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Manufacturing Jobs 2005-2010
Medium-Term Strategies for Long-Term Realities

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Growing Pressure to Shift Freight from Highways to Rail

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Joseph A. Marinucci, FM
IEDC Chair

dear colleague

I was pleased to see many of you at our Leadership Summit in St. Petersburg, Florida. The event offered a wonderful opportunity to bring together the leadership of our profession and certified economic developers to identify and discuss the upcoming year's key issues and to provide insight into building more effective economic development operations.

Certainly one area of major concern for all members is the 2007 proposed budget released by President Bush. The administration proposes cutting about $15 billion from 141 domestic programs as part of the second straight year of cuts to non-security discretionary spending. Unfortunately, the impact of these reductions on economic developers would be profound. Here are some details.

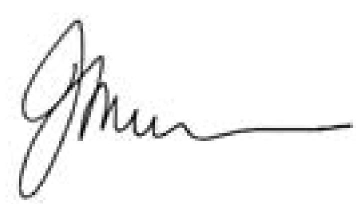
While the Economic Development Administration would receive a $47 million increase from last year's appropriation, the President proposes $2.7 billion for the US Department of Housing and Urban Development's Community Development Block Grant Program. This is a $1 billion reduction from last year's $3.7 billion allocation. Unlike last year's SACI proposal, the President's budget keeps the CDBG program at HUD. Like last year, this year's budget continues to propose the elimination of the following HUD programs: Rural Housing and Economic Development, Section 108 loan guarantees, Brownfields Economic Development Initiative, and Empowerment Zones.

In addition, some of Agriculture's Rural Development Agency programs are also once again targeted for elimination: Rural Business Enterprise Grants, Rural Business Opportunity Grants, and Economic Impact Initiative Grants. And three Department of Health and Human Service programs are also slated for elimination: Community Service Block Grant program, Urban and Rural Community and Economic Development, and Rural Community Facilities.

The entire portfolio of economic development programs would take a huge hit if the administration's proposals are adopted. In total, the Administration requests $1.8 billion less for economic development programs than was received last year. We'll continue to closely monitor this and let members know every step of the way what Congress is deciding to do. IEDC plans to work with like minded organizations to especially oppose the cuts to CDBG.

IEDC continues with its efforts to provide assistance to communities affected by Hurricanes Katrina and Rita. Please consider participating in our Economic Recovery Volunteer Program for areas that suffered heavy damage. The Program deploys members to chambers of commerce, economic development organizations and business assistance centers located in areas that suffered heavy damage. Your skills are greatly needed.

Finally, I want to remind you to mark your calendars for IEDC's Annual Conference, "Roadmap for the Knowledge-Driven Economy," September 17-20 in New York City. This promises to be the economic development event of 2006!



Joseph A. Marinucci, FM
IEDC Chair

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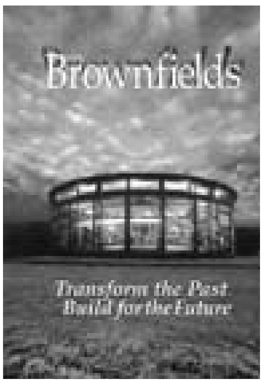

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manufacturing jobs

2005-2010

By William A. Ward

are U.S. manufacturing jobs going to China? Or are they just going away? According to my research, five out of six of the U.S. manufacturing job losses since 1990 were victims of productivity growth (i.e., increasing output per worker).

Between 1990 and the end of 2004, manufacturing employment in the U.S. declined from 17.7 million to 14.4 million. Preliminary data indicate that the decline continued into the 1st quarter of 2005. More than 85 percent of those job losses occurred after 2000, paralleling in time the entry of China into the World Trade Organization (WTO). Is China trade, then, the reason for these U.S. manufacturing job losses? Calculations presented later in this article support the answer "No".

China's exports to the U.S. are *not* the most direct explanation for the decline in U.S. manufacturing jobs. Manufacturing productivity growth explains it much better – not only for the U.S. but also for job losses that were occurring in China and in the global economy as a whole. This profound decline in the manufacturing sector's propensity to generate jobs is the unexpected new challenge facing economic developers not only in the U.S. but around the globe. Meanwhile, because of the role played by the U.S. dollar and U.S. capital markets in the global economy, labor competitiveness as it is commonly defined will not solve the U.S. manufacturing job creation problem in the coming decade.

As discussed in later sections, China joined with the U.S. and the rest of the world in experiencing both rapid productivity growth and rapid loss of manufacturing jobs during much of the period after 1995.[1] The article analyzes the U.S. situation before turning to recent experience of other countries regarding manufacturing productivity and employment. Then it turns to a broader economic development transition in which, for the first time in our lifetime, manufacturing competitiveness does not lead to manufacturing job growth for 90 percent of the countries of the world – including the U.S. This emerging break between competitiveness and job creation represents the most immediate strategic challenge facing economic developers worldwide. In the final section, the article discusses the political, strategic, and tactical options this leaves for economic developers.

Photo courtesy of ICAR.

As local development strategy shifts, BMW, Microsoft and IBM collaborate on automotive systems integration in the BMW Building on the campus of the International Center for Automotive Research, a public-private collaboration involving state and local government, Clemson University, and an increasing number of private companies, located on the outskirts of Greenville, SC.

William A. Ward is a professor and director of the Center for International Trade, College of Business and Behavioral Science, Clemson University, Clemson, SC.

MEDIUM-TERM STRATEGIES FOR LONG-TERM REALITIES

Productivity growth cost the U.S. five times more manufacturing jobs during 1990-2005 than did import competition, an experience shared around the globe. No country added manufacturing jobs consistently between 1995 and 2002, including China, as upwards of 20 million manufacturing jobs disappeared globally. Shifting demand from 'goods' to 'services' as incomes grew joined productivity in reducing global manufacturing employment. And a dollar kept high by the world's leading financial sector gave U.S. manufacturing firms extra burdens to bear. Development professionals should respond by focusing on manufacturing companies rather than jobs and by looking strategically to services and other sectors for wealth creation in coming years.

SOURCES OF U.S. MANUFACTURING JOB GAINS AND LOSSES, 1990-2005

Using a simple model called "Job Shift Analysis", U.S. manufacturing job gains and losses are divided into three causal factors.[2] (1) Productivity growth, (2) GDP growth, and (3) Structural and competitive shifts. The first line in Table 1 shows the model's results for the U.S. over the period 1990-2004. The second line in the table shows the model's application to the more recent period 2000 through 1st Quarter 2005.

According to Job Shift Analysis, productivity growth costs the country jobs, GDP growth adds jobs back, and structural and competitive factors combine to do some of each – with the net effect depending upon the country and the competitive price dynamics that are at play. In practice, the Job Shift Analysis model simply calculates the losses from productivity growth and the gains from GDP growth and then attributes everything else to structural and competitive changes.

Table 1

Sources of U.S. Manufacturing Job Gains and Losses – 1990 to 2004, and 2000 to 1st Quarter 2005

Period	Productivity Growth Factor (Millions)	GDP Growth Factor (Millions)	Structural & Competitive Factor (Millions)	Total Actual Gains (Losses) (Millions)
1990 to 2004	- 7.5	+ 5.7	- 1.5	- 3.3
2000 to 1st Qtr. 2005	- 3.0	+ 1.8	- 1.8	- 3.0

Source: Ward (2005).

Table 1 tells us that, of the 17.7 million manufacturing jobs that existed in the U.S. in 1990, as many as 7.5 million would have been lost to productivity growth if nothing else had happened up to 2004. That is because manufacturing output per worker increased by 73 percent during that period. But GDP also was growing, by 56 percent, which could have added back as many as 5.7 million jobs (at the new productivity levels of 2004). But GDP growth did not add back quite that many jobs. Total manufacturing job losses came to 3.3 million. So something else – structural and competitive factors, in the language of the model – cost the U.S. manufacturing sector an additional 1.5 million jobs between 1990 and 2004.

What about the 2000 to 2005 (1st Quarter) period? The even more rapid rate of productivity growth during that period "explains" 100 percent of actual U.S. manufacturing job losses (3.0 million lost from productivity growth *versus* 3.0 million actual losses). Meanwhile, 100 percent of the 1.8 million "new" jobs that GDP growth should have created in manufacturing did not go to manufacturing. They disappeared into the mysterious "structural and competitive" factor.

What is fueling this productivity growth in manufacturing? The digital revolution plays both a direct and an indirect role in manufacturing productivity growth. The direct effect gets the most attention.[3] It involves substituting ICT (information and communication technology) for labor in applications where that is feasible. The indirect effect of ICT, on the other hand, enables and enhances the de-aggregation and de-centralization of production and the related application of distributed supply chain management practices that have an even greater potential for impact on output per worker.[4]

Supply chain restructuring starts from focusing on core competencies (i.e., the internal sources of value added) and outsourcing much of the remainder to firms and to places that can turn the outsourced task into its own area of core competence. Manufacturing firms keep the tasks that have the highest value added (i.e., their core competencies) and outsource the others to companies who can then specialize themselves in the outsourced task. By definition, this should – and does – increase productivity in the manufacturing sector.

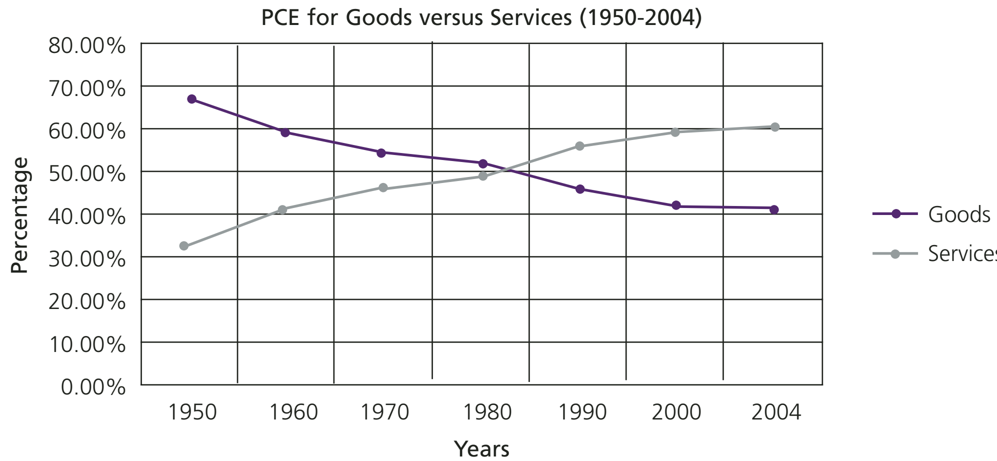
Besides increasing the measured productivity in manufacturing, supply chain restructuring also gives us an over-statement of job losses from manufacturing, *per se*. The outsourcing process moves some "service jobs" within the manufacturing firms to "service jobs" within service industries (e.g., outsourced HR functions, cleaning services, some marketing functions, some machinery repair and maintenance functions, etc.). Some of these jobs (we don't know how many) are not truly lost; rather, the accounting for them is moved to another sector.

There are two possible ways for a country to (partially) offset the negative employment effects of productivity growth: (a) General economic growth, and (b) Competitive gains in international markets. Both of these have their limitations. On the former, growth in GDP both in the US and globally focuses increasingly on expenditures for services rather than goods since, as people get richer, they spend relatively more on services. This shift in demand (discussed further below) limits the ability of economic growth to generate manufacturing employment. On the second strategy, it should be obvious that not every country can experience competitive gains at the expense of everybody else!

The shifting balance of demand towards services and away from goods is an important "structural" reason why GDP growth does not add back all the jobs that the Job Shift Analysis model is suggesting it should. Services, in the aggregate, are proving to be more income-elastic than goods as a whole. This tendency shows up distinctly in the personal consumption expenditures (PCE) part of the National Income and Product Accounts (NIPA) of the U.S., as shown in Figure 1. As real U.S. GDP grew between 1950 and 2004, services increased from 33 percent to 59 percent of PCE, while goods declined correspondingly from 67 percent to 41 percent. This particular structural shift in the U.S. economy is part of what is driving the "sectoral reallocation" of jobs.[5]

Figure 1

Personal Consumption Expenditures for "Goods" versus "Services" in the National Income and Product Accounts of the United States – 1950 to 2004



Source: National Income and Product Accounts, 1950 to 2004. Bureau of Economic Analysis.

Meanwhile, a number of recent developments[6] resulting in the phenomenon called globalization have combined to allow supply chains to restructure globally rather than just nationally. This not only helps turn the manufacturing job-loss effect we are seeing in the U.S. into a global phenomenon, it also works to increase global GDP and to help spread internationally the changing balance between services and manufacturing. This broader transition is evident in the employment shifts occurring in the world's middle- and high-income countries, recorded by the World Bank and depicted in Table 2, for the decade following 1990/92.

"Industry" in Table 2 combines manufacturing, mining and construction; but in practically all cases manufacturing is the dominant sector. You can see from Table 2 the increasing tendency for economic development to decrease the proportion of the workforce (both male and female) engaged in agriculture and industry and to increase the proportion engaged in services. In other words, contrary to urban legend, the

Table 2

Employment by Economic Activity, High-Income and Upper-Middle-Income Countries (1990-1992 and 2000-2002)

	1990-1992		2000-2002	
	Male	Female	Male	Female
Upper Middle Income Countries				
Agriculture (1)	22%	17%	8%	8%
Industry (2)	32%	32%	22%	19%
Services (3)	46%	51%	70%	73%
High Income Countries				
Agriculture (1)	6%	4%	4%	3%
Industry (2)	38%	35%	19%	15%
Services(3)	55%	60%	76%	82%
United States of America				
Agriculture (1)	4%	3%	1%	1%
Industry (2)	33%	32%	14%	12%
Services (3)	62%	65%	85%	87%

Source: World Bank, World Development Indicators 2005.

(1) Agriculture, forestry, hunting and fishing are included in "agriculture".

(2) Manufacturing, mining, and construction are included in "industry".

(3) Transportation, communication, public utilities, trade, finance, public administration, private household services, and miscellaneous services are included in "services".

decline of manufacturing employment is not the unequivocal path to regional and national misery.

THE GLOBAL MANUFACTURING EMPLOYMENT PICTURE

As already suggested, the US is not unique in the manufacturing job losses analyzed here. Approximately 20 to 30 million manufacturing jobs were lost globally between 1995 and 2002, with two-thirds of those losses occurring in China itself. In fact, China lost as many manufacturing jobs in those years (15 to 20 million) as the U.S. possessed (17.2 million at the beginning of the period and 15.3 million at the end).

The 88 countries summarized in Table 3 represent 90 percent or more of global employment in manufacturing. Thus, in 2002 something more than 150 million and something less than 200 million workers were employed in manufacturing around the world. The number of manufacturing workers employed globally in 2002 (the latest year for which adequate cross-national data are available) was 20 to 30 million fewer than that employed in 1995. Part of this decline was due to the East Asian financial crisis of 1997/98 and the economic downturn that hit the industrialized countries in 2001. But another part was due to manufacturing productivity growth and to the structural and competitive shifts discussed previously.

Table 3

Estimates of Global Manufacturing Employment and Job Losses 1995-2002

Region	Mfg Employment In 1995 (000)	Mfg Employment In 2002 (000)	Change 1995 to 2002 (000)
Africa	4,242.7	3,925.9	- 316.8
Americas	31,944.1	31,691.3	- 252.8
Asia	76,594.3	58,395.4	- 18,198.9
Europe	58,319.3	55,657.3	- 2,662.0
Oceania	1,321.1	1,395.7	+ 74.6
Globally	172,421.4	151,065.6	- 21,355.9

Source: Ward (2005), assembled from ILO data on 88 reporting countries

So, have any countries gained manufacturing jobs in recent years? Yes, three countries of any significance experienced intermittent gains. From 2002, China began adding manufacturing jobs again. We don't know how many or how consistently, because China's data systems are incomplete and slow in reporting. In addition, we know that Canada and Ireland added a few thousand manufacturing jobs at times during 1990-2005, though not consistently. In two of these cases (China and Ireland), GDP growth rates were so high at times as to swamp both productivity growth and the rate of transition from goods to services consumption. And in both cases there were competitive gains as well.

As manufacturing employment wanes, Meds & Eds (healthcare and academic institutions) arise as the largest employers in metropolitan areas of the United States.

THE CHINA MANUFACTURING EMPLOYMENT PICTURE

Sheer size makes China the global manufacturing lightening rod in any contemporary economic storm. Judith Bannister (2004) estimates that China employed 98 million workers in manufacturing in 1995, declining to 80 million in 2001 and recovering to 83 million manufacturing jobs in 2002. That would make China the employer of one-fourth to one-half of the global manufacturing workforce estimated in Table 3.

China deserves some of the lightening bolts being cast its way.[7] It is important to keep the pressure on China over the renminbi (RMB) exchange rate regime, continued reform of their financial sector, and enforcement of trade agreements. But the analysis in this article suggests that success in these efforts will not restore U.S. manufacturing to the job creator status it had in the 1970s.[8]

Bannister (2004) and others report that China's manufacturing productivity expanded by approximately 60 percent between 1995 and 2001. Meanwhile, China was experiencing GDP growth averaging 7.8 percent per year (Liu 2004) or higher. If we apply our Job Shift Analysis model to China, we conclude that productivity growth should have cost China an astounding 37 million manufacturing jobs over those years, and that GDP growth should have added back an even more astounding 42 million. In fact, between 1995 and 2001, China lost 18 million manufacturing jobs. This suggests that structural and competitive factors were at play in China as well, though – given the differences between the U.S. and Chinese economies – these factors were playing vastly different tunes in these two national economies.

PRODUCTIVITY: THE TWO-EDGED SWORD

Productivity is a two-edged sword that can cut both the enemy and the wielder. To stay competitive in a globalized economy, you must have productivity growth. But, if you have it, you need fewer workers to produce the same or even moderately-higher levels of output. You get some idea of the role productivity growth plays from Table 4, which shows the parallel between manufacturing productivity growth and manufacturing employment change in an important sub-sample of the world economy.

