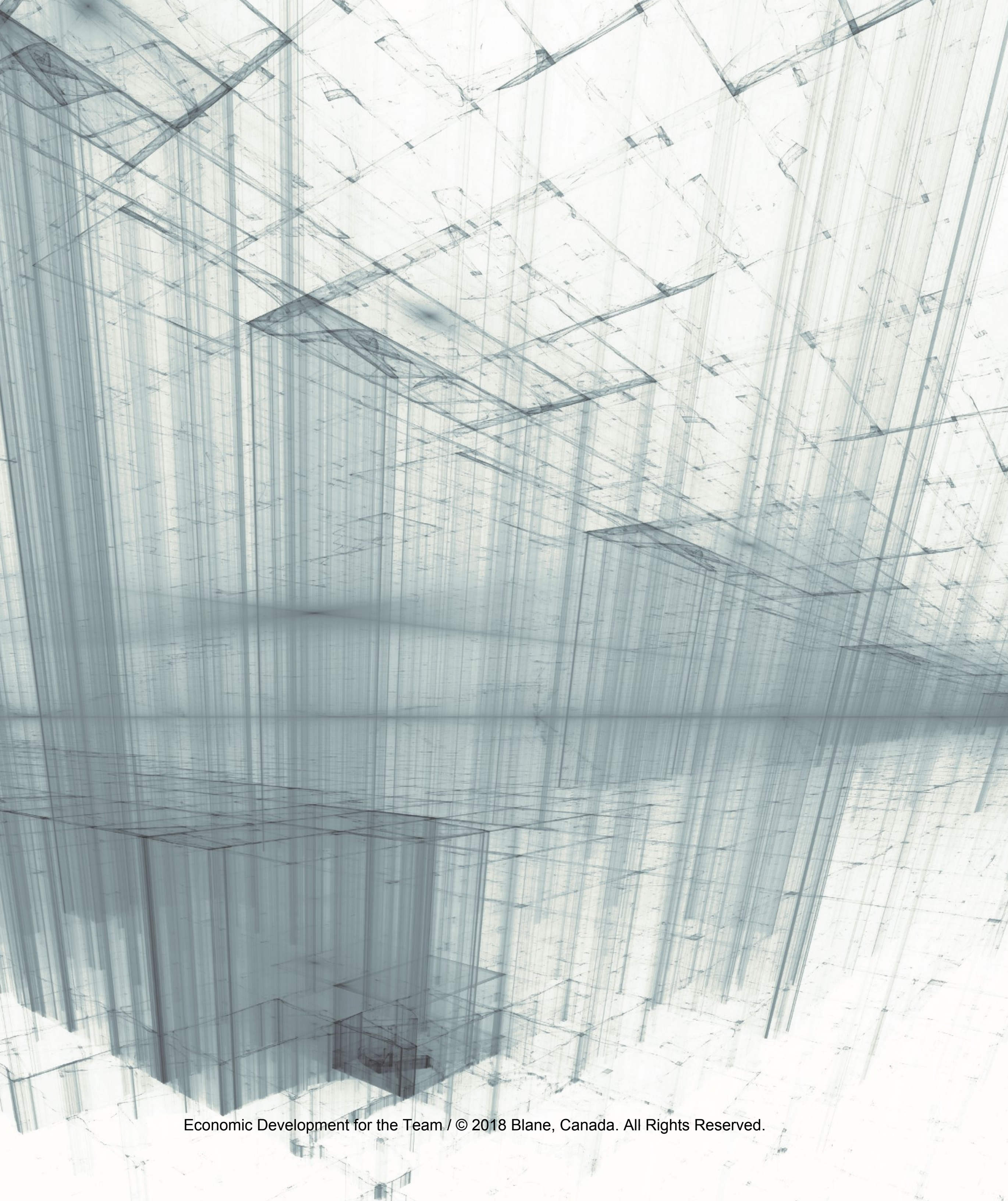


Chapter One
Environment

Macroeconomics

In a community, no money changes hands until someone brings money into the community. Not everyone thinks about how money flows into a community. But, money flow is a critical component of economic development (*Figure 1-1*).

The goal of economic development is to maximize money coming in and minimize money leaving the community. The primary means of capital inflow comes from organizations that do business outside the community. A perfect example is a manufacturer of tires. To be successful, a business must sell tires well beyond the borders of its community and probably even the country. Every tire sold brings money back to the company. Some of the revenue received turns into wages, local supplier payments, taxes, and even philanthropy. Other companies selling products and providing services regionally, nationally, and globally do the same, ultimately producing a vibrant economy in the community. These companies are referred to as primary-sector businesses. They're essential contributors to a strong community economy.

