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BUSINESS RETENTION AND EXPANSION: A STRATEGY FOR ECONOMIC DEVELOPMENT

by

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Programs to encourage the retention and expansion of existing businesses have emerged during the last two decades as a distinct economic development strategy that contrasts sharply with more traditional strategies for economic development, such as industrial recruitment and prospecting, new business formation and entrepreneurship, business center revitalization, and business transformation. A comprehensive local or regional economic development plan will contain elements of all these diverse strategies. The business retention and expansion strategy, however, is inward looking and is especially concerned with the care and nurture of existing businesses, which are usually locally-owned and managed or homegrown.

Most small to medium-sized places do not have either the luxury of or the need for a full-blown, multi-strategy economic development initiative for their communities. These communities often conclude that business retention and expansion is their best single, or, at least, dominant strategy for local economic development. This is particularly true for communities that have an informed understanding of the reality of their local economic and business structure, the stiff competition for potential economic development funds, the probable success of other strategies, and the economic development goals and aspirations of local citizens.

This essay briefly summarizes, (i) the two main programmatic strands of the business retention

and expansion strategy for economic development, (ii) a statewide initiative by the Arizona Cooperative Extension and the Arizona Department of Commerce known as the *Arizona Business Retention and Expansion Program*, and (iii) prerequisites for successful implementation of the business retention and expansion strategy.

The Two Strands of Business Retention and Expansion

The economic structures of local and regional economies are typically bifurcated into "basic" and "nonbasic" economic activities. Basic activities are those businesses that export goods and services to other areas and, as a consequence, bring revenues into the community. The exporting of goods and services includes such functions as manufacturing, agriculture, and tourism. The dominant perspective and philosophy among economic development specialists is that basic industries are the "engine" or "first cause" for local and regional economic growth. Sustaining a region's economy requires, from such a perspective, that basic activities be maintained, diversified, and strengthened.

Nonbasic economic activities include all those businesses that serve the needs of the community's residents and businesses and include "residential" functions served by retail, service, financial, educational, and governmental establishments found in all places. Any one firm can perform both basic and nonbasic economic activities. While some economic development professionals prefer to focus on the basic component of an area's economy, an economically healthy and dynamic community also depends on the performance of its residential or nonbasic sector.

The two strands of the business retention and expansion strategy mirror this dual structure of local economies. One strand is concerned with retention and expansion of existing basic or export-oriented economic activities; and the second strand

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is involved with the formation, expansion, and retention of businesses in the nonbasic or residentiary sector. While business retention and expansion is normally described as a single economic development strategy, it is really a cluster of methods wherein these two main strands are often entwined.

Business Retention and Expansion in the Basic Sector

Perhaps the strongest economic development resource of any locality is its existing basic industries, which in Arizona generally are in the manufacturing, agricultural, and tourism sectors. These are firms that already have made a commitment to the community, probably achieved financial and management stability, and established local inter-industry linkages. In one sense, all firms deserve help, but an emphasis of the business retention and expansion strategy is to anticipate and stop problems before they occur. Another goal is simply to increase the comfort level of existing industries. Firms that are considering either local expansion or, in the worst case, relocation from the region may deserve special assistance from local economic development entities. For firms that are expanding, a goal is to have that expansion occur locally. Firms that are considering relocation need to be convinced to stay. Additionally, some firms may need assistance in identifying areas of product-line expansion or methods of financing firm growth.

This business retention and expansion assistance can take the form of inducements, incentives, or the provision of services. While the same devices could be used to recruit new basic or export-oriented businesses in the area, the risk of failure may be less for existing firms because there are both a proven performance record and the prospect of a more rapid local economic growth or multiplier effect.

Tools for encouraging the expansion of existing basic enterprises include the provision of land and/or buildings, for instance, in industrial parks; capital equipment; infrastructure such as roads, water or sewer lines, rail spurs or other utilities; and financing purchase or lease/purchase of land, buildings and capital equipment. Another tool is occupational training programs through local community colleges so as to either improve current employee skills or train new employees needed for firm expansion. Other tools are product matching services and marketing assistance to help firms identify (i) potential new consumers or vendors for their products, (ii) firms to support product design and packaging, and (iii) alternative distribution networks; and export pro-

motion services to help firms identify potential international markets as well as federal or state programs that can assist in their international trade goals.

