

# Economic Development 101: Community Growth Won't Happen on Its Own, Experts Say

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An example, he said, is the inkjet toner recycling company that came into St. Ignace a couple of years ago and then moved to Sault Ste. Marie. Even though community leaders in St. Ignace worked to retain that company in town, "there was not adequate capacity in the area to accommodate the company's needs, no place to put that business."

Economic development practitioners are thinking in "business time," because businesses cannot wait months or years for infrastructure and facilities to be developed or improved. Communities that don't think that way may not be positioned to offer what they need.

### Competition is heavy to attract new businesses

An economic development director can help communities grow,

that had they let us know they were in town, we would have been happy to show them around and saved them a lot of effort. The business scouts politely explained that their method of analyzing a city was to separate, lodge in different hotels, eat in different restaurants, shop in different stores, and to discuss a scripted set of questions with virtually everyone they met. They pointed out, correctly, that the economic development corporation and the city officials would have shown them what would showcase the city and not what was important to their client. The leader of the team of business scouts pointed out they could learn more from the clerks in the stores and the drunk on the street than they could from a scripted tour hosted by local economic development officials.

Later, while doing some consulting for various cities, I used the same techniques and learned that I really could learn more about a city, in less time, by discussing a scripted set of questions with waitresses, clerks, and hotel staff than I could from the official agenda. The best and the worst representatives of any city are its residents. The more positive residents are about a city, the easier it is to market that city to prospective businesses.

### Truth Number Three: Attitude Counts!

This is a spin-off of truth number two. In small towns especially, a common theme is, "We are just a little town, no business wants to come here!" If that is the prevailing attitude of the town, then the statement is absolutely correct. Given a chance to make a profit, business can be attracted or expanded regardless of the size of the community. The corollary is that if new businesses are viewed as competition for labor or market, it is very easy to prevent new business.

Any city with a positive "can do" attitude toward attracting business, that is prepared to act

Mr. Hagan said, "by actively marketing for new companies and new businesses, but also retaining and meeting the needs of existing ones. There is a balance to strike here."

Developing industrial parks is one way to help attract new companies, or help existing ones expand, but is it a method the experts would recommend?

"It's one marketing tool," Mr. Hagan said. "Across the state we are seeing a shift to high tech industries, because manufacturing is on the decline. It's going, and it's not coming back. Communities are having to diversify their economy to other areas, like high-tech, bio-science, and related industries."

Sault Ste. Marie, DeTour, Kincheloe, and Newberry have active, functioning industrial parks, he said, with "a good mix of tech businesses and manufacturing" and the Sault will soon have two more incubator facilities for prototype development.

The Kincheloe facility features Superior Fabrication, which makes specialized forklift components, including masts to ship overseas, and forestry products, while electronics, a thermoplastic component manufacturer, aeronautics, and the former St. Ignace inkjet company are examples of businesses at the Sault Ste. Marie park.

With the decline in traditional manufacturing plants has come a shift to more high technology industries, Mr. Hagan said.

In terms of attracting new business, "the first thing people think of is manufacturing. It's changed so much in even three or four years. There is so much focus on high tech. Now, it's thinking about the knowledge economy, a whole different way of thinking about it. In various ways, there is a trickle down effect [to creating other kinds of jobs]. Precision Edge in the Sault makes high tech blades and products, an example of a knowledge economy industry. Typically, those kinds of jobs are higher paying."

Along with a push toward developing more knowledge economy jobs, the state is promoting local tax abatement as an incentive for communities to attract business.

"The state is pushing hard for communities to advocate for and offer tax abatements," he said, pointing out that state agencies actively encourage meetings between businesses and municipalities, urging them to think about setting up tax breaks. Mr. Hagan considers the tax breaks a good tool for attracting business to a city or county.

"I think a lot of communities get scared off because they think they aren't going to get any taxes from the business. There is a learning curve here for communities, to really understand what is involved in

abating taxes and the effect on the community. The community can set the terms and conditions of the abatement."

Incentive packages for companies can be useful tools, agrees Lloyd Matthes of the Central Upper Peninsula Planning and Development Regional Commission, but he cautions they should always be in the form of a building, equipment, or utilities in the ground.

"Watch how you give your incentives. Keep them in terms of things that can't be moved, like streets or sewers. Businesses that move in just for the incentives will move right out when they're gone."

- Lloyd Matthes, Central Upper Peninsula Planning and Development Regional Commission

"You've got to plan," Mr. Matthes said. "When a plant moved into Spring Hill, Tennessee, the city went bankrupt trying to provide services to a rapid influx of people. They didn't take into account there is no tax return [on the infrastructure investment] for two years."

Mr. Matthes has also written "six truths of economic development," reprinted here. (See sidebar story.)

Planning ahead to decide which potential incentives could be offered may give a community an edge when courting businesses - a process Kathy Noel calls highly competitive. Ms. Noel is president of the Economic Development Corporation of Chippewa County in Kinross.