Figure 1-1 Every economy is comprised of three parts: new money coming in, money circulating around the community, and money leaking out of the community. The goal of economic development is to maximize money coming in and minimize money leaving the community.

There are other additional inflows to communities in our modern economy, such as federal transfer payments like social security or disability payments, pensions, and/or retirement investments. There are also convention- and tourism-based economies today that thrive on business and/or leisure travel expenditures.

With money flowing into the community, many see a variety of subsequent opportunities emerge. Local businesses like drugstores, groceries, car dealers, restaurants, and service-based companies spring up. These businesses capture dollars from wages and profits keeping them in the community. This is referred to as absorption. Absorption keeps money in a community. These businesses also pay wages, taxes, and so forth, allowing those dollars to circulate through multiple businesses and, as a result, magnifies their economic benefit. In contrast, leakage is the movement of dollars out of a community. Companies must pay for the goods they purchase to sell in the community. This is leakage. When residents go

Three sources of money coming into a community

Figure 1-2 The sources of new money coming into the community are: companies that sell services outside the trade area (the majority of the new money); transfer payments (Social Security, pensions, etc.) and investment income. Regional retail and service companies may also be contributors.

outside the community to shop for clothing, cars, or entertainment, these expenditures are lost to the community. This is leakage. This outflow of capital is lost opportunities that economic development can address by focusing on businesses that fill gaps, keeping this money in circulation in the community.

These three principles—inflow, absorption, and outflow—are the core of economic development in the community.

Economic generators

These three sources of money (economic generators) coming into a community are from the collection of industries that shape local economies (*Figure 1-2*). The primary sector industries like manufacturing, agriculture, extraction, and finance are viewed as the sectors that produce the greatest economic impact. They are the leading economic generators. The big box stores, destination retail, and tourism/convention businesses can form the backbone of a regional shopping center and have substantial economic impact on the community. Additionally, this impact can be increased significantly where sales taxes are levied. The next segment of economic generators is the local retail and service businesses that primarily serve residents of the community. Generally, these businesses generate the lowest economic impact; however, they have a major role in keeping money in the community and boosting quality of life. The final source of money flowing into a community comes in the form of transfer payments like social security and disability income, as well as investment dividends.

Communities generally have a mix of companies from each of these segments that comprise the local economy and each community will have a different mix of companies. Communities with only one of two of these economic generators live with boom and bust cycles and struggle to find growth opportunities. Communities with no economic generators cease to have a reason for being.

Figure 1-3 A functioning economy requires a balance between the economic base that creates jobs, the quality of life that draws people to come to or remain in the community, and the regulatory environment that manages both to achieve balance.

Jobs

While there's no hard and fast rule, primary-sector jobs historically have been higher paying. Additionally, primary sector companies draw the majority of money into the community. These are the community's quality jobs (*Figure 1-3*). Retail shopping, restaurant, and entertainment encapsulate quality of life. While these jobs aren't generally high paying, they're still an essential part of the employment base. They provide important experience and training as well as supplemental income. Finally, government and social-service jobs frame quality of place in the community. Quality of place is a combination of all three, but it is also important to note that government, through its regulatory role, greatly impacts the quality of place for residents and business. And, government in many communities is a large employer providing many well-paying jobs.

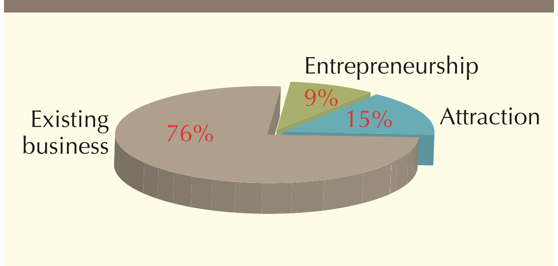
Investment strategy

Thinking about strategy in economic development involves gaining an understanding of where jobs and capital investment (private business investment) come from (*Figure 1-4*). The evidence shows a substantial majority of new jobs come from companies already in the community. In other words, most jobs and capital investment come from the expansion of existing employers. Based on our research, the percentage of jobs derived locally changes as the community becomes more rural. Here, the percentage of jobs from business attraction goes down. Therefore, **while an urban area will experience an average of 76 percent of the new jobs and capital investment generated by existing businesses, a rural area could find 90 percent of new jobs or higher result from the expansion of existing employers.** (Blane, Canada research) This difference is due to the resource constraints of rural communities. In rural communities, raw ground may be abundant, but improved land with water, sewer, electrical services, and access roads is more limited. The workforce is also thinner in rural areas. Consequently, business attraction is more difficult.