In Table 4, Canada appears as an exception among the major industrial countries to the common tendency for productivity growth to reduce employment. Why is that? The answer either must be in competitive gains that we already agreed not everybody can enjoy, or it must be in a very high growth rate of GDP. Because Canada's GDP has grown pretty much in line with that of the U.S., then competitiveness must be the answer. So let's look at what manufacturing workforce competitiveness involves, in the conventional wisdom.

Labor force competitiveness is tracked by the Foreign Labor Statistics group at the U.S. Department of Labor, and its web page assesses the cross-national factors affecting comparative labor costs measured in dollars per unit of output.[9] Its analysis is based on the presumption that, in order to gain global manufacturing market share based on labor cost competitiveness, a company or nation must (1) increase the output per worker, (2) control wages, and/or (3) keep the value of domestic currency low relative to that of trading partners and competitors. Two of these three competitiveness factors involve controlling or reducing workers' purchasing power (wage restraint and low currency value), which few would consider "economic development". We have shown that the third (productivity growth) reduces employment unless accompanied by (a) Growing demand for manufactured goods, and/or (b) Increasing competitiveness *vis a vis* trading partners so as to capture an increasing share of global markets. The problem with the first option is that, as Figure 1 suggested, growth in global purchasing power does not translate one-for-one into demand for manufactured goods. The problem with the second option, as previously discussed, is that not everyone can achieve competitive gains at the same time.

Table 4

Productivity Growth and Employment Change in Manufacturing in 14 Countries, 1992-2003

Country	*% Growth In Output per Worker In Manufacturing (1992-2003)*	*% Change in Employment In Manufacturing (1992-2003)*
Canada	34.5	+1.1%
Australia	42.0	-25.7%
Japan	54.3	-25.7%
Korea	155.3	-11.8%
Taiwan	76.1	-2.7%
Belgium	44.0	-16.8%
Denmark	36.0	-12.6%
France	58.0	-10.9%
Germany	35.1	-21.0%
Italy	10.9	-2.9%
Netherlands (*1990-2002)	35.2*	-12.7%
Norway	13.5	-1.5%
Sweden	101.5	-3.6%
United Kingdom	34.9	-18.1%

Source: Bureau of Labor Statistics, US Department of Labor.

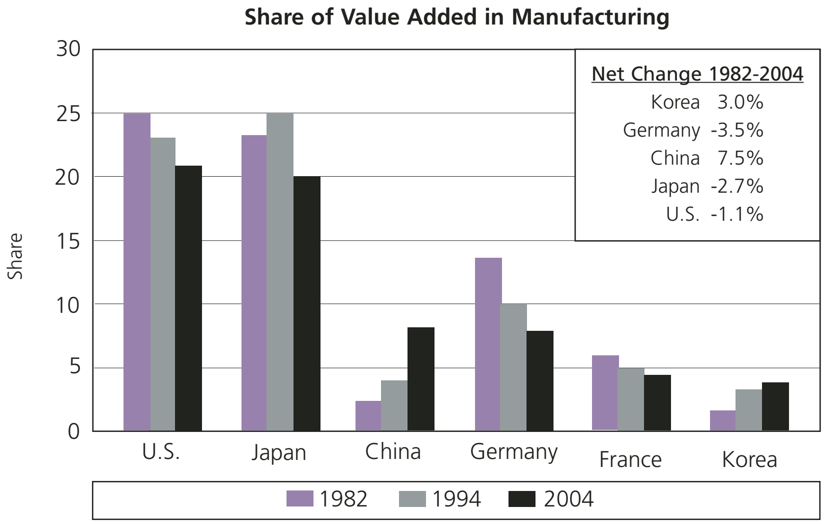
COMPETITIVENESS *VERSUS* JOBS: THE EMERGING DIVIDE

For the first time since manufacturing and economic development came to be viewed as synonymous[10], the link has begun to break between manufacturing competitiveness and the creation of jobs. In country after country, manufacturers have responded to the growing global competition by cutting jobs and increasing output per worker: U.S. manufacturing output, for example, increased by 60 percent between 1990 and Spring 2005, while U.S. manufacturing employment decreased by 20 percent. Meanwhile, the U.S. Bureau of Labor Statistics forecasts that overall U.S. manufacturing employment will decline by another one percent between 2005 and 2011.

The conflict between competitiveness and job growth is made most poignantly by the experience of Korea. In Figure 2, Korea is seen consistently and rapidly increasing its share of global manufacturing value added from 1982 to 2004. In Table 4, on the other hand, total manufacturing employment in Korea is seen to decline by 11.8 percent between 1992 and 2003. Korea's 155 percent growth in productivity during the latter period kept it globally competitive as a supplier of manufactured goods. But, at the same time, this

Figure 2

Selected Countries' Shares of Global Value Added in Manufacturing, 1982 to 2004



Source: New York Times.

competitiveness reduced rather than added manufacturing jobs.

China, on the other hand, began adding manufacturing jobs in 2002. There is no way of knowing yet if that job growth continued in 2003 and 2004 but we suspect that it did. Why China and not Korea? Because of differences growing out of the three-part competitiveness equation tracked by BLS. Firstly, wages are low in domestic currency in China, where another 200 million workers in rural areas remain to be absorbed into employment (which will tend to hold down wage rate growth – particularly in the inland provinces that are just beginning to develop). Secondly, the exchange rate for the RMB is tied to the U.S. dollar at an exchange rate said to undervalue the RMB by 25 percent to 40 percent (the July 2005 revaluation of 2.1 percent and the dollar replacement with a basket of currencies notwithstanding). Consider further that manufacturing output per worker in China increased by 60 percent between 1995 and 2001, according to Bannister (2004). China has made a strong commitment to using its low domestic wage rate and undervalued exchange rate to create the huge numbers of jobs they will need. And China also is making concerted efforts to add productivity growth into its side of that competitiveness equation.

Unless the global economy experiences tremendous growth in demand for manufactured goods, the foregoing analysis suggests a dire scenario: (a) Continued loss of manufacturing jobs on a global scale, and (b) Allocation to China of a large percentage of whatever manufacturing job growth does occur in the next few years. Given that dark prospect, what brighter alternatives might there be?

THE STRUCTURE OF GLOBAL DEMAND: A TEETERING IMBALANCE?

The brighter but unlikely alternative would be for the Asian countries (of which China is by far the largest in population) to mature beyond the export-led growth that simply lives off of the demand created in the strong-currency countries, in particular the U.S. What should they be developing into? The World Bank, the International Monetary Fund, and the U.S. monetary authorities would like to see these countries develop financial systems strong enough to generate and manage demand domestically.

Not only China but also a number of countries in the region (including Thailand, Taiwan, and Malaysia) as well as Japan and a number of countries from the Former Soviet Union used fixed and undervalued exchange rates to run trade surpluses and to generate domestic savings. As Ben Bernanke (then chairman of the President's Council of Economic Advisors and recently appointed chairman of the Federal Reserve System) pointed out in a March 2005 speech, channeling these savings back into U.S. capital markets is having important effects upon the U.S. economy. First of all, it is holding up the exchange rate on the U.S. dollar and thereby decreasing the calculated competitiveness of U.S. manufacturing workers. Secondly, the flows of these foreign savings into U.S. capital markets are keeping dollar-denominated interest rates low and indirectly fuelling the housing boom, deemed largely responsible for increasing the feeling of household wealth that underpins the U.S. consumption boom and savings bust.

Maturation of China and the other Asian economies and their transition from export-led to domestically-generated economic growth would help increase global demand and potentially add back some jobs in global manufacturing. Let's face it, the primary source of global demand generation for the past several years has been the U.S.[11] But none of the countries, including China, seem able or committed to move to the next stage in economic development. The fact that Japan's economy (and, particularly, its financial system) has been slow to mature beyond the export-led, managed-currency approach does not give us much hope as regards the rest of Asia.[12]

What does this export-led growth and weak financial sector talk have to do with manufacturing job losses in the U.S.? Well, it all stacks up to an exchange rate for the U.S. dollar that will remain too high for the labor force competitiveness calculations to imply competitive job gains in U.S. manufacturing. The U.S. will continue to have manufacturing firms that are globally competitive, but they will not be job-creating manufacturers of the type we came to know in previous decades. And we will likely see continued trade deficits for the U.S. economy.

Photo by Lisa Garrett, Tri-County Technical College, Pendleton, SC.

Tech schools created in the 1960s and 1970s to train manufacturing workers have morphed into 2-year and 4-year colleges providing both training and education for a range of applications.

IS THERE A PRECEDENT?

Manufacturing jobs are caught between two global forces that are strikingly reminiscent of events in the late-19th and early-20th centuries. In the late-1800s the Second Industrial Revolution added dramatically to agricultural and manufacturing capacities, particularly in countries like the U.S. and Germany – the two leading beneficiaries of the technologies of that Revolution. Meanwhile, with the major trading nations of the world on the gold standard, money supply and demand growth were constrained by the availability of new discoveries of that metal. With productive capacities growing much faster than money supply, the price level in the U.S. declined by half over the course of the 19th century.[13]

How is that similar to the situation today? On the supply side, today's similarities grow out of two phenomena: (a) Growing manufacturing productivity in country after country, as discussed previously, and (b) Globalization and the related market liberalization in large parts of Asia, in particular including the world's two biggest countries (China with 1.3 billion and India with 1.0 billion of the world's 6.3 billion people) and in the former Soviet Union. All together, these 'emerging market' countries have one-half the world's population and workforce. Thus, global progress in market liberalization since 1990 has doubled the internationalized capacity to produce tradable manufactured goods. Productivity growth (i.e., increase in output per worker) since 1990 has doubled that again. Thus, taken together, these two developments imply a four-fold increase. This shock to global supply capacity since about 1990 is, indeed, equivalent to another industrial revolution.

On the other side of the market, the global economy is constrained by the reality of the U.S. as the primary source of growth in global demand. Much of the world is employing its workforce off of demand leakages from the U.S. economy. A primary component of this leakage, of course, is the huge trade deficit the U.S. has with the countries identified here (including Japan) that are pursuing export-led growth strategies. Such broad-based pursuit of that strategy is possible today only because the U.S. dollar and the U.S. financial system of which it is an integral part have morphed into the gold and the silver mines of the 21st century. This is sustainable, of course, only so long as the world wants to hold growing balances of U.S. dollars and U.S. capital market assets in its investment and risk management portfolios. Stephen Roach at Morgan Stanley has been a leader (of a large band of followers) in pointing out the "global economic imbalance" and the precarious situation this convergence of policies has created for the world economy.

WHAT ARE DEVELOPERS TO DO?

Long-standing targets of adding jobs and increasing wages (two core objectives of economic development) are not likely to come from long-standing approaches to competing for manufactur-

What does this export-led growth and weak financial sector talk have to do with manufacturing job losses in the U.S.? Well, it all stacks up to an exchange rate for the U.S. dollar that will remain too high for the labor force competitiveness calculations to imply competitive job gains in U.S. manufacturing. The U.S. will continue to have manufacturing firms that are globally competitive, but they will not be job-creating manufacturers of the type we came to know in previous decades. And we will likely see continued trade deficits for the U.S. economy.

ing investments. So what can development professionals do when the global macroeconomic and global manufacturing environments align against them in this way?

First of all, it is not facetious to suggest that business retention and expansion units need to refocus on "business retention and contraction" in coming months as regards manufacturers. Productivity growth and competitiveness considerations will reduce the number of workers in the manufacturing firms that you now have. You should help both the companies and the elected officials with the politics of that reality. Secondly, you need to help companies work out which parts of their value chain should stay with you and which parts should be relocated or consolidated somewhere else (the Manufacturing Extension Partnership can be a valuable partner here). In other words, focus for now on the companies and not the jobs. The immediate task is to keep as much as you can of what you have. This means being realistic about giving up some parts that will be more competitive elsewhere in order to keep the overall company and its supply chain competitive. This is a very different job from the one most of us have been asked to perform in the past.

Which parts of your existing manufacturing investments might you be able to keep? You might be able to keep the parts of the business that produce high value-added per worker and that also need the special advantages your locale provides to them – supplier networks, market outlets, specialized workers, specialized training facilities (in short, all the things that "cluster theorists" talk about).[14] Even large-scale manufacturing facilities are having a hard time functioning as stand-alone entities. Thus, for example, the capacitor manufacturer Kemet is moving much of its operations to Asia, not solely because labor is cheap there but because that is where the company's markets are.

Recognize that service industries will be a growing part of your local employment base. This broad sector includes high-paying industries such as business services (where many out-sourced jobs from manufacturing have gone) and professional services as well as low-paying jobs in retail, hotels, etc. Attend to this reality in strategic planning activities, and focus on creating growth in the higher-paying segments of these industries.

Recognize that service industries will be a growing part of your local employment base. This broad sector includes high-paying industries such as business services (where many out-sourced jobs from manufacturing have gone) and professional services as well as low-paying jobs in retail, hotels, etc. Attend to this reality in strategic planning activities, and focus on creating growth in the higher-paying segments of these industries.

Late-19th and early-20th century manufacturing facilities of historical significance – such as Mill's Mill in Greenville, SC, shown here – are experiencing rebirth as pricey condos for office and residential use.

The problem of high production costs facing the "real" sector in the U.S. arise from successes in the U.S. "financial" sector in past decades.[15] So focus part of your development strategy on parts of the financial sector that could make sense for your locale. Florida has talked about incentives to attract part of the mortgage service industry. Ireland, addressing similar problems in the Euro zone, has acquired a big chunk of the global financial services business.

Finally, do not downplay those who argue that the world is changed and that you will need vastly different strategies for dealing with new challenges. For the most part, these chroniclers of revolution will not be able to tell you specifically what you need to do to prosper in the future. Why? Well, precisely because the environment is now different, and the next generation of conventional wisdom about economic development is only now being worked out. What the analysts and the chroniclers can tell you for sure, however, is that previously-reliable strategies of buffalo hunting for job-creating manufacturing behemoths have moved beyond passé.

FOOTNOTES:

1 Though China began adding back manufacturing jobs in 2002. This point is discussed further at a later point in this article.

2 More discussion of that model is contained in the Working Paper on which this article is based, which can be found at the Center for International Trade web site http://business.clemson.edu/cit/.

3 Gordon (2004), Jorganson and Stiroh (2000), and Oliner and Sichel (2000) analyze and debate the role of ICT in U.S. productivity growth 1990-2004. In the 1990s, Gordon began suggesting that productivity within the sectors producing the ICT was dominating overall productivity growth in manufacturing (Oliner and Sichel later would attribute two-thirds of productivity growth in non-agriculture industries in the 1990s to productivity within the ICT industries). Some analysts suggest that Sweden's rapid productivity growth is due to this phenomenon. Works cited in this note deal not only with the production but also the use of ICT in manufacturing.

4 This is related to the "cluster" phenomenon to which we return later.

5 The issue of sectoral reallocation has been analyzed in a series of articles in journals published by the Federal Reserve Banks of New York and Chicago. Much of the focus in those articles after 2001 has been jobless recovery, a subject touched upon in Gordon's (2004) discussion of cyclical factors in productivity growth but not discussed here. Core references on this aspect of sectoral reallocation are Aronson, et al (2004), Groshen and Potter (2003), Lillien (1982), and Rissman (1997).

6 This subject is discussed in much greater detail in the forthcoming book, *The Rise of Market-Based Society: Technology, Institutions, and the Choice of Market over Hierarchy.*

7 See the text of interviews with the Xinhua News Agency, posted at the CIT website (http://business.clemson.edu/cit/).

8 U.S. total manufacturing employment reached a historical peak in 1979, at 19.4 million workers. As a percent of the civilian workforce, manufacturing peaked in the late years of World War II at one-third of the workforce before declining to approximately 11.3 percent of the U.S. workforce by mid-2005.

9 The Foreign Labor Statistics page can be found at http://www.bls.gov/fls/home.htm

10 Which arrived in earnest in the late 19th century, though much earlier Alexander Hamilton's *Report on Manufactures* had propounded that view in opposition to Thomas Jefferson's argument that strengths in the primary industries of agriculture, forestry and mining were the true sources of national wealth and security.

11 With the introduction of a new currency (the Euro), the European Union has tried to keep government deficits and monetary growth under strict control in order to build faith in the new currency. Japan, the third major potential source for global economic leadership, continues to be the model for the export-led growth policies followed by much of the rest of Asia and, like China, lives off of demand generated elsewhere (the U.S., primarily).

12 Though Jesper Koll of Merrill Lynch Japan sees the Japanese economy finally turning a corner. http://www.accj.or.jp/pages/koll_052004

13 Demands for bi-metalism (i.e., adding silver as a monetary partner of gold) grew during that century as a way of dealing with the shortage of money.

14 Much has been said in this *Journal* and elsewhere about cluster strategies, and this article will not repeat that litany in this wrap-up section. Porter (2000 and 2003), Porter (1990 and 1998), and Markusen (1996) are traditional references.

15 See Bernstein (1992), and Ward (forthcoming).

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short line railroads in ECONOMIC DEVELOPMENT

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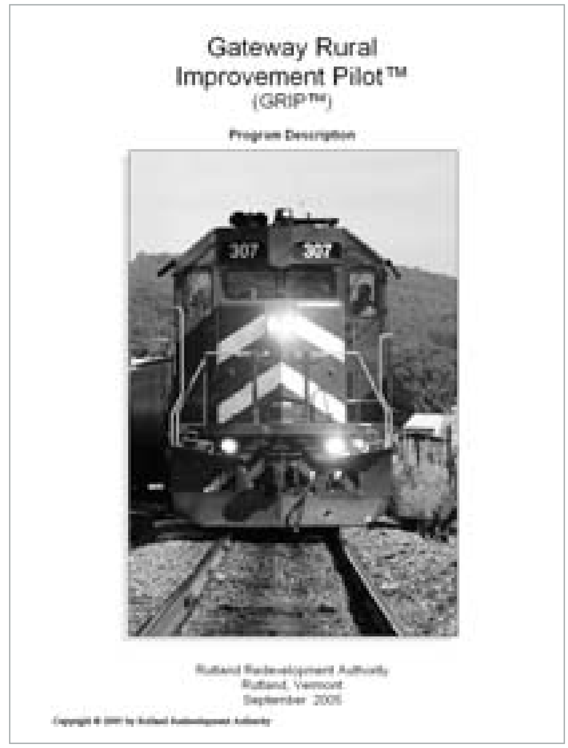
INTRODUCTION

For several decades before passage of the Staggers Rail Act of 1980, which largely deregulated them, America's railroads were in decline. The interstate highway system opened a vast network of point-to-point shipping capacity. Most industries shifted over to trucks, leaving rail to haul only the high volume, lower value commodities that moved between a small number of senders and receivers.