Business Formation, Expansion and Retention in the Residentiary Sector

The largest proportion of businesses in any community consists of relatively small, often owner-operated, retail and service outlets. It is in the self-interest of a community to have an economic development strategy that encourages the formation, expansion and retention of these small businesses. The retention issue is how to prevent a business from failing by improving its business practices or increasing its share of the market. The expansion issue is one of helping firms understand the potential for expansion. Similarly, the business formation issue is one of helping existing firms create new establishments that respond to the needs of the community's residents as well as to other basic and nonbasic businesses. The overall business retention and expansion strategy focuses on the improvement of the business and marketing procedures of the individual firm. The strategy is best suited for large communities where there are institutions and organizations that can implement the development program.

Perhaps the greatest need for this economic development strategy, however, is found in nonmetropolitan communities where the problem of out-shopping or retail sales leakage may be severe. The goal is to encourage residents to make more of their retail and service purchases in the local area and to stem the flow of dollars to other communities. This is a challenging task since it involves (i) evaluating business and marketing practices of individual firms, (ii) making a critical assessment of a community's retail and service outlets, and (iii) convincing particular firms to alter their business practices and product lines. The evaluation is difficult to conduct since it is somewhat public.

Economic development organizations, local governments and chambers of commerce can implement this strategy by conducting analyses to ascertain local consumer shopping patterns for retail goods and services, out-shopping habits and attitudes about local business; identifying needed new consumer businesses and product lines; encouraging Main Street programs; organizing volunteer business resource groups such as a local chapter of Service Corps of Retired Executives; developing training workshops on basic business skills such as tax planning, goal setting, record-and bookkeeping, per-

sonnel management, market assessment, product and floor display, advertising, bank financing and business planning; providing direct financial, managerial and technical assistance counseling to individual small businesses; creating informational forums for explaining the work of the Small Business Administration and other governmental loan programs; establishing a peer counseling program among local business people; and assisting in the sale and purchase of existing small businesses.

The Arizona Business Retention and Expansion Program

The Arizona Cooperative Extension and the Arizona Department of Commerce jointly manage the *Arizona Business Retention and Expansion Program (ABR&E Program)*, a statewide program modeled after several similar programs that have proven successful in other states. This statewide program, which has been implemented in areas as diverse as Yuma, Green Valley, Lake Havasu City and southern Greenlee County, does not attempt to establish a comprehensive and permanent business retention and expansion program in the participating communities. The *ABR&E Program* instead serves as an initial method and opportunity for energizing a community on its path to a full and long-term commitment to the business retention and expansion strategy. A permanent or institutionalized local business retention and expansion strategy would in theory have many of the elements of the two development strands described above.

The *ABR&E Program* allows local residents and business leaders to participate in a process by which they assess the strengths and weaknesses of their locality as a place for doing business. A voluntary Task Force of community leaders is first organized by one or more local governmental or private agencies. The Task Force is then trained by University of Arizona Cooperative Extension faculty and Arizona Department of Commerce professionals so as to conduct the process, with limited assistance from the two agencies. The Task Force tailors a survey instrument to its community and then, with the assistance of additional trained volunteers, interviews a representative cross-section of local businesses, both basic and nonbasic employers.

The completed questionnaires provide two types of data. First, descriptive information is collected on such matters as the location of customers and employees, the source of business revenues, and the major types of goods and services purchased by local businesses as well as the ability to

obtain those items locally. Second, the questionnaires assess attitudes about such topics as the quality of the labor force, relations with various governmental agencies, local infrastructure and business services, and other topics of current community interest.

This data base of business people's attitudes and perspectives then serves as foundation for a report to the community that the Task Force prepares. The report is meant to include concrete and specific recommendations to enhance business retention and expansion in the community as well as an implementation strategy. One possible recommendation that could emerge from the *ABR&E Program* is that the community, through a specified organization, establish a continuing and permanent business retention and expansion strategy.

Prerequisites for a Successful Business Retention and Expansion Strategy

The experience of the *ABR&E Program* as well as business retention and expansion initiatives in general suggest five prerequisites for success. These essential requirements are no different than in many other economic development programs, but they are especially important for the business retention and expansion strategy, particularly in nonmetropolitan communities. These five necessary conditions are:

1. Serious intent. The business retention and expansion strategy is often proposed by community leaders as no more than a method for placating existing businesses that are not likely to be the direct recipients of benefits from other economic development strategies. While the vocabulary of business retention and expansion may be espoused, the extremely demanding actions required by a meaningful and serious strategy are not implemented.
2. Exceptionally strong community-wide and organizational commitment. An effective business retention and expansion strategy requires a very high level and permanent commitment of time and energy from a great many individual businesses, elected civic officials, and community organizations. Other economic development strategies typically rely on a small number of professionals and volunteers to achieve their goals, but the successful business

retention and expansion strategy demands extensive and continuing grassroots support and often times a willingness on the part of individual firms to alter their business practices.