First-time investment by companies new to a community (business attraction) will, on average, generate 15 percent of the new jobs in an urban area. Entrepreneurship will then throw in the balance of approximately 9 percent of new jobs. However, data from McKinsey & Company, suggests that business attraction accounted for only 2 percent of job growth in US markets from 2008 to 2014. This is far less than the average of 15 percent *(Figure 1-4)*. So, it's difficult to speculate what the McKinsey number really means. 2008 was a period of retrenching in US businesses, as the country was in the early stages of the Great Recession. Economic growth was showing signs of recovery during 2014. Therefore, this period is not a representative period. These numbers are averages and will vary from place to place and year to year.

Figure 1-4 The majority of a community's wealth and jobs are created by the companies already in the community.

Jobs and Investment Drivers



Community Areas

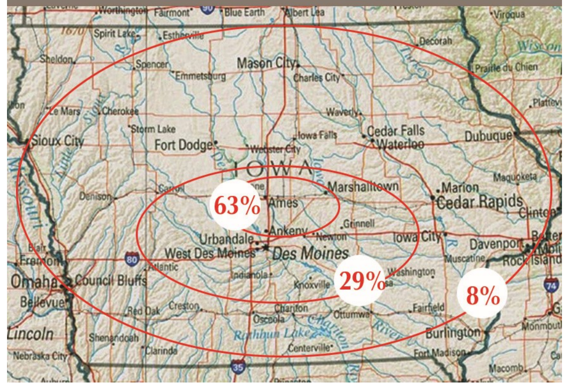


Figure 1-5 The terms *community* and *region* are often used with different contexts. An economic community (trade area) is different than a political jurisdiction which is a community. Similarly with the term *region*, a region can be a geographic area that is served by a public agency such as a regional planning commission, a college, or an economic development entity. Regions cross political jurisdictions.

Nonetheless, if the McKinsey findings are taken at face value, they provide little hope for a successful business attraction strategy.

For existing companies, the economic and competitive pressures working against their success and survival are intense. Companies must work against these pressures every day. Therefore, growth cannot be assumed. Furthermore, since many companies today often have outside ownership (not located in the community) there's no guarantee that a growing company will stay in a community or expand there. This underscores the importance of an effective existing business strategy that includes a business retention and expansion program for every economic development organization. The existing business program and strategy will further serve to connect the economic development organization to local companies and their needs and the choices they're facing. The executive-visit or business retention and expansion program also provides insight into the value each company brings to the community and their role in building the community's economic future.

Community

In the world of economic development, community is through the eyes of businesses who focus on trade regions. Therefore, the use of the word *community* is intended to be broad. Note that community doesn't necessarily refer to a political jurisdiction. In economic development, community is defined by leadership. It can be a political jurisdiction like Ames, Iowa. However, community can also be the Greater Des Moines Partnership, a multicounty regional economic development organization that incorporates Ames, Iowa, and other politi-

Figure 1-6 Businesses view a community from two perspectives. One business will look at a community and see a collection of people with retail/service buying power. These businesses seek to sell goods and services to individuals (B2C). Another business will look at a community of people and resources as inputs needed to produce a product (B2B). These companies see employees and raw materials needed for them to be successful.

cal jurisdictions (*Figure 1-5*). In this example, the region is within a single state. However, there are also regional partnerships that cross state borders. Examples of multistate partnerships include Kansas City Area Development Council (Kansas and Missouri) or Charlotte Regional Partnership (North and South Carolina). Additionally, an economic development community can also be statewide and a function of government or a public-private partnership.

The term *regional* can be problematic. This is in part due to the broad use of the term and the connotations associated with it by different users. Regional can mean the area is a:

- Functional region
- Economic region
- Political region
- Administrative region
- Data region
- "Issue" oriented region

Local, multicounty/community, and statewide interests all have legitimate interests in economic development. Further, while the cost of economic development encourages regional collaboration, many leaders prefer the independence of operating their own economic development program. Ultimately, leaders at each level can choose to work together, duplicate services, and/or compete for primacy.

