESS RETENTION AND EXPANSION STRATEGIES

The retention and expansion of existing firms is a function of the following factors:

- 1) profit potential in the community;
- 2) community's attitude toward its businesses; and
- 3) quality of life in the area (schools, recreation, public service, etc.).

The profit potential of an area is the primary factor in a firm's location and investment decisions. While neither the community nor the firm has total control over profit factors both can make efforts to reduce production costs.

Profits, as noted, are very important. However, factors such as the quality of the schools, health care, public services, etc. also influence a firm's decision as to where to locate. By demonstrating its pro-business attitude, helping firms become more competitive, improving the quality of life in the community and developing economic development plans, the community may improve its comparative advantage.

STRATEGY #1: IMPROVE THE COMPETITIVENESS OF THE LOCAL FIRMS BY HELPING THEM USE FEDERAL, STATE, AND LOCAL DEVELOPMENT PROGRAMS

Overview of Strategy:

Nationally, businesses of all types are facing greater competition. This competition makes it essential that the Business Retention and Expansion Strategies Program help the firms become more competitive.

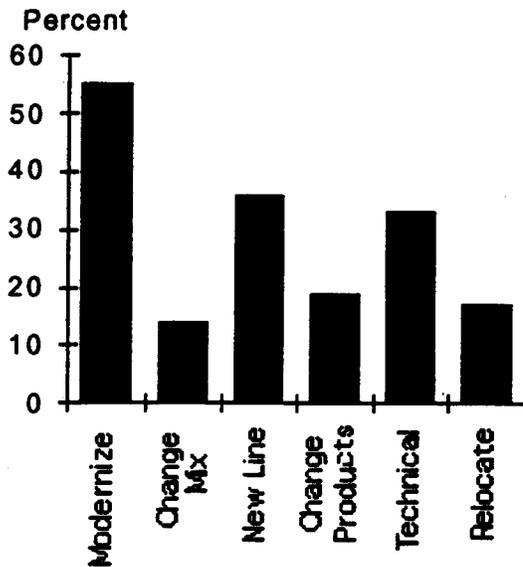
To become more competitive, firms must either reduce their costs per unit or increase their quality. The major sources of cost reduction are new technology,

improved management, higher labor productivity, better labor-management relations, and lower input costs. The BR&E Program can help identify those federal, state and local programs that are most helpful in giving firms a competitive edge. Through the BR&E program, local leaders can provide firms with current information about these programs, and also serve in an ombudsman role.

Survey Results: Over the past five years, over 80% of the firms reported adding employees as a result of entering new markets. While 62% of the firms felt their competitors had no real impact on them over half (55%) have plans to modernize/expand, most within the next year. As shown in Figure #2, firms are planning a variety of changes over the next five years.

Figure 2

Expected Business Changes,
Cass County, 1992 to 1994



Firms are very interested in information that might give them a competitive edge. Information on financing programs had the most requests (62% of the firms) followed by information on marketing strategies, selling to government and strategic business planning, each of

which was requested by over 30% of the firms. The percentage of the Cass County firms surveyed requesting information was consistently higher than the statewide average. In particular, the percentage of firms requesting information on financing programs was three times the state figure. Cass County firms are eager to learn about ways to stay competitive.

Recommendation #1: Develop a Financing Team Which Will Provide Technical Assistance on Loan Programs & Issues

Financing was the most frequently requested type of information. This is consistent with the firm's report that interest rates and credit availability were two of the most important factors in their location.

The state has 20 different programs for providing financial assistance on economic development. In addition there are a number of federal programs for providing guarantees for loans. Increasingly communities and regions are using revolving loan funds to supplement private funding. To use these programs effectively, a community needs both a specialized financing team that understands each of the programs and broad-based awareness of the different types of programs by community and business leaders. Professional economic developers and financial institutions play the central role in using these programs but creative use requires a broader group of local leaders be involved in the programs.

The team will explore 1 or 2 key financing programs to share with the entire Task Force and with local firms.

Recommendation #2: Set up a Marketing Team Which Will Provide Technical Assistance on Planning and Marketing Strategies

Over a third of the firms asked for assistance on strategic planning and, marketing strategies. About 20% of the firms wanted help on business management. These three topics are very closely related and, generally, assistance must be provided on an individual firm basis.

The team will evaluate the wide variety of state programs on management assistance and help firms use those which offer appropriate assistance.