3. Explicit and unambiguous methods for implementing the strategy. The bane of all economic development strategies is the vague and generalized policy recommendation. It is essential that initiatives and actions undertaken as part of a business retention and expansion strategy be explicit and detailed. Since the business retention and expansion strategy is most likely to be implemented by many different persons in the community, the activities and actions they are to take need to be spelled out in great detail.
4. Clearly identified implementors. There can be no guess work about the person, persons, or organization that are to implement specific actions. Since the business retention and expansion strategy is multifaceted, it is essential that the party responsible for implementing any one component of the program be clearly named.
5. Specific structure of accountability. Even with serious intent, strong community-wide commitment, explicit action statements and specifically named implementors, there is an absolute need for an well-defined organizational structure that is empowered to hold others accountable to their roles in the strategy.



BUSINESS RETENTION & EXPANSION: LESSONS FROM THE PAST AND FOLLOW-UP FOR THE FUTURE

by
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Introduction

Business Retention & Expansion (BR&E) is progressing from infancy to a respectable place in the economic development arena. Today, most states have active programs. At the 1993 National R&E Conference there were twenty-one states (including Washington, D.C.) represented.

In order to attract the attention of decision makers, BR&E has to be innovative. However, the first phase of a BR&E program is, ironically, simple and straightforward. In the initial phase of a BR&E program, businesses are interviewed by a team of local leaders and volunteers. The results of this survey of businesses are tabulated and presented in a public forum and a written report. The survey data, along with secondary data analysis (such as shift share analysis) are used to develop long-range strategic plans and to solve short-run business problems. Programs have been developed for the manufacturing, retail, service and tourist sectors.

In the western states, the target population of BR&E includes, but is not limited to, manufacturing firms since many rural western communities have very few manufacturing firms. In Arizona, 14 BR&E visitation programs have been conducted in over 30 rural communities. In this program, run jointly by the University of Arizona Cooperative Extension and the Arizona Department of Commerce, most firms interviewed were in the retail and service sectors. Some agricultural enterprises were included.

One common criticism of BR&E is the lack of sufficient follow-up. Incidentally, this is a common complaint about recruitment programs after new firms have been attracted into a community. Many communities do little beyond the visitation and reporting stage to encourage either the expansion or retention of businesses in their community. In the remainder of this article, the Ohio and Tennessee programs are reviewed and the issue of follow-up is addressed.

The Ohio Model

Ohio has done much of the early work in BR&E visitation programs and continues to innovate. At last count over 84 programs in 61 counties had been completed by Ohio State University Cooperative Extension and the Ohio Department of Development in cooperation with the local communities. As part of the "rustbelt", Ohio experienced an outflow of manufacturing firms in the late 1980's. The BR&E program has been instrumental in stemming this tide by concentrating on the manufacturing sector in its initial stages, using manufacturing oriented questionnaires.

Ohio has developed innovative programs to include the retail and tourism sectors. The retail/tourism questionnaire is based on the original industrial questionnaire but adjusted to fit small businesses in the retail and service sectors. They have further provided supplementary survey forms to collect primary data, needed to assess the broader economic climate of communities. The U. S. Industrial Outlook has this information for the manufacturing sector, but not for the retail trade and service sectors. The supplementary surveys for the retail sector are: 1) a County Consumer Survey to determine the shopping and spending behaviors of community residents as consumers and 2) a County Customer Survey which is used with customers of specific businesses. For the tourism program they have created a Community Tourism Customer Survey to determine the spending and behavior patterns of visitors to a community/area. These supplementary surveys are offered as options for the local R&E program. The County Consumer Survey is conducted by mail whereas the other two customer surveys are done through personal interviews. These innovative approaches to the R&E program would be useful additions to the Arizona BR&E visitation program.

The Tennessee Program

The Tennessee BR&E practitioners at the 1993 National R&E Conference reported on their successful program. It is simple and straightforward, lacking the glitz and glamour of most industry attraction programs. It was started in 1989. Programs were completed in 34 counties by October of 1992. The Tennessee group expects to complete 40 more visitation programs by the middle of 1993. Of the 15,711 new service and manufacturing jobs created in the state during 1991, approximately 70% or 10,880 came from existing firms.