Corporate perspective on community

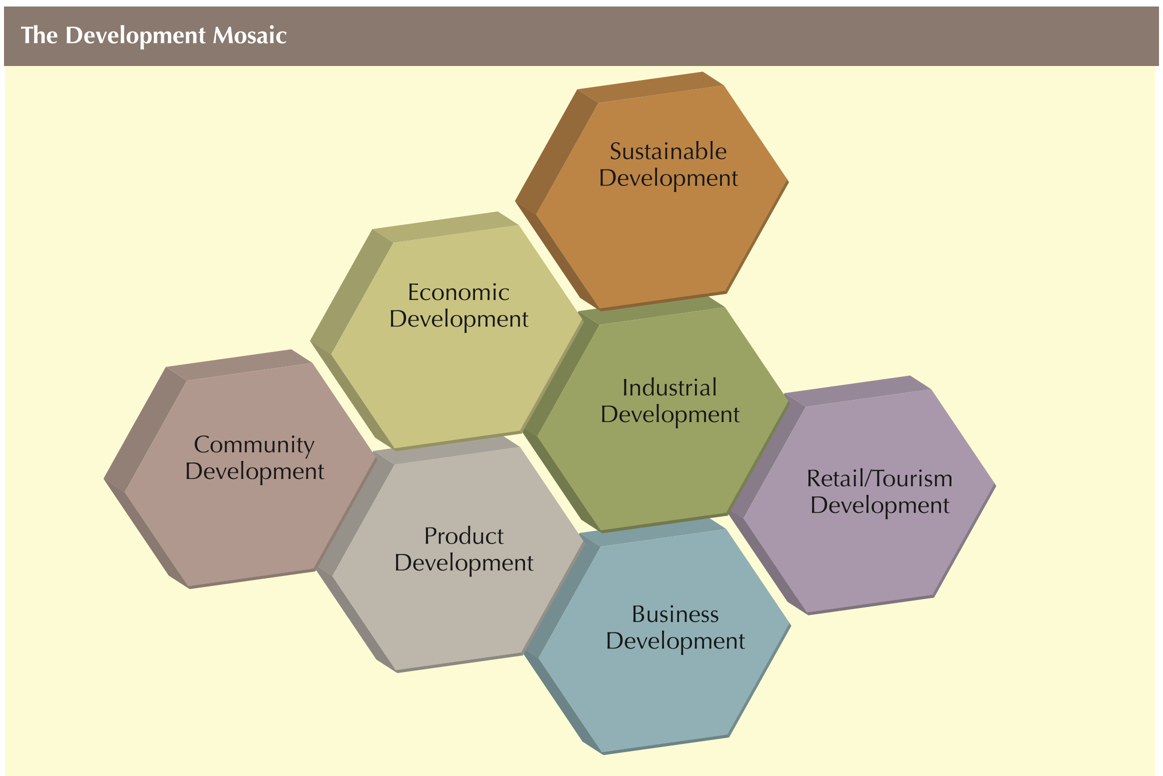
Corporations look at communities through different lenses. Some business executives look at a community as a "bundle of resources." These resources could be natural resources, infrastructure, workers, or proximity to clients or suppliers. These business executives are from companies that sell to other businesses, referred to as business to business (B2B).

Further, these executives see the community as a "product" (*Figure 1-6*). As such, the community can be compared to other products to determine which most completely meets their ideal. This process is referred to as “site selection” in economic development.

Still other business executives look at the community as a collection of homes, a group of residents, disposable income generators, or a gathering point for tourists. They uniquely look at a community as a “market aggregator.” These companies sell to consumers. They’re business to consumer (B2C) businesses.

In economic development, the distinction between B2B and B2C companies plays into a number of important considerations that influence strategy and marketing specifically.

Figure 1-7 Economic development can refer to any, some combination, or all of the seven types of development. This can lead to a great deal of confusion or conflict in coming together around a common agenda.



The Development Mosaic

The development mosaic is a patchwork of terms coined to describe different parts of the economic development process (*Figure 1-7*). Each plays a role in communicating a deeper understanding of the development mosaic. While each term has a specific meaning, not everyone is familiar with their textbook definitions. As a result, in conversation and literature, some of these terms are used interchangeably. Familiarity with the terms along with their most commonly used definitions is vital to clear communications. (See the Glossary for more detailed definitions).

Community development

Citizen initiatives to improve the community as a place to live, work, and invest.

Product development

Product development focuses on improving the product the community takes to market, for example, workforce, infrastructure, business climate, real estate, quality of life, and so on. Product development is also essential to sustaining a community's existing business base and attracting new business investments. Additionally, product development is a subset of community development.

Economic development

Economic development involves creating an attractive environment to secure capital investment and then making the community visible in the marketplace, resulting in new investments, economic growth, and an improved quality of life. *Inclusive*, a popular concept now is the extension to benefit specific audiences of vulnerable people in society. It can also include community development.

Industrial development

Industrial development is focused specifically on primary sector businesses, especially manufacturing. The term *industrial development* was popular in the 1960s and '70s and preceded the term, *economic development*. Furthermore, the emergence of the service economy in the United States necessitated a change in terminology, making industrial development a subset of economic development.