Now, however, it is widely recognized that the era of building interstate highways has ended. With congestion worsening, fuel prices rising and truck drivers in short supply, it is increasingly clear that rail will emerge as a viable alternative.

The increased use of rail will pose new challenges for economic developers. The evolving structure of the shipping network will have a major impact on site selection, infrastructure needs, and financing. Further, many communities, especially older downtowns, still have the remnants of the old rail system in the form of abandoned (or obsolete) switching yards and transloading facilities. As rail use grows, these communities will seek to relocate the heavy transportation function out of downtown commercial areas. This poses challenges in figuring out where to put them and what should be built to accommodate future rail growth.

A previous article on these pages ("Transportation Gateways for Rural Development," Winter 2004) discussed potential uses of rail in a rural transportation corridor, and speculated about new approaches that might emerge in the federal transportation authorization bill. With the authorization bill finally signed into law last summer, this article reports on that outcome and discusses the implications for local and regional economic development. But primarily, this article discusses the growing role of short line railroads and anticipates their effects on economic development.



A prototype freight management system is coupled with four rail improvement projects in western Vermont and authorized as the Gateway Rural Improvement Pilot Program in the 2005 SAFETEA-LU transportation authorization.

A PILOT PROJECT TAKES SHAPE

The ways in which changes in the rail industry will affect economic development are demonstrated by the Gateway Rural Improvement Pilot in Vermont. The combined rail/highway corridor in that state's Western Corridor was described in the Journal's Winter 2004 edition. At that time, project managers were seeking to establish four important rail projects as a single, combined project, with the stated goal of improving the rail system to the point where it is marketable for economic development.

GROWING PRESSURE TO SHIFT FREIGHT FROM HIGHWAYS TO RAIL

Short line railroads play an increasingly important role in moving the nation's freight. Yet this rapidly evolving industry presents major challenges – and opportunities – for economic developers. This article examines the regional and local rail network that connects local producers to the national rail system, and examines how a project in Vermont is putting it to use.

The "Freight Transportation Gateways Program" was defined in the administration's proposal for the transportation authorization bill. It sought to address freight mobility with less regard to specific modes. Rather than focus narrowly on highway solutions or rail solutions, the program would give states latitude to plan for freight capacity without regard to mode. The bill called for states to designate freight coordinators within their agencies of transportation and stipulated funding for intermodal connectors, those short segments of roadway connecting intermodal facilities to National Highway System (NHS) routes.

As events played out this past summer, the Freight Transportation Gateways Program itself did not make it into the final bill. However, the Vermont project, now called the Gateway Rural Improvement Pilot, was authorized, with $30 million in funding to get it started. With that project now moving forward, it is useful to look at its potential benefits for economic development.

In Rutland, Vermont, an old railyard wedged between a commercial park, a residential neighborhood, and the historic downtown will be relocated to a parcel about one half mile to the south. Responding to growing safety concerns stemming from the old yard's downtown location and pressure to redevelop valuable downtown sites, the Rutland Redevelopment Authority (RRA) entered into an agreement with the Vermont Agency of Transportation to serve as project manager for the relocation project. (The state owns the main line and leases it to a private operator.) A 1999 study of possible relocation sites for both the Rutland and Burlington, Vermont, railyards examined more than a dozen options. Only one site in Rutland was deemed feasible. No site was identified for the Burlington yard, which currently sits on 40 acres of prime waterfront land on Lake Champlain.

Search criteria for the Rutland yard covered sites within five miles of the current yard and within one half mile of the main rail line. To go farther afield would severely increase operating costs or create insurmountable alignment problems. The site needs to be flat, straight, dry and uninterrupted by at-grade road crossings. In mountainous regions like Vermont, rail lines run along valley floors. However, mountain streams drain into those same valleys, so there are destined to be conflicts with wetlands and waterways. To make matters worse, most towns are located in the valleys too.

Rutland got lucky and found a feasible site for a new railyard. An 80-acre parcel just south of the city abuts the intersection of US Routes 4 and 7, the two major NHS routes serving western Vermont. It parallels the main rail line and is very close to the existing yard. Preliminary engineering is under way, and a Draft Environmental Impact Statement (DEIS) should be released for public review as this article is appearing. With the transportation project on strong footing, project managers are extending their efforts to the economic development opportunities that will stem from the infrastructure improvements. With such a large public investment going into the railyard, it is incumbent on the project managers to deliver the economic benefits as rapidly as possible.

From the start, plans called for commercial/industrial development in the parcels adjacent to the switching yard. A marketing assessment was conducted in summer 2005 by Corporate Logistics of Newton, MA, a firm specializing in site selection for clients requiring rail connections. The report, done by Eyal Shapira and Mary Albertson, evaluated multiple sites along the rail alignment in Rutland City and Rutland Town to determine their potential for rail development.

Generally, sites need to be at least two acres, rectangular with the long side parallel to the rail line, at grade with the main line to allow a siding, and within a reasonable distance of connections with Class I railroads. In most rural areas, this means using a short line railroad to carry freight to regional connections with larger (Class I) carriers. While the goal of such projects is to encourage the use of rail instead of trucks, sites will still require good truck access. Many companies use rail for delivery of materials or shipping of final products. At least one segment of the trip will usually be made by truck.

> The increased use of rail will pose new challenges for economic developers. The evolving structure of the shipping network will have a major impact on site selection, infrastructure needs, and financing. Further, many communities, especially older downtowns, still have the remnants of the old rail system in the form of abandoned (or obsolete) switching yards and transloading facilities. As rail use grows, these communities will seek to relocate the heavy transportation function out of downtown commercial areas. This poses challenges in figuring out where to put them and what should be built to accommodate future rail growth.

OVERVIEW OF RAIL INDUSTRY

A company's ability to use rail is just one part of its ultimate decision to actually do it. The growing inclination of businesses to consider rail results from changes in the economics of transportation nationally. Five discernable trends suggest a growing role to be played by freight rail in the near future.

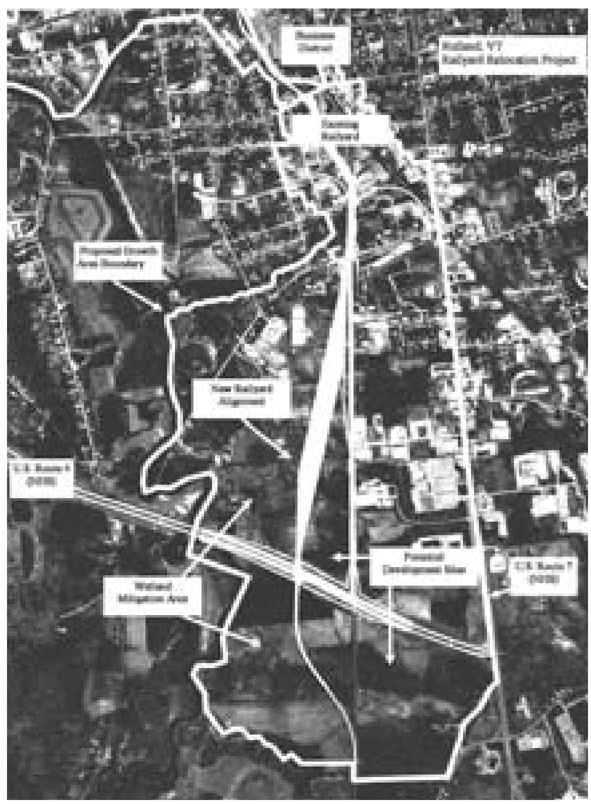
The railroad industry divides railroad companies into three major size categories as shown below, based on a minimum mileage or revenue threshold. The revenue thresholds, which increase each year, are shown below as of 2004, the last year for which aggregate data is available The term "short line" refers to both Class II and Class III railroads, which can be further differentiated into larger "regional" and smaller "local" companies.

Rail Industry Classifications (as of 2004)

	Revenue (millions)	*Number of Companies*	*Miles Operated*
Class I	<$289.4	7	97,496
Short Lines			
Class II - Regional	$23.1 - $289.3	31	15,641
Class III - Local	>$23.1	518	27,109

(Source: American Association of Railroads, "Railroad Facts 2005")

First, demands on existing surface transportation infrastructure have never been greater. While public attention is focused on the rapidly increasing number of motor vehicle miles being driven every year, equally profound effects are being felt on the railroad infrastructure. Demand for railroad track is manifest in the fact that Class I railroad freight train miles traveled throughout the United States have increased all but two years, from 375 million in 1991 to more than 534 million in 2004. That period, largely coinciding with the nation's longest recorded expansionary economy, has left many of the nation's railroads concerned about their ability to handle additional business.



The switching yard in Rutland, VT, will be moved from a constrained downtown location to a more open site in an adjacent growth area.

For at least the last 15 years, major US railroads have sought to – and succeeded – in concentrating trains on fewer miles of infrastructure, believing that such a strategy will improve service and reduce costs, primarily of track maintenance. In many cases this was achieved by reducing double tracked lines to a single track. The number of route miles operated by Class I railroads dropped by nearly 20,000 route miles from 116,626 in 1991 to 97,662 in 2004. Thus, for the Class I railroads, certain routes have experienced huge increases in train movements as more volume is squeezed onto fewer track miles.

Second, large railroads are enjoying a period of relative prosperity. A number of factors including deregulation, mergers and other industry restructuring trends result in railroads that are better poised to meet future challenges than in past decades. However, the financial strength of the Class I railroads has not yet trickled down to short lines, many of which still operate as small, start-up companies with weak balance sheets. Yet the short lines increasingly are the rail freight industry's point of contact with local customers, so the condition of those regional and local lines will have a major effect on economic development.

Even though large railroads have become relatively prosperous, they remain unable to pay for all needed infrastructure expansion. Inasmuch as railroads are extremely capital-intensive, there is widespread belief in the industry that public-private partnerships – investment of government money in private railroads – will be required to elevate railroad capacity to its ultimate potential in meeting demand levels expected in the future. Some parts of the public sector have been reluctant to do this; investing in railroads is viewed by some as investing public funds in private sector companies generating private company benefits. Interestingly, however, as the problems of congestion, safety and environmental impacts come to the forefront, more policy thinkers are coming to the conclusion that significant public benefits can be reaped through partnering with private railroads. As the Federal Highway Administration puts more emphasis on the use of public-private partnerships, opportunities should be sought to apply these tools to rail as well. Already such public-private investments are occurring around the country.

Third, there is little highway capacity left to carry the increasing load. A Federal Highway Administration report (The Freight Story, November 2002) estimates that the volume of freight moving in this country will double between 2000 and 2020. At the same time, the highway mileage available to carry it will increase by less than one percent. Estimates of the growth in passenger traffic are equally dramatic, as suburban growth, movement of employment centers away from urban cores, and the increase of the number of cars and driver per household compound the problem. The US Department of Transportation Freight Analysis Framework (FAF, a database of county-to-county freight flows) estimates that by 2020, about 46 percent of the urban NHS will reach or exceed capacity during peak hours, compared to 28 percent in 1998. The volume of freight has to go somewhere and for many industries rail is a logical alternative.

Fourth is the high cost of fuel. Combined with growing congestion and a chronic shortage of drivers, this higher cost – which few expect to come down significantly – changes permanently the relative costs of using trucks as opposed to rail. While the congestion encountered by more and more truck movements is an obvious problem, the impact of rail efficiency is even more far-reaching. An industry "rule of thumb" is that one rail car carries a load equivalent to four trucks. The very nature of rail adds even more efficiency; metal wheels moving along metal tracks generate less resistance than rubber tires moving on pavement. All told, a gallon of fuel will move a ton of freight much farther on rail than on a highway.

Fifth, increasingly stringent environmental regulations and resistance of property owners to highway construction in urban settings limit the amount of highway expansion possible and focus attention on alternatives to private motor vehicles. Dozens of cities, large and small, have examined the feasibility of one or more rail passenger technologies to ease roadway congestion, benefit the environment, and support revitalization of urban cores. Similarly, governments at all levels are increasingly studying the effect of truck movements on highway capacity and the advantages of diverting at least some of those loads to rail.

Class I railroads move much of their freight in containers, seen here being loaded in a major intermodal facility. Local transloading facilities can help smaller companies containerize shipments that otherwise would not move on the Class I system.

With respect to such matters, rail competes extremely well, with a reputation for having a "light environmental footprint" when compared with highways. For instance, for every ton of goods moved one kilometer, freight rail emits one-third the nitrogen oxide and carbon monoxide and one-tenth the volatile organic compounds and diesel particulates emitted by heavy trucks. The very fact that rail development must follow the rail alignments reduces the potential for sprawl. Certainly in Vermont, rail has proved to be one area where environmentalists and economic developers have found significant common ground.

SERVING THE LOCAL CUSTOMER

The "division of labor" between Class I lines and short lines has changed profoundly. A number of factors, including deregulation, mergers, and other industry re-structuring trends, have resulted in large railroads doing the long-distance, heavy-volume hauling (wholesaling) while small railroads increasingly act as feeder lines (retailing) that provide direct service to the end customer. Formerly, a Class I railroad would offer multiple plans for picking up and delivering shipments to and from intermodal shippers. This might have included such services as picking the load up at a customer's loading dock and taking it to an intermodal facility.

Class I railroads no longer provide such services. A significant portion of the network of local and regional distribution lines has been sold off to short line operators. As a consequence, the number of short line railroad companies has increased to 480 in 1985, to 516 in 1990 and 549 in 2004. Now, a local shipper's access to and from the railroad network may well be through a locally-owned rail carrier. While Class I route-miles have decreased from

137,504 in 1990 to 97,496 in 2004, the number of short line route-miles has remained about the same over that period (42,712 in 1990 and 42,750 in 2004). There were 14 Class I railroads and 516 short line railroads in 1990; in 2004 there were seven Class I's and 549 regional and local railroads. Actual Class I track mileage has been reduced as operators eliminate duplicate lines and retire the least profitable lines and those requiring expensive repairs beyond the financial capacity of any operator to recover through expected traffic levels. (See graph.)

As Class I railroads sell off their light density lines, their dominant position in the industry allows them to make buyers often purchase unprofitable line segments as part of packages including marginally profitable lines. Buyers then often close down the unprofitable segments over time, if business does not develop. Thus, a far ranging network that evolved piecemeal is being trimmed as poor financial performance is experienced, resulting in a smaller number of miles operated as part of the total national rail network.

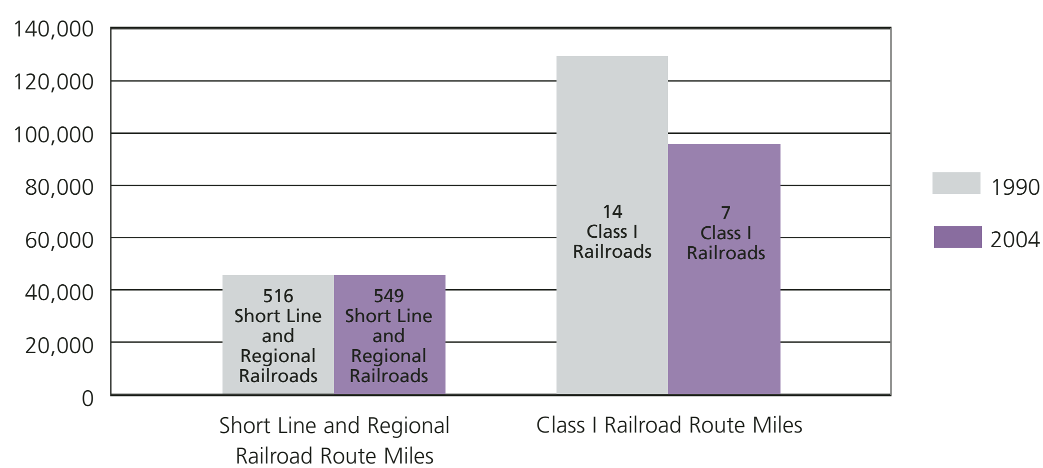
The network relationship between Class I's and short lines would seem to be a simple format – shipper to local short line to Class I to the world – but major problems exist within the channels. As mentioned above, Class I's view themselves as "wholesalers," moving large volumes of freight long distances, preferably in unit trains, which require little or no switching and can be moved productively and profitably from origin to destination. However, many small to medium sized companies do not generate enough volume to fill a railcar, or enough railcars, to make it profitable for a large railroad. They will need to move their goods to a local transload facility or regional intermodal facility where consists (groups of rail cars bound for a common destination) can be combined to make up sufficient volumes that will be appropriate for Class I shipment.

This need to repackage goods for rail shipment places new burdens on the freight system infrastructure. Intermodal and transloading facilities will play increasingly important roles. It is important to understand the difference between the two. Intermodal facilities transfer containers between ship and rail or between truck and rail. Their efficiency is predicated on the uniformity of the containers, enabling a standard system of cranes and lifts to handle all variety of goods. The Class I railroads are oriented toward serving these large, high volume facilities.

Transload (or transfer) facilities work at the local level to shift individual payloads back and forth between truck and rail. A logging company will truck harvested trees to a transload facility to load them onto rail cars. Tanker cars will offload heating oil for local delivery by truck. These facilities seldom handle containers. Their goal is to get a load on rail and move it to a regional intermodal switching facility for transfer to a Class I line.

More problems occur in making the connection to the Class I railroads, which tend to base their business plans on moving large numbers of containers from, as much as possible, a single source to a single destination. They prefer to run from a large port to a large regional intermodal facility, with no stops in between. Stopping takes time, requires switching and creates delays, all of which add costs and risk reduced customer satisfaction. Therefore, Class I's are reluctant to stop repeatedly at regional centers to pick up small consists of cars from short lines. Unfortunately, they also are reluctant to let short lines operate on Class I trunk lines in order to reach intermodal facilities, as this extra track usage adds to already serious congestion. Ultimately, a network must be developed that will allow short lines to feed into intermodal centers that produce the volume that is attractive to Class I operators.