Recommendation #3: Develop a Breakfast Meeting Forum of County Leaders to Share Perspectives of Local Issues

These breakfast meetings provide local business leaders an opportunity to share perspectives on local issues as well as to hear about development programs. These will be held on a quarterly basis. The topics will be suggested by the Business Retention and Expansion Task Force and the Financing and Marketing teams.

STRATEGY #2: EXPAND THE SUPPLY AND QUALITY OF THE LABOR FORCE

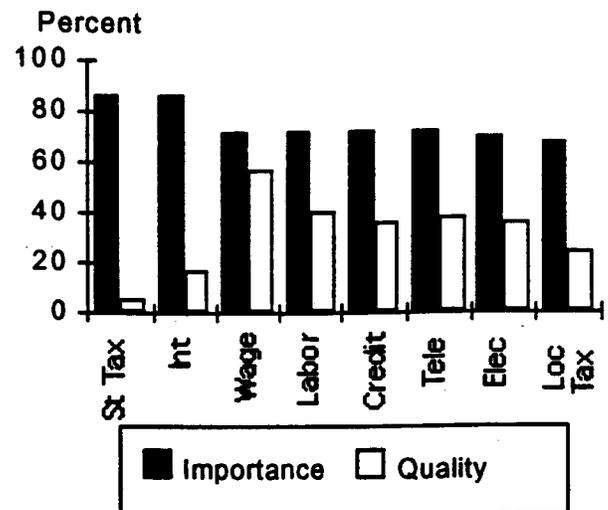
Strategy Overview: The quantity and quality of a county's labor supply is becoming one of the most important determinants of its ability to grow. In order to attract new firms to the community and to help existing firms become more competitive, the county needs to continually up-grade the quality of its existing labor force and expand the supply. One means of expanding the local labor supply is to up-grade skills of existing employees.

Survey Results: Over half the firms surveyed (52%) reported problems recruiting skilled employees while 43% reported problems recruiting semi-skilled

employees. Over 70% of the firms ranked labor availability as important or very important in their decisions to remain, expand, or relocate. However, less than half (40%) rated labor availability as excellent or good (See Figure #3).

Figure 3

Importance & Quality of Location Factors



Also, three fourths of the firms surveyed require special training for their employees. A third of the firms expect future technological changes which will require some worker retraining

Overall it appears that in a majority of the firms there is a good working relationship between management and workers. Almost all (93%) of the firms responding rated worker attitude as good to excellent and almost 90% rated worker productivity as good to excellent.

Recommendation #1: Form a Labor Supply Team to Examine Labor Supply Issues

While wages were not seen as a major problem by local firms, the availability of labor was a problem.

Recruiting problems frequently stem from low wages and there is some evidence that this is a factor in Cass County. However, local firms may have difficulty in paying higher wages and still remaining viable.

Cass County is part of the commuting zone that includes the counties of Crow Wing, Hubbard, Beltrami, and Clearwater. This suggests that studies of labor concerns should examine the needs in these counties as well as in Cass County.

The team examining the labor supply question will invite the individuals which reported the labor recruiting problems to meet with them and to explain the nature of their concerns and explore the assistance available on this issues from the Minnesota Department of Jobs and Training.

Representatives from the Job Training Partnership Act, the Job Services Offices, Region 5 Development Commission, and the Small Business Development Centers at Brainerd Technical College and Bemidji State University could also be invited. These groups could be asked to listen to the concerns of the businesses and then describe relevant programs.

Recommendation #2: Establish a Labor Training Team

One means of expanding the supply and the quality of labor is to improve training opportunities for existing and new employees. The Job Training and Partnership Act (JTPA) programs offer financial incentives to employers for hiring and training low-income and unemployed people. On-the-job training can be covered by these federal funds which may be very useful since of the 74% of the firms reporting that their employees required special training three fourths of them accomplish the training on-the-job. Up to 50 percent of the wages paid for training can be covered by this program.

The labor training team will ask the Detroit Lakes JTPA office to describe their work in Cass County and to meet with the firms that requested assistance on labor training.

Recommendation #3: Develop a School/Business Partnership to Expand Offerings to Meet the Needs of Local Firms

The elementary and secondary schools were rated important or very important as a location factor by 60 percent of the firms surveyed. The quality ratings were fairly good, with 52 percent of the firms rating the schools as good or excellent. The vocational schools received similar ratings.

Schools and local businesses are mutually dependent on each other. Businesses must have a supply of new entrants to the labor force that have a solid foundation in the basic skills. In many cases, businesses find it easier to recruit new managers and technical personnel when local schools are recognized as outstanding. Schools depend on both the funding and support of local businesses. Increasingly, schools are also calling on the expertise of local business people to help in specific courses.