Retail/tourism development

After meeting basic needs such as groceries, gasoline, and medications, retail development is about increasing the number and variety of options to serve area needs. Retail development is capped by basic demographics: number of households (rooftops in the trade) and disposable income. Chain and franchise companies know exactly what number of rooftops it takes to support one of their facilities. Any market below that number is not considered. Tourism businesses focus on beds, nights, and related metrics. Entrepreneurship is a key element in this segment. Entrepreneurs move on instinct and are not bound by demographics. The trend toward a brew pub on every corner is a nod to this category.

Business development

Business development involves work by individuals and organizations to help businesses increase sales. Programs like trade missions, business fairs, broadcast promotion (Twitter and email, for example) and economic gardening are types of business development.

Sustainable development

Sustainable development involves an overarching goal within economic development to meet the needs of the present while building for the future with minimal negative impact on resources or compromising the ability of future generations to meet their own needs.

Economic Development Strategy

There are four primary functions of the economic development organization (*Figure 1-8*):

- Create an environment attractive to capital investment
- Make that environment visible in the marketplace
- Secure new business investment
- Improve the community's overall standard of living

Generally, as noted earlier, the most common target of economic development is primary sector investment. However, in some communities, the target could be retail, local service, or tourism development. Here, the choice depends on the current needs of the specific community as well as community leadership's vision for the community's future.

For example, Wheaton, Illinois, is a suburban Chicago community. Years ago, when approached by an industrial park developer requesting annexation, its leadership said no; they chose to maintain the bedroom community they had created in Wheaton. Undeterred, the developer continued acquiring land in the adjacent, unincorporated north edge of Wheaton. Further, he built out industrial parks in the adjacent area. He was eventually successful in creating a new community, one that extended well beyond his business interests. In 1959, he successfully incorporated a new community in DuPage County, naming it Carol Stream after his daughter.

The choice the well-meaning Wheaton officials made forever changed the flow of money in their community, but it didn't change the physical location of the business investment proposed. In fact, it capped a potential green space growth corridor that the community could have used for business and residential growth. Today the landlocked suburban community has a very small business tax base. It's also dependent on a small retail base and homeowners to provide the community's budget requirements. In contrast, Carol Stream has a handsome tax base provided by manufacturing, a growing commercial sector, and lower residential taxes.

Economic Development Strategies

- ✔ Retention/Expansion
- ✔ Attraction
- ✔ Formation
- ✔ Growth

Community Development

Workforce • Infrastructure

Business climate • Organization

Figure 1-8 In economic development, the four primary strategies are to keep and expand the companies already in the community; attract new business investment into the community; encourage the formation of new businesses; and, grow businesses through increased sales. To be successful, all four strategies require community development to make sure there is a high quality, trained workforce, utility services, roads, regulations, etc.

This example speaks most specifically to business attraction. However, once successful, a community must also work to retain the businesses that invest there. As a result, business retention is one of the four principal functions of economic development. Parallel with retention is the desire to encourage existing companies to expand locally. These functions are combined into what's referred to as business retention and expansion.

Mission Reflects Purpose

Metro Orlando EDC

Vision: To champion a more prosperous and diverse economy.

Mission: To aggressively **attract, retain, and grow jobs** for the Orlando region.

Charleston Regional Development Alliance

To serve as a catalyst for long-term regional prosperity by attracting the world's best companies, **talent, and entrepreneurs**.

Charlotte Regional Partnership

Position Charlotte USA for sustained, long-term growth, **job creation, and investment**.

Figure 1-9 Different communities will decide what type and form of economic development is important to them. These priorities will be reflected in the mission of the local economic development organization.

Entrepreneurship or business formation is also recognized as an avenue to increased business investment and job creation. So, creating an entrepreneur-friendly community and supporting the formation and growth of firms has become a core function of some economic development programs.

Again, like the Wheaton situation described, leadership in each community will decide which path or combination of these economic development strategies, is best for their community (*Figure 1-9* shows some examples). There's no question, when economic development is the goal, community development will be an essential foundation for success.

Strategic Debate within Economic Development

The question of how to create or support growth, is generating an important debate in economic development. How are jobs created? If a company agrees to locate in a community, but requires incentives, what's the "true" value to the community? Is it still economic development if a company expands, but the number of jobs stays the same or employment decreases? What happens when entrepreneurial firms fail as they often do? How do communities measure success with an entrepreneurship program? These are all very important questions. And, organizations are on all sides of the debate. There's no common voice for the profession. The debate rages on, mostly outside the profession, in academia, the media, and political circles. ❧