Route Miles of Short Line/Regional vs. Class I Railroads



Transloading facilities may be as simple as the pumping unit seen next to this railcar. The pump transfers product to trucks for local delivery. The railcar holds the equivalent of four truck loads.

Despite these problems, the evolution of the rail system resulting in the emergence of a more robust short line industry results in improved productivity and financial performance, meaning that railroads are better poised to meet future challenges than in the last few decades. So, railroads more and more have the potential to respond to increasing demand with capital investments as well as operational improvements.

DECIDING WHEN TO USE RAIL

This brief review of factors attracting an industry to use rail (versus truck) is provided as background. The factors provide a basis for understanding the niche that short line railroads fill in an industry dominated by a small number of mega-carriers on the one hand and trucks on the other.

The extent to which any particular industry tends to use the rail mode is determined by numerous factors associated with its material inputs and outputs and with aspects of its competitive environment. Generally, railroads carry high bulk, low-value commodities moving in rail carload (or more) shipment volume. Because of this and the need for extra handling at the rail head, rail works best on longer hauls of at least 500 miles. If the total trip is shorter than that, it is unlikely that lower rail rates will offset higher handling costs. The following industries or product groups, some of which supply others on the list, involve significant volumes of this type of rail traffic for inbound and/or outbound movements:

- Agriculture,
- Automotive,
- Building supplies,
- Chemicals and plastics,
- Electric utilities,
- Fertilizer,
- Food,
- Forest products, and
- Mining (principally coal, iron ore, phosphate, limestone, and sand and gravel).

The transportation services provided to shippers by alternative modes may be compared chiefly in terms of certain attributes: volume/weight capacity, delivery speed (dock-to-dock elapsed time), reliability, and price. Reliability, called "predictability" by some, generally is used to mean "consistency" and includes consistency of delivery speed, equipment condition, and railcar drop-off and pick-up schedules.

Railroads of all sizes have potential competitive advantage over trucks in the movement of low value, high volume bulk commodities because of their ability to handle the weight and volume at a low price as long as delivery speed and service reliability are not critical (the usual case with low value, high volume bulk commodities because they are relatively inexpensive to maintain in inventory).

Conversely, trucks offer superior trip time and reliability in the movement of high value goods (whose inventory cost compels "just in time" type service) which can be increasingly competitively priced as shipment volume and weight decline. Railroads as a whole have been able to compete in the "just in time" segment of the market only where annual shipment volume (and rate) justifies dedicated equipment and special operating procedures; those conditions generally do not exist on short lines.

Both large and small railroads use essentially similar equipment and roadbed but labor cost determinants typically differ in a way which makes it feasible for the smaller carriers to make a profit from lines of road whose shippers provide fewer carloads per mile per year than large railroads can afford to service. A wide range of commodity types are carried by U.S. short line railroads as a group. However, even smaller shippers can require delivery speed performance in connection with some commodities that rail car load-based operations normally cannot provide at a cost competitive with truck rates.

Furthermore, because short lines normally must depend upon larger, connecting carriers to provide a substantial part of the rail haul, delivery speed (and reliability to a major extent) can be beyond the smaller carrier's control. Thus, although most small railroads profess to have an economic structure (and management attitude) which supports individualized "customer service" for originating or terminating shippers on their lines, there always will remain cases in which only trucks can provide particularly demanding delivery speed and/or reliability.

In sum, smaller railroads have their advantages, but they are not a panacea.

ECONOMIC DEVELOPMENT CHALLENGES

Rail considerations intersect with economic development most commonly in two areas: rail alignments and freight transfer. In the first instance, many older downtowns were built around rail facilities, either in the form of railyards or industrial zones served by a network of spurs and sidings. As industry has evolved, these facilities have become largely obsolete. Rather than serve business, most tracks remaining in downtowns are an impediment to revitalization efforts.

As the short line rail system picks up a greater share of the nation's freight volume, older sidings may find new life.

Yet in many cases they are still active lines. This presents a particularly difficult logistics problem, because unlike re-routing streets, it is very difficult to move a rail alignment. Trains can not navigate sharp turns or hills. In most cases, new facilities must be located somewhere along, or very close to, the existing right-of-way. Railyards also take up space. A medium sized yard may require a mile's length uninterrupted by grade crossings, and three to six hundred feet in width. Combined with the need to connect to the highway system, access industrial and commercial zones, and avoid residential areas, the site selection process for a new rail facility can be difficult.

In Rutland, RRA was fortunate enough to find a suitable railyard site close to the intersection of two arterial highways, US Routes 4 and 7. Taking advantage of the convergence of the highway and rail systems, plans for the yard include several industrial development sites. As many as six individual parcels may be laid out to allow tenants access to both rail and highway. Having this capacity close to the switching yard will reduce handling costs. Further, since older industrial zones in the city tend to be located near rail lines, the project is consistent with zoning and land use objectives. The tight configuration of development parcels and transportation infrastructure satisfies the community's desire to limit sprawl.

While the site is well configured for a switching yard, it is not large enough to house a transloading facility as well. However, with plans for the yard advancing, a private investor has proposed a transload facility in Fair Haven, Vermont, on the Vermont-New York border. Initial commodities handled will include timber, fuel oil, and road salt. Warehousing and light manufacturing are also planned. This proximity of the railyard and transload facility, only 15 miles apart, demonstrates clearly the relationship between sites that serve the individual customer and sites that facilitate the movement of freight out from the local market to the national rail system. Freight could not move without transloading, and the system would not have sufficient capacity for growth without the yard. Even with the availability of this system, planners must set realistic expectations about the type of business that will use it.

Companies using rail fall into two categories: those that can ship directly from production facilities and those that require off-site transloading. When rail fell out of favor, plants were built at locations convenient to highways. Making the switch back to rail may not be simple; for some companies it will not even be possible. If a freight customer is located along a rail line, the task can be accomplished using spurs or sidings. Companies farther removed will need to truck their product to/from a transloading facility, transferring their shipments to/from rail cars. This adds another handling to the shipment, as well as drayage costs associated with delivery to a transload facility. Goods leaving a point of origin will be loaded twice – once for the local haul and again onto the national rail system – rather than once for a long haul truck. If a company does not realize a large enough marginal saving from lower rail rates, the added handling will negate any benefits.

RESPONDING TO PUBLIC EXPECTATIONS

Success in rail relocation and facility development projects depends on three factors. First, there must be an experienced facilitator envisioning the project, developing consensus, and directing negotiations. The usual expertise in economic development and community consensus building must be augmented by a working knowledge of railroad economics.

Next, the community must be fully committed, socially and politically, to pursuing the project. As few short line operators have the capital needed to bring their lines up to optimal condition, communities that want their rail facilities relocated or reconfigured must be prepared to participate financially and to seek state and federal resources. Unlike most highway development, rail projects require close collaboration among public and private entities, so there must be strong public support for working with the rail operator.

And finally, the community will must be strong enough to agree on a project definition and site. As described here, site selection is limited by the physical requirements of rail operations. Once a suitable site has been found, there is seldom much latitude in its configuration. Neighbors, environmentalists, and smart growth activists must support the project with enough enthusiasm to agree to compromises they would be unwilling to make in connection with highway projects. Rail facilities must be located along rail lines. If you want to enjoy the advantages of rail, you must work within the physical restrictions of the rail mode.

Rutland's strategy is based on working proactively with a short line railroad to identify and solve development problems before they reach the crisis stage. Teaming up with a railroad to market rail-oriented development sites can produce long term job and tax benefits for a community. It is also important that state and local elected officials develop funding mechanisms to aid in this process. The community may want to intervene to save a short line slated for elimination due to short term viability problems. A partnership with a rail operator may lead to preservation of a line for short or long term economic development. One result of this will be greater public ownership of local lines, so it is important that the public sector plan for this type of involvement, particularly given the significant, initial capital infusion that may well be required.

Some rail advocates suppose that all freight can be moved to rail, that all companies could give up their trucks. This is not true, and the point must be made to local administrators and governing bodies. Rail can be used by certain types of businesses and the effort to shift to rail should focus on those. Many mistakes have been made in passenger rail development by attributing to the target ridership behavioral responses that were unrealistic. Systems were built based on projected ridership that did not materialize.

Recruiting companies that will use the rail system presents specific challenges. Economic developers must be careful to navigate several potential pitfalls in marketing rail services. First, it is important to keep a rein on public expectations. As suggested above, rail will never take all the trucks off the road. Only a minority of existing companies will switch to rail and then only for part of their shipments. New companies likely will use rail either inbound or outbound but are likely to use trucks at least for part of their load. At best, rail will decrease the growth rate in truck usage, allowing more economic development with the same number of trucks. Many enthusiastic rail supporters do not realize this limitation, and if economic developers do not keep the distinction clear, the time will come when the pattern of growth will not match expectations and the effort may be viewed in some quarters as a failure. It is very difficult to prove the negative, to prove that traffic would have been even worse had rail not been used.

Some rail advocates suppose that all freight can be moved to rail, that all companies could give up their trucks. This is not true, and the point must be made to local administrators and governing bodies. Rail can be used by certain types of businesses and the effort to shift to rail should focus on those. Many mistakes have been made in passenger rail development by attributing to the target ridership behavioral responses that were unrealistic. Systems were built based on projected ridership that did not materialize. The same skepticism will apply to freight development projects unless rail proposals are measured against realistic commercial usage standards. Businesses will not use rail solely because it is socially desirable, they will do so only when it makes business sense.

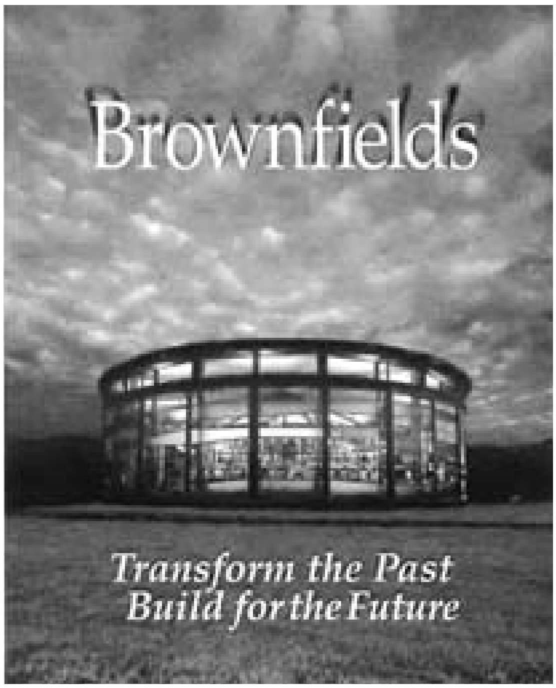
Finally, economic developers will need to build strong working relationships with short line railroad operators. While many railroad companies do an excellent job of it, others continue to spar with the communities through which they run. This often happens when communities present a series of demands relating to safety and track alignments to which the railroads have a limited ability to respond. It is not easy to move a rail alignment. And rail operations have limited flexibility in responding to community preferences (blocking grade crossings, 24 hour switching, etc.) without compromising the slim cost advantage that keeps them in business. The cowboy and the farmer can be friends, but it will take some effort.

new york state's

BROWNFIELD CLEANUP TAX CREDIT PROGRAM

By Kevin Hurley, CED

Kevin Hurley, CED, is an Economic Development Program Administrator for Empire State Development, New York state's consolidated economic development agency, which provides a wide range of economic development services through its network of 10 regional offices. He has been with Empire State Development for over 23 years and operates out of the agency's Regional Office in Rochester, which oversees the nine-county Finger Lakes area.



The NYS Department of Environmental Conservation describes the Brownfield Tax Credit Program in this brochure.

INTRODUCTION

The industrial Northeast of this great country continues to face many obstacles in its efforts to retain and grow its resident industry as well as in its efforts to attract new businesses. A new culprit has emerged in recent years as a major impediment to such activities – the costs (both immediate and potential) of the redevelopment of brownfields. The situation repeats itself on a continual basis: manufacturing companies, located in the same location for often multiple decades, flee to areas of lower cost production only to leave behind properties that are long since contaminated and of little use due to the potential liability that comes along with them. Statewide environmental enforcement agencies all too often find themselves in acrimonious situations with businesses and property owners in their efforts to get these companies to step up and clean up the messes they made. Any potential new businesses/developers balk at the potential risks associated with such situations.

This situation is very prevalent in New York State. New York's motto, "The Empire State," comes from George Washington's description of the state as "The cradle of the empire." Home to some of the oldest industries in the country, New York State has companies that have operated throughout the past centuries with little or no environmental regulation. The Erie Canal, which opened the shipping of goods from the Great Lakes to the Atlantic Ocean, spawned tremendous industrial growth along its shores. A great deal of this land is now contaminated, the results of companies operating their own landfills. Major industrial cities like Buffalo, Rochester, Syracuse, Utica, and Albany face the real problem of long defunct industry that has left behind a legacy of contaminated industrial property.

This situation is just another in a list of issues with which the rust belt must deal. New York State has, in response to this continuing problem, responded with an innovative new program. New York State established its Brownfield Cleanup Tax Credit Program in 2003. This program offers exciting new opportunities for redevelopment of brownfield

A NEW TOOL FOR THE ECONOMIC DEVELOPER

In 2003, New York State created the new Brownfield Cleanup Program (BCP). The goal of the BCP is to enhance private-sector cleanups of brownfields and to reduce development pressure on open spaces. Under the BCP, cleanups continue to fully protect public health and the environment based on appropriate cleanup plans and objectives overseen by the New York State Department of Environmental Conservation. When the site has been successfully remediated, the applicant receives a Certificate of Completion. The certificate triggers liability protections provided by statute and allows parties to apply for tax credits, helping to offset the cost associated with brownfield redevelopment. Since the program's creation in 2003, 169 sites have been approved under the new BCP.

properties and has already had some significant successes to date. It has also changed the relationship between the state's Department of Environmental Conservation and businesses from an adversarial to a cooperative one, and also has been an integral component of many companies' decisions to stay, invest, and grow in New York State.

Garlock Sealing Technologies' 700,000-square-foot campus in Palmyra, New York, as it looks today. It is a series of interconnected buildings and tunnels, some constructed over 100 years ago, on a site now contaminated from years of use.

BROWNFIELD CLEANUP PROGRAM

New York's Brownfield Cleanup Program (BCP) was signed into law on October 3, 2003 and was also amended one year later. The stated goal of this program is to enhance private-sector cleanups of brownfield sites and to control sprawl by reducing the development pressure on greenfield sites. The program provides individuals and businesses with consistency and finality needed in order to make cleaning up a brownfield a logical and sound investment.

With specific and tangible benefits to businesses in the program, the BCP allows for significant refundable tax credits to be made available to these entities who voluntarily cleanup and redevelop these sites. It also can be a significant tool for economic developers as these cash refunds can be substantial elements of a deal structure and project finance scenario.

BCP REFUNDABLE TAX CREDITS

The chief element of interest from a business/economic development perspective in the BCP is the availability of refundable tax credits that are available to the entities involved. These credits are calculated using not just the identification and costs associated with a cleanup program, but also include the costs of the development project that results from the cleanup. Should a redevelopment project cost reach certain levels, this refundable tax credit can often pay for all of the remediation costs and more, providing crucial financial incentives that make a project not only feasible but profitable.

There are three potential credits available under this program:

- The **Brownfield Redevelopment Tax Credit** (BRTC) is a fully-refundable tax credit available to businesses and individual taxpayers who have satisfactorily cleaned a brownfield site and have been issued a Certification of Completion by the New York State Department of Environmental Conservation. This credit is computed in a range of 10 percent to 22 percent of the total costs associated with identification, remediation, and redevelopment of the qualified brownfield site. The credit starts at 10 percent for individual tax payers, increases to 12 percent for corporate tax payers, increases by an additional 8 percent for projects located in Environmental Zones* (sites designated as such by New York State), and finally increases by an additional 2 percent for projects cleaned to an unrestricted standard.

**A listing of the existing Environmental Zones located across New York State can be found on the websites of both the Department of Environmental Conservation (www.dec.state.ny.us) as well as Empire State Development (www.nylovesbiz.com), further illustrating how this program exists as both a clean up program and a significant economic development tool.*

It is important to know that these credits apply not only to the clean up costs but the redevelopment costs as well, AND that these credits can be available to both the entity responsible for the original contamination as well as a third party coming in to acquire and redevelop an already contaminated parcel of property. This can allow for responsible parties as well as volunteer entities to clean past transgressions and receive financial considerations for their efforts. It also allows for significant financial assistance for the new development. A company may have the need to rebuild its antiquated facilities on the land upon which it has resided for decades only to find out that there are environmental issues that resulted from as far back as 50-100 years ago. The cost of such a remediation is now added on to its other investments, which can lead said company to look elsewhere and relocate this business.

Brownfield Redevelopment Tax Credit Percentages

Applicant	Minimum	Project Located in Environmental Zone (+8%)	Cleaned to Unrestricted Usage (+2%)
Individual	10%	18%	20%
Corporation	12%	20%	22%

- The **Tax Credit for Remediated Brownfields (TCRB)** can, under certain circumstances, provide a refundable tax credit of up to 100 percent of a brownfield site's real property taxes. A developer of a brownfield can potentially enjoy this credit for up to ten consecutive years. This credit is calculated by a formula which includes the new jobs of both the developer and any tenants along with a benefit period factor and the actual real property tax liability. Location in an Environmental Zone also plays a role in such calculations.
- The **Environmental Remediation Insurance Credit (ERIC)** is the third component here, and can credit a developer/taxpayer for a portion of environmental remediation insurance costs that may be required in such cleanup projects.