The Cass County BR&E Task Force will organize a school/business partnership to explore ways to increase the communication and cooperation between local businesses and educational institutions.

STRATEGY #3: IMPROVE THE QUALITY OF LIFE IN CASS COUNTY

Overview: Business decisions to locate in a community or to continue expanding there often depend heavily on the quality of life in the area. A community's quality of life is defined as those factors that make the community a better place to live. This includes schools, vocational training, recreational opportunities,

cultural events, health services and public services.

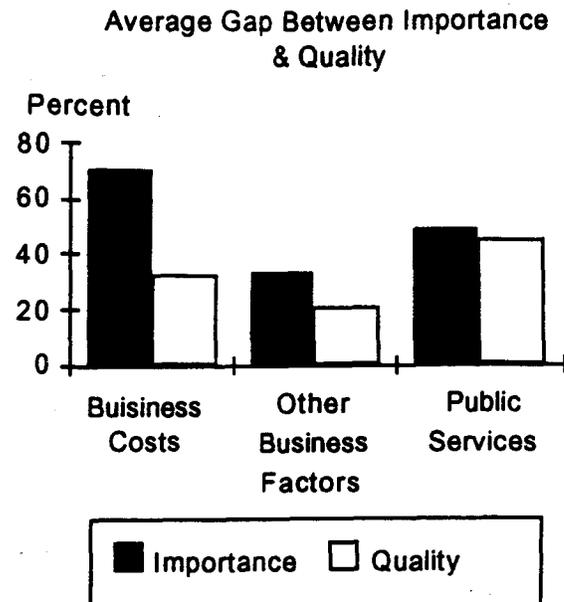
Some private location firms do not recommend communities which have inadequate quality of life. In fact one of the major firms says that about one-third of the time, they recommend places which have higher quality of life rather than the least cost location.

Communities can directly influence many of these aspects and can also reduce the costs to businesses of attempting to have these problems corrected. A community's strategic plans for economic development must include a careful consideration of these quality of life factors.

Survey Results: At least 50% of the firms rated all the quality of life factors except public transportation and public parking as important or very important when asked: "How important are each of these location factors to your type of business?". Of these thirteen quality of life factors, the six most important were health care/hospitals, fire protection, ambulance service, elementary and secondary schools, recreational opportunities, and police protection. In examining the rankings of the thirteen quality of life factors it is interesting to note that Cass county firms rated education as fourth (among quality of life factors) while in state-wide results, manufacturing firms reported it as 8th in importance.

Overall 48% of the firms rated the community as a good or excellent place to conduct business, and only 5% rated it as poor or very poor. Figure #4 shows the average gap between the percentage of firms ranking location factors as important or very important and the percentage who rated the factors as excellent or good.

Figure 4



Recommendation #1: No Specific Action at This Time

While recognizing the importance of the quality of life and public services in the location decisions of manufacturing firms, the Task Force felt that the survey results did not justify specific recommendations at this time. The Cass County Economic Development Agency will explore the availability of data on tax comparisons with other counties and states as background information for local firms.

STRATEGY #4: DEVELOP A STRONG ECONOMIC DEVELOPMENT TEAM

Overview of Strategy:

Economic development is a team effort and requires a sustained local effort and active local leadership. The team needs to have representatives from the business community, local government, educators, and professional developers all of whom can have an impact on economic development.

To develop pro-active local development strategies, a local development team must monitor the major trends that impact local development, keep a pulse on existing businesses, and explore ways to develop expertise in each of the major location factors that influence firm decisions (e.g. financing, sites and buildings, public services and taxes, labor supply and training, transportation, and housing).

The group needs to find ways to sustain these activities over time and to use the support of agencies and programs outside the area (e.g. state and federal programs, universities, technical and community colleges, regional development commissions, and private groups).

Survey Results: This strategy requires a longer term perspective than provided by the BR&E 1992 survey. Consequently we examine the major economic trends over the past two decades (covering 1969-1988).

The retail sector had the highest employment growth more than doubling over this time period (153% increase). Services, the largest employer in Cass County, grew by 120% from 1969-1988. Manufacturing employment rose (46% increase) while employment in the government sector remained relatively steady (only a 13% increase).