The partnership consists of Southern Central Bell, the Tennessee Department of Economic and

Community Development, Middle Tennessee State University and the local county/community. Middle Tennessee State University has created a database on the needs, attitudes and perceptions of 1400 Tennessee business managers. Their intermediate goals are **improving communication** between business and government and assisting with **strategic planning** to improve the long-run viability of both businesses and the community. As a direct result of these intermediate goals, three primary goals are attained: 1) retention & expansion of businesses and jobs; 2) establishment of community development programs and 3) attraction of new business. Jim Rucker of Blount County, Tennessee (population 86,000) reported that prior to 1990 they had negative job growth. After instituting the BR&E program, they added 3000 new jobs between 1990 and 1993. Ninety to ninety-five percent came from existing firms.

Follow-up

Community Task Forces frequently see their job as over when the community meeting is held and the Summary (Commencement) Report is presented. At this stage the Task Force should continue its efforts and develop an implementation plan from the recommendations. Given the importance of job creation by existing firms, every county/community that has an economic development program should consider an ongoing, more permanent BR&E strategy that would follow a BR&E visitation program.

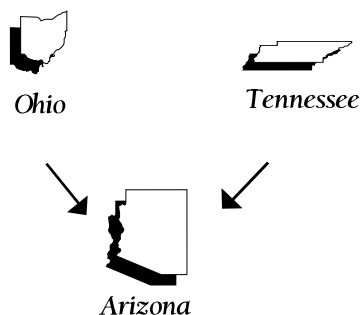
Another approach is to set up "Implementation or Response Teams" for each strategy and the accompanying recommendations detailed in the Summary Report. Several follow-up activities practiced at the local level, include: monthly luncheons between the mayor and corporate executive officers; recognition and awards functions for specific firms or industry groups; special breakfasts or luncheons where networking and sharing can occur; continuing stories and public service announcements in the press concerning local businesses and BR&E efforts; informal follow-up visits to firms by Task Force members and the highlighting of a firm in a regular BR&E newsletter or through other publications.

The state facilitator, in follow-up support, could meet with the local Task Force Director or Project Manager on a monthly or quarterly basis to discuss the progress and follow-up efforts. This person may also work closely with the Small Business Development Center Director in supporting follow-up educational seminars as identified in the survey. Finally, the state facilitator might encourage overall economic development planning and offer research or

project coordination appropriate to the local situation, such as trade area analysis or pull factor analysis, leakage studies or consumer studies. The follow-up possibilities are endless but they need to be planned.

Summary

Business Retention & Expansion is coming of age. Professional recognition and financial support is essential for further development. The visitation phase of the program is simple and straightforward and has proven itself. BR&E program materials are available and can be adapted to state and local situations. BR&E is relevant to all economic sectors. However, if BR&E is to be effective in Arizona or elsewhere, follow-up strategies need to be built into the program from the beginning. This is the challenge to the community leaders and economic development professionals who plan and implement these programs.



WHY BUSINESS RETENTION AND EXPANSION?

by
Julie Leones

Business Retention and Expansion programs have a place in the arsenal of economic development efforts. This article will briefly review what is known about the sources of job growth in the U.S. to support this assertion and will describe recent evaluations of BR&E programs.

Net job growth is the result of job creation less job loss. In fact, during the last quarter

century in the U.S. each net new job has been the result of three job additions for every two job losses (Kirchhoff and Phillips, 1988). Job creation comes from the start up of new businesses, the expansion of existing businesses and the relocation of existing businesses to a region from outside the region.

Job loss may be the result of the closure or failure of a business. It may result from downsizing within a business, reorganization or merger of businesses or relocation of the business to another region. In regions of high job loss, understanding the reasons for this loss and designing a program to retain employment can create more net jobs than a program that helps create new jobs. Ohio found itself in this situation over a decade ago. It is not surprising that BR&E was well received and effective there. Southern California may be ripe for intensive retention efforts now.

Little analysis on job creation and loss had been done before the work of David Birch in the late 1970's. One reason may have been the difficulty of compiling accurate data that allowed the researcher to examine job creation and loss across different types of businesses. There are still serious problems with the analysis. Business failure rates may be overstated. It is difficult to track mergers, sales of businesses and name changes in many of the databases used for this analysis.

Some of the results of Birch's have been verified and others disputed in later studies. One finding that has been consistently confirmed is that existing firms and new firms create the majority of all new jobs. Relocating firms typically create less than 5% of net new jobs. Whether new firms or existing firms create more jobs seems to vary by time period and location. In addition, Birch's study and later studies by Miller indicate that small locally owned firms create more jobs than larger corporate affiliates owned by outsiders.

Working with existing small businesses sounds like a good way to increase net job growth. The negative side is that the survival rate of small businesses is lower than that of large businesses. About 45% of the new firms started in the U.S. between 1978 and 1980 survived at least 6 years. In nonmetropolitan areas, new independent firms with less than 20 employees had survival rates that were 10 percentage points below that of firms with 20 or

more employees (Miller, 1990a). Of course, this may represent an opportunity for providing assistance to insure survival of small businesses and thus retain jobs.