BROWNFIELD CLEANUP PROGRAM PROCESS

The process for a potential applicant can be tedious and complicated, but such is the situation when balancing the public benefit of cleaned up properties with the lost tax revenues that will eventually result. The process can be broken down into these six areas:

1) **Formal Application –** Beginning with a face-to face with DEC's Brownfield staff, a formal written application is completed and submitted to DEC. The review process for this will include a 30-day period by which interested parties may submit comments, pro or con, concerning the project. A BCP agreement is signed by all parties which leads to…
2) **Investigation Work Plan –** The development of a plan to investigate the site in question which again includes a mandatory 30-day comment period. DEC and applicant work together to approve a remedial investigation work plan. Once approved, we move to…
3) **Investigation –** The actual site investigation takes place, from which a report is written and analyzed to verify conditions and/or discuss newly-found site contamination. After much scrutiny, the DEC then formally approves the investigation report and then moves to…
4) **Remedy –** A complete scoping of all remedies is considered, which leads to a formal remedial-work plan. A determination is made as to the severity of the problem(s), with DEC and the company then coming to terms on appropriate remedies. Following a 45-day comment period, actual cleanup construction commences.
5) **Construction –** This is the time when the actual re-development project begins. Given a go-ahead by DEC that the site has been remedied of any environmental issues, the associated new project can commence.
6) **Release –** This is the final step and, for the developer, clearly the most important. DEC issues a "Certificate of Completion" which will then (and only then) allow for the applicant to enjoy the substantial tax credits that are derived from the applicable percentage of the costs of remedy and construction.

A TOOL FOR THE ECONOMIC DEVELOPER

Soil and groundwater contamination are a continual impediment to economic development projects, especially in the areas of the country that have housed manufacturing industries for multiple generations. The potential liability for an entity that caused the problem, for a prospective purchaser that will need to deal with such problems, and for financial institutions that may be considering lending against such projects often are deal breakers. This leads to abandonment of properties in both urban and rural settings as well as urban sprawl and inner city decay. Properties deemed contaminated for too long have sat idle with developers neither willing nor able to initiate redevelopment activities.

New York State is home to the oldest of companies in America. From Buffalo to Albany, some of the first manufacturing companies settled along the banks of the famous Erie Canal. The Erie Canal opened up the flow of goods from the Hudson River and New York City all the way to Buffalo and the Great Lakes. During the 19th and early 20th century, companies sprung up like weeds along the banks of the canal. Such companies often operated in a time when their wastes were simply placed in a company-operated "dump" located somewhere on their property. These sites now carry some heavy contaminated baggage which for years has hindered companies from reinvesting and creating jobs. Likewise in the inner cities, where heavy manufacturing drove the economy of upstate New York, companies operated for years without the environmental safeguards of today. Many of these companies have fled the cities for newer, more modern operations in the suburbs and/or other parts of the country and world. Left in their wake are inefficient facilities and contaminated properties. All of these issues have long stifled the economic development community's ability to retain and create employment. This problem is then exacerbated by properties that do not create the income and tax revenues that are required to maintain services, which only hinders the areas' economic development efforts.

This is where the Brownfield Cleanup Program shines as a progressive economic development tool. Where in the past a contaminated label would drive away any investors from an investment project, there are now redevelopment companies looking for such situations where they have found ways to potentially profit from such activities. Properties that were once untouchable now have a new lease

> Where in the past a contaminated label would drive away any investors from an investment project, there are now redevelopment companies looking for such situations where they have found ways to potentially profit from such activities. Properties that were once untouchable now have a new lease on life, and companies who once gave no thought to cleanup and new construction now have that alternative in front of them.

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In New York State, economic developers now have this tax-credit tool to use in this effort. Several major project announcements have resulted with many other projects now getting into this pipeline. Following are several examples of some successful efforts using the BCP and also a company considering a project that before was impossible.

Garlock Sealing Technologies

Garlock Sealing Technologies (GST) has been operating in the same location, directly on the Erie Canal in the Wayne County town of Palmyra, for over 100 years. The industrial gasket and seal manufacturer originally located at this site because it used the canal for transportation purposes. GST currently employs 600 people and operates out of a 700,000 sf plant which includes 22 different add-ons and still relies on steam for processing and for powering its production equipment.

GST is owned by the publicly-traded EnPro Industries, which recently determined that the current facility was unsuitable for a quality production facility and began a process to determine its future. The company could either rebuild a new modern plant or it would vacate and leave its original home for a greenfield site far outside New York State. A crucial element to this decision-making process was the yet-to-be-determined environmental situation. After all, a heavy rubber and plastic manufacturer which has been in the same spot and has operated back in a time where environmental restrictions were almost nil was bound to have trouble spots. A preliminary phase 1 study had determined over two dozen locations on its 130-acre site which had potential environmental issues.

GST laid out an ambitious plan to demolish, reconstruct, and re-equip its operations with a projected investment topping $35 million. This project would certainly be less expensive in another location, and having to justify this to its corporate board in North Carolina would be difficult. EnPro had begun to investigate sites in several southern states, closer to its customers and all brimming with local and state incentives. New York State along with Wayne County worked to assemble a package of incentives in order to entice EnPro to allow Garlock to stay and reinvest. Key to this effort was the Brownfield Cleanup Tax Credit Program. Garlock would be able to enjoy refundable tax credits at least 12 percent of its *total project cost*. This would mean the company could get back cash from the state which would far exceed the actual costs of

Garlock Sealing Technologies. Phases 1 and 2 include building demolition and the construction of two new free-standing manufacturing buildings.

cleanup, and in the process level the playing field between sites. Based upon the state/local incentives, the workforce concessions, and the Brownfield Tax Credits, EnPro has decided to stay in Palmyra, New York, and to invest upwards of $35 million in the effort. Without question, the Brownfield Cleanup Refundable Tax Credits tipped the scale in favor of New York State.

Barthelmes Manufacturing

Barthelmes Manufacturing Co. is another textbook example of mature manufacturing businesses that must deal with environmental issues in their investment decision-making process. Barthelmes Manufacturing Co. has operated on the same parcel of industrial land in the city of Rochester's west side for over 80 years. The privately-held metal-fabricating business once sold to the Eastman Kodak's and Xerox's of the area, but has had a migration of customers to locations outside the Northeast. The company faced a crossroads with its facility, needing to renovate and expand its plant to keep up with demands from customers and to keep pace with

Garlock's Phase 3 will include substantial building demolition and cleanup measures.

technology. The company explored its options, which included a relocation to the mid-Atlantic area to be close to its major customers. A major obstacle to its Rochester project was the environmental condition of its property.

Barthelmes entered into a Brownfield Cleanup agreement with the NYSDEC, which allowed for the company to consider staying and building here in the inner city. The agreement and the refundable tax credits will now allow for property once thought unusable to be cleaned and redeveloped. This company hopes to begin a facilities expansion in the near future. None of this could possibly happen without the Brownfield Tax Credits.

Bethlehem Steel Site, Lackawanna

The city of Lackawanna rests on Lake Erie just south of the city of Buffalo. Twenty-five years ago, the Bethlehem Steel Co. operated a steel mill in Lackawanna that employed 25,000 people. Much of the abandoned property has sat idle for 15 years as proposed development projects failed to materialize. The massive complex covered 1100 acres and stretched over two miles along every inch of lakefront property in Lackawanna.

Phase 4. What remains is a leaner, more efficient business on a property that meets environmental standards. Garlock then enjoys the financial benefit of refundable tax credits on the entire development project.

Bethlehem stopped making steel many years ago and left behind a massive industrial complex with significant environmental problems. Contaminants found on the Bethlehem property range from solid waste sites to acid tar pits to polluted slag areas to old tank farms.

In April 2005, Tecumseh Redevelopment Inc., a subsidiary of International Steel Group which had acquired Bethlehem just two years earlier, signed an agreement with Erie County and Lackawanna to remediate and redevelop the former Bethlehem site. Key to this decision is Tecumseh's ability to access Brownfield Cleanup Tax Credits which made this anticipated 10-year $64 million cleanup effort feasible from a financial standpoint. Proposed elements of the redevelopment plans include three separate business parks along with mixed-use recreational and waterfront access projects. Tecumseh/ISG plans to clean the huge site piece by piece with the hope of redeveloping and selling 1000 acres of prime lakefront property.

PROBLEMS TO OVERCOME/FUTURE CHANGES

The Brownfield Cleanup Program has been universally hailed as a tremendously innovative program and a very real departure from the historical relationship between the state's businesses and the entity charged with protecting its environment. It is this historical relationship that has been one of the program's obstacles from the start. The Department of Environmental Conservation has always been the state's environmental policeman. Businesses did not deal with it unless it was necessary or because they were forced to do so. In brownfield situations, the DEC was the enforcer, and the cost of such enforcement came from the company/property owner. The DEC had no ability to add enticements and financial incentives in such projects, only the ability to force the issue. This led initially to some natural skepticism when the BCP came into being. For some, it was difficult to believe that they could enter into a profitable partnership with the DEC and that it would actually be in the company's best interest to initiate a dialogue with the DEC. With the help of the economic development community and the legal expertise in New York State, both of which have been out front educating our companies, this mind set has been slowly changing.

The second issue with which the state's business/developer community has had to deal is that of timing. A company must take a giant leap of faith in the fact that it will not be able to enjoy any of these refundable tax credits until the DEC has issued a certificate of completion. This all- important document comes only after all cleanup work and redevelopments are completed, and also when the DEC signs off that all is completed to its satisfaction. Due to the timing of such projects, this could come sometimes years after the initial agreements are in place. A company/developer must be able to live with the comfort level of such timing in participating in this new innovative program.

As far as the future goes, the program is still in its infancy, The DEC is working through a huge number of projects that are all at various points in the process. The state will, in the very near future, come to the conclusion of many projects and then will be able to evaluate the process and successes/shortfalls thereof. Until that time, New York State will continue on with this new and innovative program.

CONCLUSION

New York State has begun to address a difficult situation that has plagued economic developers for years. The Brownfield Cleanup Program has been instituted to address cleanup of contaminated property as well as to become a financing tool in such situations. The program is still very young, but the New York State Department of Environmental Conservation has accepted over 150 applications to date. It has become very apparent in such a short time that this new tool for the economic developer will continue to be extremely valuable as New York State rebuilds and redevelops its former industrial properties. Companies and developers, who once shied away from all the negative aspects of brownfield redevelopment, now have a vehicle in place that can provide assurance and compensation to them for their efforts.

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purposeful networking

By Mark DeSantis

Purposeful Networking is impossible without strong self organization skills.

"To have friends is power."
Thomas Hobbes, The Leviathan

"There is no power, only powerful ties."
Max Weber, Economics and Society

Mark DeSantis is the CEO of Angle Technology Group Management and Consulting – USA in Pittsburgh, Pennsylvania and Adjunct Professor at the H.J. Heinz School of Public Policy and Management at Carnegie Mellon University and the University of Pittsburgh Katz School of Business.

INTRODUCTION

Social networks are everywhere yet they are largely invisible. As a result, we often take the networks to which we are all connected for granted. Yet these social networks possess enormous latent power. The key to accessing and the deploying this power for economic development purposes is to first understand what social networks look like and how they function and then apply some basic tools utilizing those networks.

This article compares the traditional "elite" or top-down model of economic development with that of a new network-based approach to economic development. This new mode of managing economic development efforts relies on the tools and philosophy of Purposeful Networking™. At its core, Purposeful Networking is a set of integrated tools and practices for creating, managing, and deploying social networks in services of larger goals. It is particularly appropriate in situations when the person taking the initiative lacks the apparent financial resources and formal authority to achieve his or her goals.

This article uses several case studies in economic development as a point of reference for describing how Purposeful Networking can be successfully applied to virtually any economic development project. It also draws on the experiences of the author in a wide variety of economic development efforts as well as the considerable research in social network, economics, and management theory. The article concludes with the notion that the traditional approach to networking is flawed and that a new network-based approach is called for.

THE OPPORTUNITY

Almost all of us have been on at least one winning team in our lives. For those who have, the impression we recall is that of a tight knit group of like-minded individuals working hard toward a clear purpose. Economic development projects are team efforts. When done well, the experience of serving on an economic development "team," whether as a private citizen volunteer or as a professional economic development practitioner, can be personally and professionally rewarding. When done poorly, however, the effort can come off like a poorly managed cattle drive and leave everyone touched by the effort cynical and anguished. It is the author's experience that far too many development efforts needlessly come off like the latter when, with the application of some basic tools, more could resemble the

THE SECRET TO EFFICIENT AND EFFECTIVE ECONOMIC DEVELOPMENT MANAGEMENT

Every economic development project, regardless of the scale, goals or complexity, depends on the active engagement of a very diverse network of mostly strangers. The opportunity and challenge in economic development today is therefore getting the maximum benefit from these many and varied relationships. Purposeful Networking™ is both a set of tools and a philosophy for creating, managing, and deploying highly effective and efficient economic development networks. It is based on tried and true economic development practice and social network theory and can give anyone the means to achieve any goal or overcome any challenge when you lack the financial wherewithal and formal authority to get the job done.

former. A reorientation of what constitutes an "economic development team" along with a network-oriented mindset can change that.

Two rectifiable challenges often block the success of most development efforts. One is the typical "model" of an economic development team, while the other is an outdated concept of the organizational structure of that team. Well-intentioned economic development projects, regardless of their scale, complexity or goals, are really exercises in community consensus building. Do we want retail development downtown? If so, what will it look like? Should we focus on young technology start-ups or put more emphasis on our traditional manufacturing base? How do we preserve our neighborhood culture while we grow? Development projects prompt these types of complex questions. The challenge is not the answers to these questions but who answers them. Who should be the "voice of the community" in economic development?

In an ideal world, every citizen has a voice. The reality of citizen participation in their community is far different. On occasion, direct citizen participation in economic development is possible as when a ballot question, say, for a new sports venue is put before the voters. However, the complexity and timing of economic development projects make ballot questions impractical for most development efforts. Nevertheless, the "voice of the people" in development is a necessary condition for success. The next best alternative to the ballot box is a citizen advisory group. These advisory groups come in all shapes and sizes and are often supported or staffed by professional development practitioners. Yet all too often even this method of achieving community consensus can be compromised. All too often the advisory team is either a façade for powerful political or financial interests or, equally bad, reflects an elitist "we know better than you" approach to development.

Another block to successful development is the failure of development practitioners to appreciate a basic and often overlooked management challenge: those associated with and touched by the development effort are *volunteers*. This network of volunteers not only includes the advisory team and development practitioners but every community, group, business, or institution impacted in a direct way – for better or worse – by the development effort. All are de facto members on the "development team" or more appropriately development network. This more expansive definition of the development team therefore compels development practitioners to think in terms of managing a network and not a hierarchical organization.

Practitioners must therefore embrace the idea that they are in the business of *Purposeful Networking™*: creating, managing, and deploying volunteer networks. The foundation of Purposeful Networking is the assumption that every large and complex effort, whether that is building a business, protecting our nation, passing legislation or doing economic development, is at heart about engaging networks of volunteers. The motivation of the network members is self-interest (and the specific nature of that self-interest differs for each volunteer) and a reciprocal expectation. Reciprocity is loosely the expectation we all have that if we give something to the network, the network will somehow, some way, and sometime give back.

Even the most bureaucratic of bureaucracies requires a deep appreciation for the power of self-interest and reciprocity. Harry Truman once lamented that, "I sit here all day trying to persuade people to do the things they ought to have the sense to do without my persuading them. That's all the powers of the President amount to." The old Soviet Union's model of central planning, which relied heavily on coercion up to and including the threat of death, nevertheless required the tacit voluntary contribution of the bureaucrats ostensibly responsible for carrying out those plans. The Dictator Joseph Stalin knew that even his supposedly absolute authority was not really that absolute. He knew passive resistance could undo his grandest schemes.

Identifying and tapping into the collective self-interest of the network is central to managing and motivating your network. Yet motivating a network to be purposeful is not exclusively about pure appeals to self-interest. Self-interest is a starting point and only potent when it is embedded in a preexisting and two-way relationship of implicit trust between the person asking for help from the network and the individuals in the network itself. Trust ensures the promise inherent in reciprocity – I will give so long as I can have a reasonable expectation of receiving – will be fulfilled and it is the life-blood of networks. That is one reason networks can be so powerful.

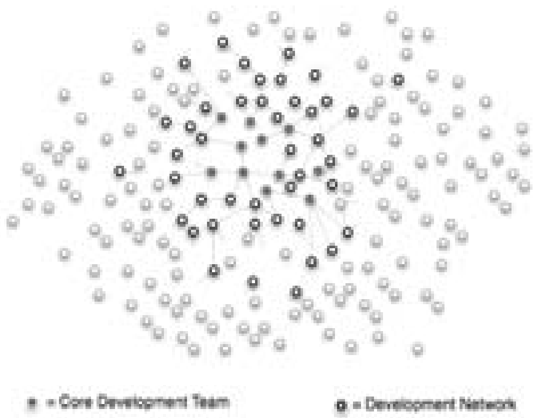
Two rectifiable challenges often block the success of most development efforts. One is the typical "model" of an economic development team, while the other is an outdated concept of the organizational structure of that team. Well-intentioned economic development projects, regardless of their scale, complexity or goals, are really exercises in community consensus building.

Development practitioners should take a cue from politicians when it comes to managing networks. In a Purposeful Network™, think of an economic development effort consisting of two overlapping networks: (1) the Core Development Team and (2) the Development Network as depicted in **Graphic 1**. The Core Development Team is comprised of professional development practitioners and those more directly involved in the development effort. The Development Network is comprised of the many and varied groups, individuals, institutions, organizations, and communities touched by the development effort.

Practitioners, like expert politicians, must somehow artfully blend the individual self-interests of the volunteers in the larger development network with those at the core of the network – the Core Development Team – as depicted in **Graphic 1**. Only then can the overall Development Network truly become *purposeful*. Later sections will describe the tools for doing so.

Graphic 1

Typical Social Network Pattern for Core Development Team and Development Network



The concept and theory of stakeholder management has aided development professionals and is closely related to Purposeful Networking.[1] For example, stakeholder management embraces the concepts of diversity and commitment. That is, ensure the engagement of a diverse group of relevant institutions and individuals and you will have a good shot at success. Yet stakeholder management stops short when it comes to understanding how to work through and with *networks* of individuals and also institutions. Stakeholder management, as practiced by many economic development practitioners, all too often translates into rounding up the usual suspects when assembling the Core Development Team. The fact is that the Core Development Team and the larger Development Network each bring qualities to both the character and the trajectory of the effort for years to come.