In the production sector, farm employment grew that most (72%) and accounted for half the overall increase in production jobs. Manufacturing grew by 46 percent and accounted for 28 percent of the overall production increase. However, farm income has fallen from about 5 percent in 1969 to 2 percent in 1988. This suggests that the growth in farm employment numbers is due to a larger number of part time farmers.

Looking at total personal income by source from 1969 to 1988 passive income (dividends, interest, rent, social security, and other transfer payments) accounted for over half of total personal income in

1988. This reflects the fact that the population in Cass County is aging. Retired persons receive the majority of the passive income.

Figure #5 shows the top five sources of employment and earnings in Cass County for 1988. The largest employment sector is services (28%) and it accounts for 27 percent of the earnings. The government is the second largest employer but accounts for 32 percent of the earnings. These two sectors contain half the employment and account for almost 60 percent of the earnings.

Figure 5

Five Major Sources of Employment & Earnings in Cass County

Employment:	% in 1988	Growth from 1969-1988
Services	28	120
Government	22	13
Retail Trade	18	153
Manufact	6	46
Construction	5	68

Earnings:

Government	32	33
Services	27	90
Retail Trade	13	44
Construction	7	45
Trans & Publ	5	7
Utilities		

Source: BEA Annual Reprt (1969-1988)

In summary, these data suggest that Cass County relies primarily on sectors related to tourism trade, second homes, the retirement community, and government employment. However, manufacturing and construction are important sources of both employment and income. This suggests that overall economic development strategies should focus on these three sets of activities: travel and tourism, retirement communities, and manufacturing. Each of these are basic economic activities which will bring new funds into the community.

Recommendation # 1: Continue the BR & E Task Force and Its Responsibilities

The Task Force has representatives from the major groups that need to be involved in economic development to be successful (business community, educators, local government, and professional developers). Implementation of the earlier recommendations require the collaboration of all of these groups. Further, new issues and local concerns are likely to develop throughout the year. A team that has already established a working relationships needs to be prepared to deal with new issues as they arise.

The Task Force agreed to meet periodically to review the implementation of the recommendations and to handle any new "red flag" issues that require their attention.

Recommendation # 2: Repeat the BR&E Visitation/Survey Program for Travel-Tourism in 1993 and Retail in 1994

While tourism is one of Cass County's major industries, the growth in lodging sales from 1980 to 1990 was relative slow (1992 Rural Investment Guide, p 58). The county has 43 hotels and other lodging places and a number of the retail (172 places) depend upon tourist trade. In fact, it is likely that all but the manufacturing firms (36) are partially dependent on the tourism trade. A business retention and expansion survey of these places could provide insights to their concerns and ways to assist them in growing.

The Travel and Tourism sectors will be visited in February 1993 with the retail firms being contacted the following year. While the Task Force considered starting the Tourism/Travel program earlier, this was not feasible due to the work load of the Economic Development Agency and the need to develop a detailed list of

firms. Due to the size of this program, community leaders will do the visits in teams of two but without Economic Development staff on each trip. This allows the Development Agency staff to spend more time on the follow-up for individual firms. The number of firms in these two sectors will require a sampling process to be used to keep the program at a manageable level.

Firms Visited
Cass County Business Retention and Expansion Program

Berge's Stoves, Inc.	Eveland's Inc.
Cass Metal Craft	Goserud Products
Gehrke Mill	MJT Woodshavings
Foster Wood Products	Christensen Forest Products
Jones Dental Studios	Select Lumber Inc.
Slagles Upholstery	Pine River Lumber Co.
Cass Forest Products	Wood Shavings Inc.
Ojibwe Fish & Food	Pine River Wood Products
Remer Iron Works	Al Hardy Construction
Shovel Lake Industries	Rardin Excavating
Eagle Contracting	Hengel Construction
Glenwood Caseworks	Pequot Tool & Manufacturing
Lamperts Cabinets	Minnesota Truss
Thompson Restoration	K & K Building Supply
Lakeside Woodcrafting	Pine River Building Supply
Greentree Graphics	B & B Machining
Lundquist Wood Products	Henry's Woodworking
Roeser Welding & Manufacturing	Nagel Cabinets
The Woodshed	Weiss Woodworks Inc.
Lott Excavating	T & T Woodworks
Mann Lake Supply	C & G Woodcrafts

Research and Analysis conducted by George Morse, Extension Economist, and Timothy Soulen, Research Assistant, Department of Agricultural and Applied Economics, Minnesota Extension Service, University of Minnesota. Recommendations selected by Cass County BR&E Strategies Task Force (listed on page 1).