The other down side to encouraging expansion and retention of small businesses is evidence that small businesses often do not pay employees as well as larger businesses and are unable to offer the same level of benefits to their employees (Zip, 1991; Acs, 1992). In a study conducted in Georgia, there is evidence that large employers offered higher wages than small employers and that the wage differential is greater for blacks than for whites, controlling for other factors (Kraybill, Yoder and McNamara, 1991).

Birch and other researchers are beginning to recognize that not all small firms are alike. In his most recent study, Birch estimates that the majority of new jobs were created by businesses with fewer than 100 employees. However, 70% of these jobs were created by only 4% of small companies. These dynamic small companies were no mom and pop businesses but rather technology based businesses hiring above average skill workers at above average wages (Fortune, June 14, 1993).

These studies indicate there are excellent opportunities to encourage net employment increases by working with firms already in the community. Efforts with larger firms might focus more on retention, given the low job creation rates among larger firms. Efforts with small firms might focus on both retention and expansion, given the lower survival rates of small firms but the higher job creation rates.

The current downsizing efforts of large firms argue even more strongly for this approach. Between 1987 and 1991, companies with more than 5,000 employees shrank by 2.4 million jobs, while companies with less than 20 employees added 4.4 million jobs (Business Week, June 21, 1993). The U.S. has seen a net increase of 2 million jobs since the end of the recession in March, 1991. However, the general public often only sees the newspaper headlines describing major job cutbacks by large corporations. Most of the job creation that occurs happens one job at a time in small and medium size businesses and doesn't make the headlines (Tucson Citizen, Oct. 1, 1993).

Business Retention and Expansion programs are much less expensive to start than business recruitment programs. In many states, combinations of utility companies, state commerce departments and colleges or universities provide most of the resources for initial survey, visitation and strategic planning efforts. The communities where the initial BR&E visitation program is held may contribute as little as \$5,000 to \$10,000 (in Arizona, this amount has been even lower). However, if the community is not committed to continuing BR&E efforts after the visitation program, it may not be worthwhile to spend even these resources.

Results from evaluations of BR&E visitation programs indicate that the programs are popular if not equally effective in meeting program objectives. The basic objectives of the visitation phase of BR&E are to allow the community to demonstrate a pro-business attitude, provide data for economic development, assist firms in solving local problems, give early warnings of plant closures and help firms use state development programs.

The visitation program is usually effective in meeting the first three objectives. However, it is less effective in providing warning of plant closure and providing help to firms in using state development programs. Despite these limitations, most visitation program coordinators across the six states involved in this study rated BR&E visitation programs as worthwhile or very worthwhile. Eighty-nine percent of the coordinators indicated that they would recommend the BR&E program to other communities (Smith, Morse and Lobao, 1992).

Further analysis of data collected in this same evaluation effort indicated that coordinators were most satisfied with the program when it went beyond just solving local firm's short term problems. A key component of success was the building of coalitions and communication among community leaders. Successful programs had coordinators who knew how to delegate tasks and how to work closely with groups of community leaders. Finally, developing a community action plan often provided an opportunity for building consensus in the community about development (Loveridge and Smith, 1992).

In conclusion, there is strong evidence to suggest that helping local businesses stay in

business and expand has potential for increasing local employment. Studies consistently show that existing and new businesses create more jobs than relocating businesses and thus are key determinants of local development. Unfortunately, many of the evaluations of BR&E visitation programs have not thoroughly documented the effects of the program on the actual number of businesses that expanded or were retained. There are many opportunities for perfecting BR&E efforts beyond the visitation and planning phase. There is also a need to devise more effective early warning systems in cases of plant closure or firm closure. Finally, developing ways to improve the ability of local leaders to help firms benefit from state development programs would strengthen initial BR&E efforts.

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Editor's Note

I hope that you have found this issue of the Community Development Issues newsletter useful. If you are interested in learning more about the *Arizona Business Retention and Expansion Program*, you can contact either the Cooperative Extension coordinator, Marshall Worden, Drachman Institute for Land and Regional Development Studies, University of Arizona, 819 E. First Street, Tucson, AZ 85719, 602-623-1223, or the Arizona Department of Commerce coordinator, Bill Tompkin, 3800 N. Central Suite 1400, Phoenix, AZ 85012. 602-280-1335.

Reader's comments and written contributions to the newsletter are always welcome, so don't hesitate to write if you have something you would like to share.

Sincerely,

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