This article attempts to fill that void in understanding how, when, why, and where concerning the practical day-to-day role of networks in creating and implementing economic development. The following examples will set the stage for our discussion about the relevance and importance of networks to economic development that follows.[2]

The Sports Franchise

The mayor of a medium-sized US city conceives of the idea of a large, upscale retail district in the heart of the city's chronically depressed central business district. The mayor believes "it is the best way to jump start downtown redevelopment." However, three years later, millions in tax dollars later with the depletion of a reservoir of community goodwill and the project fails to generate any economic growth. In fact, the community is now worse off than if it had done nothing at all. The mayor and his colleagues shake their heads. The director of economic development for the mayor's office laments in a recent press report, "We had buy-in from every community group in town. They did nothing to help us!"

This effort was billed as a "textbook collaboration," according to the mayor, between the mayor and the local business community, manifest in a local group called Team 21. This organization is a 35-year-old non-profit economic development organization comprised largely of the city's business elite. Its primary mission is to "promote and coordinate cross-sector collaboration" for economic development. Team 21's main funding sources include foundations, state government, and donations from the member companies (in descending order of size of contribution). However, the group's influence has waned in parallel with a slow and steady decade long decline in the local economy. Observers believed the mayor's ongoing budget problems distracted him throughout the effort. Others see the failure lying mostly with Team 21. Some observers see this most recent effort with the mayor as the group's "last hurrah."

The University Incubator

After much public fanfare, a local joint university and state funded incubator finally gets off the ground. The incubator's creators, two prominent local universities, maintain it will create no less than 10 new technology based companies over the next five years, employing a total of 3,000 people. Three years into the project and the incubator has spent $3.8 million, gone through three executive directors and received outside funding for just two local companies. A most recent study commissioned by another local non-profit economic development organization estimates that the total net cumulative employment impact from the incubator currently stands at 45 people. "The reason we haven't met expectations is that we just can't find good management locally," bemoaned the provost of one of the partner universities in a recent interview.

This incubator was in part a response by the university to ongoing complaints by the local entrepreneurial community that the university "cared little about the local economy and even less about its entrepreneurs." The incubator board (including faculty from the two participating universities or non-local alumni entrepreneurs) recently formed a task force comprised of entrepreneurs-alumni from the two universities and other non-board faculty to look into why the incubator has failed to meet any of its goals.

Sustainable Development

The business, non-profit and political elite of a large mid-western US city convenes to develop a "comprehensive vision for the region." The local corporate and foundation community spare no expense in funding the effort. Among other contributions, a top-tier management consulting firm volunteers four consultants full-time for six months to assist in the effort. In addition, members of the faculty of three local universities volunteer to support the effort. Even the local and (sometimes problematic) local government leaders pitch in. The goal of the project is no less than a "20 year strategic vision." Regrettably, 18 months after the effort began it was mired in controversy and has little to show for the great effort exerted by all.

From the beginning, the effort is plagued by problems. The most damaging are the attacks from two groups, the local chapter of the Sustainable Development Action Team (SDAT) and a vocal, and some observers say, radical environmental group called Livable City Now (LCN). Both SDAT and LCN complain that the make-up of the group does not reflect the real interests of the community and, worse, it is merely a front for local gambling interests (who are seeking to convert stretches of the river line into casino property).

THE CHALLENGE

What contributed to the demise of these three development efforts? There is not enough information to be certain of the precise causes. However, there are likely a number of causes. Some may cite a lack of vision or leadership. Others will reference contextual factors such as unfavorable economic conditions, weak political climate, social problems or some combination of all of these. Still others may say the effort failed because the core group lacked enough formal authority, economic resources or both to get the job done. It is not that these and other reasons are off the mark. Some or all of these reasons may be relevant. However, they all miss an important common thread: the character and quality of the networks of the relationships embedded within each effort.

Until recently, very little economic development research focused on the impact of social networks on the outcome of economic development projects.[3] Fortunately, that is changing. Thanks to the contributions of such disparate fields as sociology, economics, business strategy and even psychology, we have insight into how various kinds of networks such as regional clusters, innovation and knowledge networks, to name just a few, can make a difference in a development strategy creation and implementation.[4] As a consequence, economic development practitioners take as a given the benefits of inclusion and diversity in generating the insight, ideas, and commitment critical to successful strategy creation and implementation in economic development.

Yet few practitioners apply the same sophisticated thinking to the business end of economic development: *capitalizing* on and *enhancing* the current social networks within the community to get the job done. Economic development practitioners need to talk the talk and walk the walk when it comes to economic development management.

Few economic development projects start off with all the money or formal political, administrative or legal authority they need to succeed. Yet some do succeed nevertheless with an apparent complete lack of the requisite money and power. President Theodore Roosevelt once said that the difference between success and failure in human endeavors was the ability to "use what you have, where you are while you have it." In fact, the only real asset that most economic development practitioners have in abundance – regardless of the scale of the effort – are their relationships and the access they provide to still more relationships.

Thankfully, the skillful application of some effective networking tools can release the latent power embedded in any community's social networks. Purposeful Networking can be learned and applied by anyone. And an important first step – even before a development strategy is conceived – includes answers to some basic questions. The following are examples:

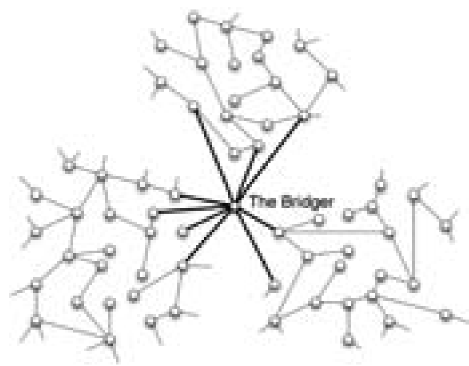
- What networks should be included in the effort given the objectives?
- What networks can be included in this effort?
- What unique bundle of relationships do the Core Development Team members bring to the effort and are they willing and able to spend their personal social capital to deploy those networks?
- How do the networks of the Core Development Team "map" against one another and the overall requirements of the effort?
- Is there substantial redundancy or overlap in these various networks or does each Core Team Member bring a differentiated network?

The answers to these and similar questions will give the development practitioner a three-dimensional picture of and a starting point for the project.

At the center of Purposeful Networking are a few ultra-connected people known as Bridgers. Every community has at least one Bridger, whether that community is defined by geography, professional affiliation, education, social status or some other factor. These truly unique people not only know a lot of people but, more importantly, they know *a lot about a lot of people*. The role of Bridgers goes well beyond being good kibitzers. Bridgers have real

Graphic 2

The Bridger Fills Voids in a Network



power, the source of which is a "personal reach" that stretches across every imaginable boundary and into every corner of a given community. This reach is defined as the ability to deploy their current relationships in service of a specific goal. They have the power, through their influence and proximity to and control of information, to cause action at a distance.

Graphic 2 depicts Bridgers as *the* critical connecting points in a given community network. Despite their very real power, most Bridgers would rarely be considered among the visible elite of their community. More often, they're the doers whose actual power far exceeds whatever formal authority their societal or even economic status would justify. Interestingly, the author has found that many Bridgers view any kind of elite status or formal authority as an impediment to their efforts to create, manage, and deploy networks.

The secret to the Bridger's success is his or her ability to fill "structural holes" in a community.[5] Interestingly, the author has found that the very act of a Bridger deploying their network often only increases the quality of their network.

A social void can be thought of as a gap in awareness, understanding or both between two or more individuals, groups or institutions in a community (However that community is defined). This gap can be social as in "They should know each other"; economic as in "They should do business with one another"; cultural as in "They should understand one another" or otherwise. Bridgers possess a talent for perceiving these hard to perceive voids along with the skills and understanding of how to fill them. In a sense they are social brokers. Research has confirmed, for example, that you are far more likely to find good job leads through friends of friends (and friends of friends of friends) than you are from the people closest to you.[6]

Bridgers convey trust for without it there is no network. Trust within a network can be thought of as social capital.[7] In fact, social capital is the *lingua franca* of Purposeful Networking and is an outcome of reciprocity. Creating, managing, and deploying purposeful networks is really about creating, managing, and prudently deploying social capital. Social capital is hard to create, harder to manage, and even harder to deploy. Yet it can be the most powerful force at the disposal of the development practitioner. You may not have to become a Bridger to master Purposeful Networking but you should at least consider emulating them.

THE ELITE MODEL VERSUS NETWORKS

One model of economic development is working exclusively through and with the political, social and economic elites.[8] This model assumes elites are the only ones in a given community who can bring the necessary visibility, clout, and access the development project needs to succeed. They naturally possess the status and influence and that counts when doing community projects. This model of development is as deceptive as it seductive.

For one thing, it ignores the reality of how collective community choices are made and work. Sound economic development demands the close cooperation and coordination of a wide variety of individuals and institutions – at all levels of a given

How do I recruit a Bridger?

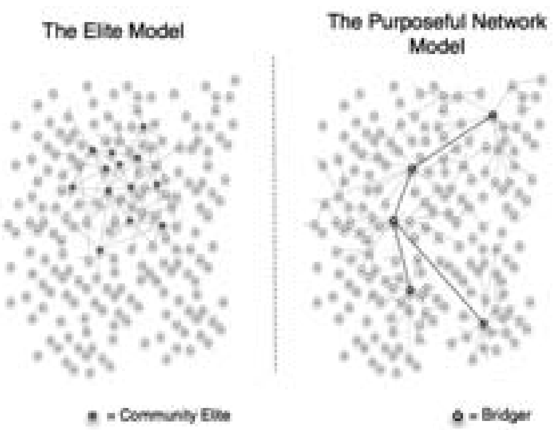
Bridgers are in every community yet are hard to find. However, there are a few clues to identifying a true Bridger. First, recall the people you know whom you have gone to time and time again for help and insight. Second, recall the people in your life who always seem to know substantive information about a particular pressing community concern, no matter how varied the matter. Third, think of the people with whom you interact who have always conveyed a deep sense of trust in your dealings with them. There is a fair chance that someone who meets all of these criteria is a Bridger.

Recruiting Bridgers to your effort is trickier. More than likely Bridgers will be recruiting you to your effort. That is, Bridgers are attracted to situations where they can see themselves as the essential gap filler and thereby exercise their considerable influence. They look for situations where the act of exercising their influence actually expands their influence. In fact, the ideal scenario for a classic Bridger is one of a virtuous spiral where the Bridger expands their network by engaging in the effort of helping the effort achieve its goals. If you can promise a Bridger the opportunity to grow their personal network and thereby their personal influence – in a high trust environment – you will have a good chance of recruiting them.

community – over an extended period of time. Countless consultants, government organizations, small and large businesses, and small neighborhood and community organizations will be touched by the effort. Yet surprisingly few elites possess the rich and varied networks required for them to be effective. Complicating the elite model is the fact that dicey personal and institutional conflicts often arise and need resolution and the participating elites will be called on to use their personal social capital to resolve these conflicts. Yet few elites, for understandable reasons, are willing to do so. Last, the development effort will likely take years, long after the original elites at center stage have departed. It is simply too much to ask of even the most selfless, well-meaning and connected community elites to meet all of these challenges at once. They will need help.

Graphic 3

A Network Rendering Comparing the Elite and Purposeful Networking Models



Networks can be brought to bear. These networks, in order to be efficient and effective for purposes of economic development goals, must reach deep into every nook and cranny of the community. Without this essential quality, the development is analogous to a cruise ship run entirely by and from the control room.

One way the practitioners and Core Development Team and the Development Network can increase their chances of success is by finding and recruiting the Bridgers to the effort, becoming Bridgers themselves or both as depicted in the **Graphic 3**.

Graphic 3 compares a stylized version of the "elite model" of economic development with the Purposeful Network. The premise of this graphic is that the success of the Core Development Team is in direct proportion to its "reach." As the Graphic 3 shows, the main deficiency of the collective network of the elites is that it is surprisingly redundant. This redundancy is no way the fault of the elites or any one else and it happens despite the best efforts of the practitioner to recruit a diverse group of elites. At the very least, the elite model should be complemented by the inclusion of a sophisticated Purposeful Networking effort including the addition of a few key Bridgers.

Development practitioners can be easily lulled in the sense that they have tapped into the power of diversity in their Core Development Team when in fact they are reinforcing uniformity. For example, we may think we've achieved diversity in our Core Development Team when, for example, the members include an African-American banker, a female architect, a Democrat and Republican elected official, the CEO of a suburban hospital, and so on. Yet when their respective networks are "mapped" and super-imposed on one another, we see an astonishing degree of overlap. The not so surprising phenomenon is the simple fact that elites in any community, no matter the size, are often isolated from the larger community (to varying degrees), often know one another well, and have many relationships in common.

Our respective personal networks are a reflection of our individual life experiences such as our life choices, priorities, values and, most importantly, our goals. We know the people we know mostly because of what we value and believe. The diversity of the people in our networks is the truest measure of the real value each of us places on diversity. This is as true for Core Development Teams as for individuals. The network mapping process (described briefly later in this article) is an essential step in Purposeful Networking.

Professional development practitioners need to think about what type Development Network is most appropriate for their project. The title of economic practitioner as used throughout this article refers to those who "own" the overall development effort. That can include everyone from elected and appointed officials, business executives, non-profit executives, and leaders. It can also include "ordinary" interested citizens. Ideally, it would include both. Whatever the makeup, every practitioner knows that strategy creation

Some helpful definitions:

Bridger – An individual who enjoys an unusually large number of varied relationships.

Core Development Team – Those individuals formally tasked with initiating, managing and completing the development project.

Development Network – Those individuals and institutions touched in some way by the development effort.

Reciprocity – A relationship between individuals involving the mutual exchange of something of value.

Social Capital – The degree to which a community or society collaborates and cooperates (through such mechanisms as networks, shared trust, norms and values) to achieve mutual benefits.

Personal Reach – The extent to which an individual has the ability to affect change, cause or alter an important action, through and with his or her network.

Network Mapping – The process of identifying the various linkages between yourself and your friends, acquaintances and colleagues.

Network Vitality – The diversity, connectedness, reciprocity and level of trust inherent in a given social network.

and implementation originates with a core group of a committed few with ultimate ownership of the effort. For better or worse, these committed few and the relationships they bring constitute the DNA of the effort. That first, core network will determine the shape, trajectory and, ultimately, the success of that effort. Those first few members of the nascent network and most importantly the relationships they bring with them will form the key nodes of the final Development Network. Poor network choices by the practitioners will doom the effort. Above all, the network they create must be a *vital* Purposeful Network.

WHAT IS A VITAL PURPOSEFUL NETWORK?

The author has found that most development practitioners are, by professional necessity, very capable networkers. However, professional networking of the sort we all practice from time to time is only one narrow aspect of Purposeful Networking. In fact, what does a social network look like? Among other things, the following four key attributes stand out:

- *Networks are nearly indestructible.* The loss of a few key nodes on the network can be compensated for by the presence of other nodes because most networks are random in nature. National intelligence services around the world are faced with this fact today as they try to destroy a terror network. In contrast, non-random networks, such as a power grid or computer network, are a form of a non-random network in which the loss of just a few nodes can bring the entire network down. In fact, most random networks are so robust because of the myriad possible connecting points we all share with one another.
- *Networks make the world a small place.* The number of possible connections each of us shares is astonishing. For example, sociologists believe that each of us accumulates about 10,000 acquaintances by mid life.[9] It is therefore no surprise that two randomly chosen people are separated by just a chain of six to seven relationships (even assuming substantial overlap).
- *Every network has "nodes."* In any given community there are always a few people with a disproportionate number of relationships. Bridgers can be found in every community you are in or seek to access, however that community is defined.
- *Networks can be defined by their "vitality" which includes the quality, breadth, and depth of the interaction among the people in the network.* Every individual within a network can play an important role no matter the effort.

For most of us, networking is something we do in our off hours and outside our normal work routine, even having a slightly negative cast as something that smacks of manipulation or opportunism. However, like any powerful organizing and implementation tool, it can be used ethically and sensibly or it can be used otherwise. Purposeful Networking is such a powerful tool that it allows the development practitioner to not only create sound economic development strategy but also ensure it is implemented.

Most of us think of networks in a narrow sense as something we use to get access to an individual, group or institution. And networks just sort of happen and therefore are seemingly outside of our power to control or influence. When we think of networks, we think of in-groups and out-groups, old boys and connected people. Yet some appreciate that each of us is a member in good standing in countless such networks and our ability to touch other people and, most importantly, influence events is well within our grasp. After all, we're employees and ex-employees, family members, neighbors, teammates, and former teammates, charter members, and students and alums to name just a very few of the myriad interconnections that bind us together.

Some networks just sort of happen. A neighborhood watch group might start out as one or two concerned citizens walking the block. In a short period of time, it evolves into a larger and more coherent group with a formal structure and more refined purpose. However, other networks are consciously created for a specific purpose, such as a bowling league, while others form to serve the collective interest of the members, such as an industry association.

For most of us, our networking efforts are ad hoc at best. In fact, the only time we think about networks or networking is when we have an all too urgent and specific need, such as finding a job. We may get there but in the end the network we worked so hard to create, manage, and deploy simply withers away once that job is done. Purposeful Networking breaks us out of that self-defeating spiral of wasted energy and generates a reciprocal, continuous, and virtuous spiral of interaction between you and the people in your network.

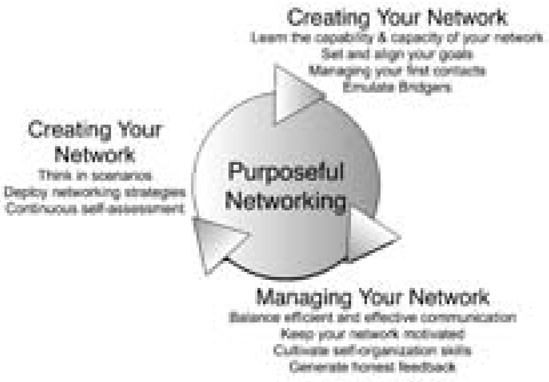
Most of us find "networking" frustrating because the results of the countless meetings, coffees, and drinks can be and often are unpredictable. Yet that is the point. Purposeful Networking is not about controlling people to achieve your goals. It is about freeing people to help you achieve these goals by giving them the what, why, who, and when of your personal and professional goals while letting your network supply the how. It encourages and capitalizes on the inherent complexity of networks, taking full advantage of the positive serendipity and unpredictability inherent in every relationship.