"This economic development field is extremely competitive, and there are hundreds and thousands of other communities vying for that business that wants to expand," Ms. Noel said. "As soon as the economic community becomes aware of it, it's like sharks in a feeding frenzy. But in the EUP, there are no turf wars in this community. We are all willing to cooperate because we all realize any new business in the region benefits all of us."

"The end result is to get the economic development in your region. It doesn't have to be in your backyard, and you don't have to be hands on. [Understanding that] is a real strength I see here."

### Shipping, diversification are among EUP strengths

Another strong advantage for the region is the multiple modes of shipping offered by I-75, state trunklines, nearby port facilities, and rail service, she said.

"We are truly multi-modal," Ms. Noel said. "Speaking for the industrial and manufacturing side, there are myriad options for shipping in and out."

"I'm really high on the whole region. We have some tremendous opportunities."

In fact, more than 85% of the Eastern Upper Peninsula's economic development leaders are hopeful about the region's economic future, according to a February 11 survey.

While many metropolitan areas have made the mistake of tying their economies to a few huge employers, Ms. Noel said, EUP communities have always encouraged both large and small business development - another strength.

"In the EUP, we never turn our back on the small developer, even if he's going to employ five people," Ms. Noel said. "It's the small entities that are seeing us through. The old theory was the more employment positions to be created, the better the project was. That time has come and passed. The state still uses it as a benchmark, but as we've seen in the auto industry, the more labor-intensive an industry is, they become less and less competitive. Those smaller workforces have been termed small business in the past, but these entrepreneurs have been the major growth market the last few years. We need increased information technology businesses. There are a wealth of opportunities" in that area.

Such information or knowledge economy businesses are those that

rely on critical thinking and new technology to develop, test, design, or make products. Often smaller and entrepreneurial, they are replacing traditional manufacturing as a growth industry.

How can a small employer with 10 or 20 workers benefit the community and the region?

"Somebody coming in from the outside, who is going to connect to the global market, the benefit to the community is an infusion of dollars from the outside, not local dollars," Ms. Noel explained. "Someone may develop a concept and then farm out the development and fabrication. That's where the attachment to the global market comes in. And employers, big or small, bring the same benefit to the community. More small employers means greater diversification to the tax base."

The region has even been successful in turning a potential challenge into a strength, as in the case of winter conditions testing for automotive systems that takes place every winter at Racor and Brimley. General Motors tests its products in Racor through Smithers independent

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## Six Truths They Don't Teach in Economic Development Class

by Lloyd Matthes Executive Director, Central Upper Peninsula Planning and Development Regional Commission

During the past thirty years of "doing deals," I have seen lots of good economic development projects go south for reasons ranging from the business being undercapitalized to a company president's wife believing that Wisconsin had polar bears. (Yes, that's a true story). In almost every case where I have had a major success, and there have been a few, it was because I was able to bring into play one or more of six basic truths that they didn't teach me when I trained for my certification as an Economic Development Finance Professional. While knowing the following six truths won't guarantee success in landing any specific business, failure to recognize them will make it much harder to land any business.

### Truth Number One:

#### Businesses Don't Locate for What You Give Them Today, They Locate for the Profits They Will Make Tomorrow

When I was a naive young man working as a planner/community development director in a city in central Wisconsin, I once made a passionate presentation for a park, basing the entire presentation on the upgrade to the city's quality of life and how that would attract business to the city. One of the Park and Recreation Commission's members for life was Stanton Mead, at the time the world's 33rd richest man and the power behind the Consolidated Papers Empire. As Stanton voted, so voted the commission, and my park project died. After the meeting, Stanton stopped me in the parking lot, and gave me the first truth of economic development. As we stood by his pickup watching his dogs eat the steering wheel, Stanton said, "Young man, you made a good proposal but you have to remember that businesses don't locate for what you give them today, they locate for the profits they will make tomorrow."

Stanton's one piece of advice to me was probably the most important piece of economic development training I ever received. It was emphasized a few years later, when a state agency and a city gave major incentive dollars to a medical computer company. Because it was the first major project of a newly formed branch of a state agency, and because the promised returns were stated in hundreds of millions of dollars, several red flags were ignored and the state poured several million dollars in incentive funds into the company account. About two years later, the state was able to extradite the company president from a South American country.

Incentive packages can be useful tools. They can also be a waste of money. Incentive loans should always have collateral, be it in the form of a building, equipment, or utilities in the ground. Even so, without a strong profit motive, a company can easily leave at the least provocation.

### Truth Number Two: The Real Marketing Agents for Any City Are the Clerks in the Stores and the Drunk on the Street

I learned the second truth when my office received word that business scouts for a major insurance company wanted to meet with city officials and the Economic Development Organization. During a hastily called banquet, sponsored by the owner of a local hotel, it was mentioned that the scouting team had been in the city for a full week. Being a "gracious host," I commented

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A Special Thanks to Scott Winkelman and Debra Durm, tournament director and registration coordinator.

And a Very Special Thanks to Mark and Cathie Sposito for their commitment and tireless effort in planning, organizing and coordinating this event.

From the St. Ignace Special Events Committee