WHAT IS PURPOSEFUL NETWORKING?

As **Graphic 4** shows, there are three self-reinforcing core activities in Purposeful Networking: creating, managing and deploying your network.

Graphic 4

The Core Activities and Practices of Purposeful Networking



Each core activity is comprised of several skills that require mastery if Purposeful Networking is to be applied and learned.

Creating Purposeful Networks requires the mastery of several skills. First, you must learn the *capability* and *capacity* of your network. The *capability* of your network reflects, for example, the varied skills, background, geography, perspectives, and experiences of the people in your network. Greater variation equals greater capability. *Capacity,* on the other hand, is the ability of your network to do real work. The Amish are able to readily call on their neighbors to join them in virtually any task, no matter the level of effort. These two elements must be consciously understood, balanced, and aligned with your long-term goals.

The ability to *set and align your goals* with those of the network is another essential skill and requires the instincts of the expert politician, the ability to blend your personal goals with those of your network in a way that results in a stronger network every time it is deployed. This can be very challenging because it will be impossible to identify goals that will encompass everyone in your network. Rather, the aim is to choose goals that have value to enough people from your network to make a difference in your effort.

Managing your first contacts – first impressions matter a lot more than you may think – and emulating Bridgers round out the skills for creating your Purposeful Network. The cliché remains true: first impressions count. Above all, make sure that impressions you leave people on first contact are the ones you intended or creating the Purposeful Network you want will be very difficult.

Managing your Purposeful Network requires mastery of other related and complementary skills. First, you need to understand the need for and balance *efficient and effective communication*. You cannot meet face-to-face with everyone, yet email and voice mail are poor substitutes for human contact. The challenge is to use the appropriate mix of communication mediums depending on your goals.

Keeping your network *motivated and having a very strong sense of self-organization* are also critical to managing your Purposeful Networks. Creating and maintaining trust between yourself and the people in your network and also among the people in your network is essential. Some Purposeful Networkers the author knows have networks in the hundreds yet they have the ability to maintain that implicit trust level throughout their network.

Generating intellectually honest feedback from current and prospective members of your Purposeful Network is also critical to managing your network and maintaining the right level of trust. How, when and where you do that will vary depending again on the goals of the network and what is practical for you to accomplish, given limited time and resources.

The business end of Purposeful Networking is deploying your network. Chief among these key skills is the ability to *think in scenarios*. Scenarios are alternative stories about the future and you have to understand the implications of what you're asking people to do before you ask them to do it.

Another skill is the ability to *deploy one of several networking strategies.* This is akin to tactical planning in the military. Who among the people in my network should I ask for help? What are the best occasions to ask people to help? Where might they be best deployed? Last, you will need to *constantly reassess your network*, what it looks like and where it is headed.

Networks provide us with many things. In fact, they're often our best source of ideas and information. They can help us create and shape our own unique personal brand and, the case of economic development, the brand of the effort. Networks also provide each of us with options when our back is against the wall. They can give us the ability to take action at a distance. They even have the power to start, stop or alter important decisions that affect our lives. In fact, our ability to get anything important done in our lives is in proportion to our mastery of Purposeful Networking.

THE CASE EXAMPLES

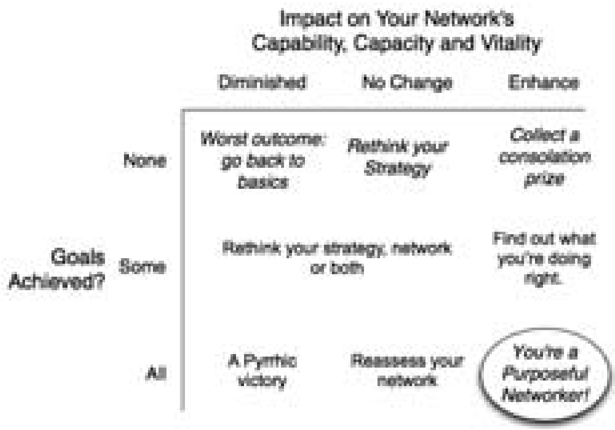
We now close by taking a second look at the cases in light of new understanding of the role of networks and, more specifically, the value of Purposeful Networking.

The Sports Franchise

This is a classic case of an over reliance on the Elite Model. The scale of the effort requires the participation and engagement of Team 21 to be sure. Yet Team 21's reach into the community – particularly the community most affected by the redevelopment – was likely limited at best and possibly

Graphic 5

The Impact of Your Network on the Success of Your Efforts



waning. Team 21 should have been augmented by the engagement of two or three carefully chosen community Bridgers. The weakness is not the choice of the Elite Model of development but rather the exclusive reliance on that model.

The University Incubator

The incubator project points to a common problem when similar institutions collaborate. This problem is particularly acute as when they are in the same "space," such as a common geography. Their networks overlap substantially and hence one does not get the power that true diversity brings. We must always resist the natural urge to connect only with people like ourselves. In this case, the university drew from a pool of people much like themselves: other academics. There is nothing inherently wrong with including or being an academic. However, the near exclusive reliance on this group, no matter how diverse it may be within its respective community, adds little to the effort to solve a problem that is embedded within the community outside the walls of the university. This is true particularly when the affected community is one that may have few real ties to the university – the community's entrepreneurs.

Sustainable Development

An us versus them sentiment all too easily develops in economic development projects unless checked at the outset. Careful thinking about what networks could be brought to bear could remedy this situation at the outset. In this case, the core development team could have benefited from much greater diversity, possibly including members of the disaffected groups or, at the very least, having networks within those groups.

A clue to knowing you have reached the right level of diversity is when you experience a personal discomfort with the level of diverging opinions, points of view, backgrounds and life experiences. It takes a great deal of personal courage to create and tolerate this level of diversity but it ultimately pays huge dividends in the end.

CONCLUSION

Purposeful Networking is not just about achieving goals. It is also about enhancing your network on the way to achieving goals. As **Graphic 5** shows, applying the tools of Purposeful Networking carefully and thoughtfully should, in the end, leave your network more vital and with greater capacity and capability than existed before. How is this done?

First, understand and apply reciprocity everywhere. Trust is earned over time and flows as an outcome of the reciprocity. Second, follow the golden rule of leadership: Do not ask others to do for you what you would not gladly do yourself. Last, have fun. Life is not a series of grim tasks to which we yoke ourselves. The people you know and have met over the years are more than happy to help you achieve your dreams. You only have to ask.

ENDNOTES

1 See *Achieving Excellence in Stakeholder Management*, Joachim Scharioth (Editor), Margit Huber (Editor) Springer, April 10, 2003 and *Stakeholder Management*, Stefan Walter Schuppisser, Haupt December 1, 2002 for excellent texts on the topic.

2 Each case is based on the direct experiences of the author with slight alterations.

3 See *"The Structure of Founding Teams: Homophily, Strong Ties, and Isolation Among U.S. Entrepreneurs,"* Martin Ruef, Howard E. Aldrich and Nancy M. Carter, American Sociological Review, 2003, Volume 68, (April: Pages 195 – 222; *"Innovation Networks and Knowledge Flows Across the European Regions,"* Raffaele Paci and Ernextor Batteta, Centro Ricerche Economiche Nord Sud, December 2003 and *"The Role of Social Networks for National Innovation Systems' Dynamics,"* Paper for Dynamics of Industry and Innovation Conference, Copenhagen, June, 2005 as examples of excellent recent references on the topic of economic development social networks.

4 *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, Annalee Saxenian, Harvard University Press, March 1, 1996 and *Building High-Tech Clusters: Silicon Valley and Beyond,* Timothy Bresnahan (Editor) and Alfonso Gambardella, Cambridge University Press, April 5, 2004.

5 *Structural Holes: The Social Structure of Competition,* Ronald Burt, Harvard University Press (reprint edition), August 11, 1995.

6 *Getting a Job: A Study of Contacts and Careers,* Mark Granovetter, University of Chicago Press (2nd edition) March 15, 1995.

7 *Achieving Success Through Social Capital: Tapping Hidden Resources in Your Personal and Business Networks,* Wayne E. Baker, Jossey-Bass, August 1, 2000 and *Bowling Alone: The Collapse and Revival of American Community*, Robert D. Putnam's, Simon & Schuster, Publishing, 2000.

8 *Local Economic Development: Analysis and Practice, John P. Blair,* SAGE Publications, March 29, 1995 and *Elites, Minorities and Economic Growth,* E.S. Brezis and P. Temin, JAI Press, December 1, 1999.

9 *"Neocortex Size as a Constraint on Group Size in Primates,"* Robin Dunbar, Journal of Human Evolution (1992), Pages 469 - 493.

fishing without a hook

By John L. Gann, Jr.

Communities need advertising that prompts involvement, that allows measurement of its results, and that is constantly tested and refined to make it ever more powerful. The task of making that happen falls mainly not upon ad agencies but upon local leadership.

"half the money I spend on advertising is wasted," complained English industrialist Lord Leverhulme, "and the trouble is I don't know which half."

Among communities that advertise for economic development, the percentage may well be higher. And some seem to feel it's more like both halves.

Conway Data, publisher of *Site Selection*, has tracked industrial development advertising and project announcements for over 30 years. Conway estimates that \$10 million is spent annually by communities on print advertising in national area development magazines. But in the last two years its figures show ad pages have declined 18 percent.

INVESTMENT OR EXPENSE?

The decline began with the economic downturn six years ago, recalls Ronald J. Starner, director of publications at Conway. He estimates that economic development agencies now spend in real dollars just half of what they spent on marketing in 2000. So half of at least one form of community advertising may indeed now be gone. It is less clear that it is solely the "wasted" half that disappeared or that economic developers have been any better than old Lord L at telling which half was which. Cutting ad budgets during slumps is also common in business. But some say that's when spending should be boosted to pump up sales and gain an edge on competitors who are hunkering down.

Which course prevails may depend on whether advertising is seen as an overhead expense or as an investment that generates revenues that support everything else a company or community does. Advertising has been called a "silent salesperson." And no sensible organization fires or demotes a salesperson who's bringing in business worth many times his or her pay.

IS ECONOMIC DEVELOPMENT ADVERTISING STRIKING OUT?

There does seem to be a question, however, as to whether the silent salesperson of advertising can deliver the goods in economic development. Most places wanting industry don't advertise at all. And of communities' tourism advertising, Rutgers professor Briavel Holcomb notes that there is "little published research on the efficacy of these promotional efforts, and indeed, the impact on actual travel behavior is difficult to measure."[1]

But perhaps most familiar to *Journal* readers are the surveys by Development Counselors International.[2] In 1996, 1999, and 2002 the New York public relations firm asked executives to identify "the three leading sources of information influencing your perception of an area's business climate." In no survey were print ads named by more than four percent of respondents. And no more than 21 percent ever gave high ratings to advertising of any kind as an effective marketing technique, the second-lowest percentage among eight techniques specified.

Of course, simply to influence perceptions of a business climate is not either the only or the most important reason that places run industrial development advertising. Since virtually every place boasts of a great business climate, such claims become rather meaningless. And rare is the executive who will admit that perceptions are influenced by ads he or she sees.

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MAKING COMMUNITY ADVERTISING WORK

While both communities and companies are questioning the effectiveness of advertising today, places seeking economic development face special difficulties. Adopting best practices to "hook" those who see ads can reduce waste. Five such measures supported by marketing experts run contrary, however, to common ad agency practice.

The top-rated influences in the DCI surveys – press reports, industry scuttlebutt, business travel – are factors communities have little control over. A front page story in *The Wall Street Journal* is something even places that hire the priciest PR counsel almost never attain. Nor do DCI figures gauge effectiveness against cost or practicability. Highly-rated "planned visits to corporate executives" and "hosting special events" are desirable but time-consuming and expensive and reach fewer decision-makers than advertising.

The most reasonable inference from the DCI surveys might be that different techniques are suitable for different agencies and different stages of the marketing process. The mass marketing of advertising might be most advantageous at early stages, while one-on-one options might better serve fewer prospects later in the game. Such a conclusion would also pose no conflict with 30 years of findings by Conway Data. Its figures show that the states with agencies that buy the largest number of advertising pages in national corporate real estate periodicals tend also to account for the highest number of new or expanded corporate facilities valued at $1 million or more. While emphasizing that this association does not prove causation, Starner notes that states that do the least advertising rank lowest in projects as well. But heavy advertising could simply be a sign of strong efforts in other areas of marketing that could be more responsible for success.

The most important limitation of both the DCI and Conway findings, however, may be that they do not tell the whole story of community advertising today, since economic development is now much more than the traditional "smokestack chasing." The disseminating power of advertising can also be attractive to communities seeking retail development, tourism, conventions, retirees, or other economic benefits (*see box*). "The biggest marketing problem downtowns have," confirms David M. Feehan, president of the International Downtown Association, "is how to deliver their message to target audiences."

SCOPE OF COMMUNITY ADVERTISING

Community to Business Advertising

1. Industry
Cities, regions, states, and nations advertise themselves as manufacturing, distribution, high tech, or corporate office sites.

2. Retail
Cities like Long Beach and Riverside, California, and their downtowns are advertised as store locations to chain retailers in trade journals

3. Meetings
Cities like Houston and resort areas are advertised as meeting sites to convention planners.

Community to Consumer Advertising

1. Tourism
Nations, states, regions, cities, historic districts, even highway corridors like U.S. 6 in Pennsylvania advertise to tourists.

2. Shopping
Downtown areas such as in Ithaca, New York, have advertised themselves as shopping venues.

3. Entertainment
Downtowns or other business districts are advertised as dining or entertainment hubs.

4. Residence
Urban neighborhoods are occasionally advertised as residential locations to area home buyers.

5. Specialized Labor Force
Cities are even sometimes advertised as employment locations to locally scarce labor force. Phoenix has advertised its moderate housing prices in California to recruit police officers.

6. Retirement
States and towns like Tupelo, Mississippi, advertise themselves as retirement havens in seniors' publications.

7. Economically Valuable Populations
Cities are sometimes advertised to young people, graduating students, or the "Creative Class." Pennsylvania has promoted its virtues with a tongue-in-cheek ad headlined "Top Ten Reasons to Stay in Pennsylvania After You Graduate."

A SUSPECTED UNDERACHIEVER IN BUSINESS TOO

Supporting the DCI findings nonetheless is the fact that even corporations are doing soul-searching about the payoff from advertising these days. Kevin J. Clancey and Robert S. Shulman note that companies have been diverting resources into promotions "because most advertising has been unable to demonstrate a convincing connection between advertising and sales results."[3] Al Ries, co-developer of the marketing concept of positioning, and his daughter/partner Laura memorably characterize this kind of advertising as "fishing without a hook."[4] "Prospects pick up the bait" the ads present, they explain, "but never get hooked on the brand."

John Philip Jones of Syracuse University agrees that ads commonly fall short. He faults not any inherent limitations of advertising but its creators.[5] Print doesn't get much attention from ad agencies, Jones explains, since bigger commissions lie in television. And agency people resist measuring response.

DIFFICULTIES IN MAKING COMMUNITY ADVERTISING WORK

But if even companies are having trouble making advertising work today, there are special problems with advertising communities. Six are especially notable.

1. Equating Advertising With Media Buys

In some communities, advertising may be seen simplistically as little more than spending on media. The focus is on simply getting the community's name in front of a large enough number of the right kind of people. Less care may be taken in formulating what to say and how best to say it.

Advertising agencies – which began historically as commissioned sales reps for the media rather than marketing pros serving advertisers and are still anachronistically paid a percentage of clients' buys by the media – may encourage this perception. This can lead to underinvestment in developing an effective campaign strategy and compelling message. That can make advertising ineffective no matter how heavily media are used. "Selling media is how the agency makes money," says Barry Feig, "selling products doesn't generate any income."[6]

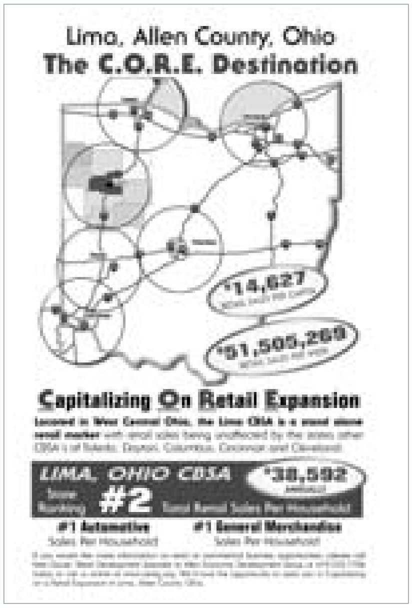

Figure 1
Communities advertise for retail development too. Lima, Ohio, eschews the "creative" approach in favor of data, rankings, and trade area delineations suggesting sales potential. (Reproduced with permission of Allen Economic Development Group.)

2. Small Media Budgets

That said, media purchases do in most cases have to be made. But most communities' media budgets are limited. That can mean too little exposure for good results. "One of the big mistakes communities make," suggests Ron Starner, "is campaigns that are too short. Three years should be a minimum to see results." Small budgets also mean communities' accounts are of less interest to ad agencies and their best talent except perhaps as a "community service" activity to burnish an agency image.

3. Less Visible Benefits

When companies advertise, the financial benefits come to the organization that pays the bill. Benefits of community advertising, however, accrue more broadly and less conspicuously to multiple businesses, property owners, taxing bodies, workers, real estate agents, and others. In addition, effective community advertising today often leads prospects to visit a Web site rather than to call or write, making respondents invisible. This is especially the case in industrial development, given the anonymity desired by site-seeking corporations. Dispersed benefits and untracked responses can make investment in advertising difficult to justify or to apportion fairly among prospective beneficiaries.

4. Unfamiliarity and Inexperience

Much community advertising is done by government. While advertising has always been part of business, it has had little place in public administration. Cities and states don't have marketing commissions or advertising boards. And while companies that don't compete well can go under, even the least economically successful localities continue to exist. Businesses go out of cities, but cities don't go out of business.

That means governments have had less advertising experience and less incentive to do it well. Without advertising staffs, they have less ability to do advertising in house or to astutely buy and evaluate services from others. "Economic developers need advertising and marketing knowledge, not just selling skills," says Ted Coene, publisher of *Business Facilities*. And government being government, hiring an ad agency or PR firm based more on politics than professionalism is not unknown.

Nor are the agencies always much better off than their clients. "Most advertising agencies have limited experience in dealing with economic development advertising," concluded Richard L. Eggers and Robert G. Treat of Illinois Power Company. "Traditional consumer advertising placement formulas and measures normally employed by advertising agencies have marginal success in economic development situations."[7]

5. The Data Game

Another barrier to effective use of advertising is the perception that data is controlling in community marketing. Places sometimes assume they need do nothing more than get their numbers out on their Web sites or through state economic development agencies and wait for the phone to ring. Some places have indeed been surprised to find themselves on a company's short list as a result of quiet Web-based research. In this context, of course, advertising naturally seems superfluous.

But while the data strategy has some validity in industrial development, it is inapplicable in other forms of community marketing. Even the best numbers, moreover, don't count for much if they're never found. Places still need advertising, says Bill King, editor of *Expansion Management*, if only to direct executives to their Web sites. And data and advertising are hardly mutually exclusive. Selective data can be advertised to good effect (FIGURE 1).

6. Promotions Rule

But the primary reason why advertising has not achieved its full potential in economic development may be the heavy reliance on promotions. This has also been the trend in consumer marketing by business, with increased emphasis on sampling, cents-off coupons, and temporary price cuts to stimulate sales rather than on conveying full-price value by means of advertising messages.

Even CVBs now compete on price as a result of the large number of convention centers. But with the possible exception of auto makers, perhaps no marketers rely more on price concessions than industry-focused economic developers. Like GM and Ford with their perennial rebates and financing deals, communities seeking industry have trained companies to expect generous financial incentives. Reliance on incentives is understandable given intense competition and widely varying prices for labor, real estate, and utilities that are out of communities' control. But competing on price obviously departs from the idea of advertising to create perceived value that merits a higher price.

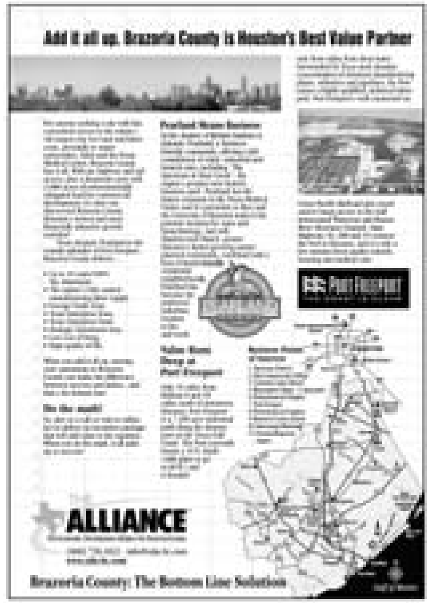

Figure 2.
In a departure from typical full-page ads, the communities of Brazoria County, Texas, pass on ornamental graphics and designer white space in favor of conveying information of interest to the industrial site selector. The only large graphic is appropriately a schematic map laden with still more information. (Reproduced with permission of The Economic Development Alliance of Brazoria County.)

The "advertising look" of stylized typography, contrived layouts, heavy graphic treatments, gratuitous photos, and four-color display shouts, "This message brought to you by...." But the most conspicuous sign may be the copy. Except in rare cases (FIGURE 2), there's very little. And what there is may be unsupported hype.

ADVERTISING SMARTER

For the problems these difficulties create, neither the DCI nor the Conway surveys may offer the best solution. That's because the DCI conclusion (spend on high-cost personal touch contacts rather than mass media) and the implications of the Conway data (be among the biggest spenders on print advertising) may be equally out of reach for most communities with limited budgets.

The remedy in such cases, say marketing experts, is neither downplaying advertising nor advertising harder. It's advertising smarter. The biggest problem with that may be that expert advice is not always put to use. Don E. Schultz of Northwestern University complains about "the disparity between what is ***known*** and how marketing and communications are ***practiced***."[8] David Ogilvy lamented that "advertising agencies waste their clients' money repeating the same mistakes."[9] There are, however, five rarely utilized "hooks" that some places have put into their advertising that both communities that advertise and those that have written advertising off might well consider.

HOOK 1: LOSE THE AD LOOK

The first hook must get the prospect's attention. And you can't hook someone on something he or she doesn't even want to look at.

Typical ad agency work makes a community's message look ***like*** advertising. The problem with that is a simple one. Most people don't like advertising. DCI survey respondents give it low marks. Yet PR – the other way to get a message out through the media that DCI respondents rated higher – has its own limitations. Unpaid advertising in the form of editorial coverage is hard to get. States, big cities, and famous tourist meccas can claim a significance that merits high-profile exposure. Smaller places can find the task much more difficult.

Editorial matter is, moreover, controlled by journalists who don't know economic development, are trained to be skeptical, and are obligated to present the downside as well as the upside. And most media are already swamped with press releases and would much rather sell ad space to someone with a promotional story to tell. Editor Bill King estimates that only one to two percent of print articles published result from pitches by PR firms.

Hybrid Messages

The solution to the advertising-vs.-PR conundrum may therefore be a paradox: advertising that doesn't look like advertising. The solution, in other words, is a hybrid of the two. "You know you've written a good ad," says ad man Roy Williams, "when it doesn't sound like an ad."[10] "An ad," agrees copywriter Luke Sullivan, "says, 'Turn the page.'"[11] David Ogilvy observed that ads that look like editorial pages rather than advertising draw 50 percent more readers.[12]

The "advertising look" of stylized typography, contrived layouts, heavy graphic treatments, gratuitous photos, and four-color display shouts, "This message brought to you by...." But the most conspicuous sign may be the copy. Except in rare cases (FIGURE 2), there's very little. And what there is may be unsupported hype.

Ways to Lose the Look

Four measures are suggested for communities to take to avoid a look that can stand in the way of getting their message taken seriously.

** White Out the White Space*

Although aesthetes love it, marketer Ray Jutkins reminds us that in an ad "nobody reads the white space."[13] "We have practically nothing to put in this space to say to you, but, hey, why don't you look into our community anyway?" represents a less than compelling appeal.

** Hide the Hype*

Part of the "advertising look" is the unabashed boasting in copy that has given advertising little credibility. The alternative is to make the ad as factual and credible as a well-written article.

** Credit the Copy*

"The more you tell, the more you sell" seems especially apropos for communities. The choice of a community as a business, residential, convention, or vacation location is a complex, big-ticket, and often long-term decision requiring lots of information.

But many agency people claim people won't read long copy in ads, even though they will read it in articles. The solution: make ad copy worth reading. "It's not long copy that people don't read, it's dull copy," insists Robert Pritikin. "A man interested in purchasing a recreational vehicle will read a 30-page booklet on RVs."[14] According to Ogilvy, the very appearance of long copy is a plus because "advertisements with long copy convey the impression that you have <u>something important to say...</u>."[15]

** Fix the Photos*

Tourism and industrial ads especially tend to display photographs of the community. Full-page ads can include a bewildering number of tiny scenes. But these images often add little pertinent information. What a community looks like can best be conveyed on a Web site full of images or in a video or site visit. And majestic mountains, dreamy waterfront sunsets, and other cliched scenes can be found in many places. In high-priced ad space, photos might better be used selectively to convey something distinctive.

HOOK 2: JUST TALK PERSON-TO-PERSON

Once you have the prospect's attention, you have to keep it by communicating something of interest. Person-to-person talk is a good hook to accomplish this.

In lieu of the advertising look, communities might emulate the format so effectively used by the sales representative. Talk. Given a half-hour of time with a site selection, convention, or retail executive, few communities would use it to display pretty pictures, call attention to their flashy apparel, or show off their verbal cleverness or sophisticated taste. And it would be suicidal to say virtually nothing at all. Yet when given a few seconds of that executive's time as he or she glances at an ad, that's what many choose to do.

"Advertising," said John E. Kennedy, "is salesmanship in print." In our own time Sergio Zyman argues that advertisers need to remember that the reason to run advertising is to "sell stuff."

One reason advertising ranks low in DCI surveys as a source of business climate information may be very simple: most ads don't offer it. The amount of space devoted to such information in even full-page ads is often overwhelmed by the space taken up by the advertising look. Given fleeting seconds of attention, many ads try to dazzle with design rather than intrigue with information.

Is Glitz-Free Tourist Advertising an Oxymoron?

How to avoid the advertising look was never better illustrated than by advertising legend David Ogilvy. In the 1950s, he did a full-page ad selling England as a low-cost tourist destination. It looked like an article, not an ad. A third of the page was a single photograph, and the rest was 400 words of small-type copy. The headline was set in plain-looking type. There was no logo, no artsy treatments, no amusing Limey phrases in the copy, no cliched London Bridge or Big Ben graphics, no cartoon beefeater. And no color.

A dozen detailed figures demonstrated the low prices tourists could enjoy. The schedule of prices also served to draw attention to wonderful things to do. In lieu of overgeneralized puffery, the ad provided concrete information that sold.

Most tourists are less concerned with saving money and factual specifics than other groups. So Ogilvy's formula might be even more effectively used to sell to industry, retailers, meeting planners, retirees, or home buyers.

Figure 3. Oxford, Mississippi, tells its story to retirees by simply citing media testimonials, an interesting melding of advertising and PR. (Reproduced with permission of Oxford-Lafayette County Economic Development Foundation.)

"You have to tell a story," concludes David Feehan about what downtowns must do to attract visitors. "Of the three advertising and promotion decisions – budget, media, and copy – copy is by far the most important," concludes Wharton Marketing Department Chairman Leonard M. Lodish. "No matter how much is spent or which media are used, an ineffective campaign will remain ineffective."[16]

Simulating Word-of-Mouth

"Word-of-mouth advertising," says Sergio Zyman, "is the most powerful form of advertising on the planet."[17] The DCI findings rank this as the number two source of information. The most powerful factor in word-of-mouth is the substance: endorsement by a peer. But not to be ignored either is the form. Word-of-mouth is, as the name implies, one person talking to another. While there's no substitute for the real thing, communities can emulate word-of-mouth in their advertising. The substance can be approximated with testimonials. And the form can be simulated with advertising that ***talks***.

1. <u>The Substance of Talk: Testimonials</u>

   Seeking retirees as economically desirable residents, university town Oxford, Mississippi, tells its story solely with testimonials (FIGURE 3). Advertisers have long recognized the credibility that third-party endorsements offer. A further plus for the testimonial is the punctuation. According to David Ogilvy, headlines in quotation marks increase recall 28 percent.[18]

2. <u>The Form of Talk: Person-to-Person</u>

   The best-read parts of any publication are the articles. Articles are talk translated to print.

   The most costly marketing per person reached is the sales call. Yet companies pay salespeople handsomely because well done sales calls move the goods better than anything else. The salesperson does one thing. He or she talks – one-on-one. "The art of brilliant communication," concludes former ad agency partner Robert Pritikin, "can only be achieved when you address yourself not to the masses but to a single person."[19]

And when a place is a really hard sell, talk must be center stage. One of the toughest marketing jobs may be selling urban living to home buyers. The usual arguments – historic preservation, control of sprawl, environmental protection – fall flat with all but a few buyers. The number of Americans wanting to lose weight, on the other hand, is vast. And research shows that people living in older neighborhoods do more walking, one of the easiest means of weight control. An ad highlighting this benefit (FIGURE 4) sells this idea with simple talk minus advertising flash.

HOOK 3: SELL THE PLACE, NOT THE AD

The ultimate hook must lie in the benefits of the community rather than in the stylishness of the presentation. So that's where the ad must focus.

David Ogilvy, the pre-eminent creator of low-key but high-response print ads, said that "a good advertisement is one which sells the product <u>without drawing attention to itself."</u>[20]

A consequence of the stylish dazzle of some community advertising is that the community can get lost. Legendary in the ad business are campaigns that millions remember without being able to recall the identity of the product advertised.

Figure 4. Home builders sell suburbia while neighborhoods in older cities can languish because no one sells city living. But as this ad suggests, that's not because city neighborhoods don't have real advantages. (Ad copyright Gann Associates.)

"The goal of traditional advertising," say the Rieses of what they call fishing without a hook, "is not to make the product famous. The goal of traditional advertising is to make the advertising famous."[21] Instead of salesmanship in print, they say, advertising has become nonfunctional art. How an ad looks framed on the agency's wall outranks how it performs in the marketplace in boosting the client's sales. Design values trump marketing effectiveness.

While an ad can be sold on style, a community must be sold on substance: information about the product. Summarizes Ted Coene, "Content is king." Superficial and cliched information may mean the ad agency hasn't done enough digging to find the best things to talk about. "Vague claims about an area's quality of life are deadly," adds Ron Starner. "Businesses want specific bottom-line information." "Downtowns have to sell the experience of the place" to distinguish themselves from the malls, maintains David Feehan. "But only about five percent of downtown organizations do this."

That makes Job One in community advertising an intensive probing study of the community that floods the advertising message-maker with information. Luke Sullivan quotes advertising legend Bill Bernbach: "The magic is in the product....You've got to live with your product. You've got to get steeped in it. You've got to get saturated with it."[22] That can especially pay off when the product has more to offer than it appears. Stories of crime and racial incidents made perceptions of a client of ours unfavorable. Yet our research uncovered multiple distinctions that could identify the community instead with a tradition of being "first." An ad we prepared (FIGURE 5) showed that little-known side of the town.

HOOK 4: GET INVOLVEMENT

You can't really hook someone until you get him or her to become involved with you by taking a small initial action. The ad must motivate that action.

The only advertising that ultimately counts is the kind that produces a sale. Car dealers know that unless the buyer takes action to visit the dealership and try out the car on the road, there will be no sale. Community advertising is also likely to be more effective if, in the words of marketing consultant Ian Moore, it "sells the test drive." In Seth Godin's Permission Marketing, an ad sells the reader on giving an initial permission – say, to send a brochure or video. That then leads to other things. But if the permission doesn't happen, Godin warns, effective marketing won't either. Advertisers must actively go after involvement. "Too much economic development activity is *ad hoc* responses," warns Ted Coene. "Communities should be more proactive, less reactive."

"You can't sell a community with advertising alone," advises William L. Shanklin of the University of Akron. Few buy a corporate facility location, vacation destination, meeting site, or place to live solely as a result of an ad. The most an ad can do is to get a select number of readers to take the next step toward a sale. But to achieve marketing with a hook, that's also the ***least*** it should do.

That "test drive" step can take various forms. It might be to explore a Web site, order a brochure, visit a real estate office, redeem a coupon downtown, make a phone call, view a tour on a DVD or on the Web, request a visit from a representative, or order or download a research report. Not surprisingly, the options rated highest in the DCI surveys tend to be high-involvement marketing like visits to executives and special events.

Love Without Marriage

Advertising people often argue, however, that it is enough to create "awareness," "likability," or a brand identity. It is asking too much, they say, to try to involve the reader or move him or her to action. But it's not an either/or choice: ads can do both.

And awareness without action may be likened to a salesperson giving a presentation and then committing the cardinal sin: failing to ask for the order or at least the next step toward the order. Sergio Zyman colorfully dismisses ads that aim for "likability" as creating "people who think they are in love with you, but have no plans to marry you."[23] American Telecast founder Steven K. Scott argues that agencies talk up "awareness" and "recall" to disown responsibility for influencing sales and substitute a low-ball way to claim success. "Even a child can be a successful high-jumper," he notes sardonically, "when the bar is only six inches off the ground."[24]

Figure 5. Some older cities that have suffered from bad press and a tarnished reputation actually have a lot going for them. But it can take a long-copy ad like this one to make that widely known. (Ad copyright Gann Associates.)

Syracuse University's Jones agrees. He cites "a tendency for agencies to respond defensively about building images, changing consumer perceptions, and generating long-term sales. My own experience has taught me that without a short-term effect, advertising will never have a long-term effect."[25]

But "selling the test drive" is more than just listing a phone number and address or urging a Web site visit. "The ad must give a reason," says Shanklin, "to take that first step." And on a Web site, says Zyman, "traffic is good, but it doesn't guarantee commerce any more than driving past a McDonald's guarantees buying a Big Mac."[26]

HOOK 5: BETTER HOOK NEXT TIME

Expert fishing ultimately requires knowing how well a hook worked and using a better one when you next put a line in the water.

"The most important word in the vocabulary of advertising," concluded David Ogilvy, "is TEST."[27] The only way to know which hook will work best is to test against others. And the only way to know whether any hook is working is to measure results.

Here's Looking at You

Talk is the most personal form of communication and the most effective. We respond better to communications from people than to messages from faceless organizations. That can provide a clue to one of the most effective graphic elements in any ad: a photograph of a person looking directly at you, the reader. Probably nothing is more arresting as you page through a magazine. We are conditioned to notice and respond to this kind of stimulus.

A few places have effectively used images of a company CEO, mayor, or governor to personalize their messages. But less prominent faces can work too, as demonstrated by the Charlotte Chamber of Commerce (FIGURE 6).

Figure 6.
The Charlotte, North Carolina, Chamber of Commerce is also at least 13 percent smarter when it comes to stopping the busy business reader with an image of a person looking right at him or her. For companies seeking an educated work force, Charlotte's ad also offers a few reasons to check the town out. (Reproduced with permission of Charlotte Chamber of Commerce.)

Advertisers' coupons, mailing addresses and phone numbers, and Web sites in print ads can be keyed so as to trace inquiries to a particular ad and measure effectiveness.

Ads that work well based on measured response should be repeated until response falls off or until testing produces a better ad that "beats the control." A successful small-scale test can be expanded into a bigger investment. Ads that can't meet the test of measured response should be replaced. "You have to try different things," says Bill King of *Expansion Management*. "Different things work at different times, and nothing works forever."

MORE MUSCULAR ADVERTISING FOR COMMUNITIES

Economic development in the 21st century has evolved beyond the "smokestack chasing" industrial recruitment model. Communities now seek a variety of investments that can create jobs, enhance incomes, and generate tax revenues. Use of media to get marketing messages out is similarly evolving in business. More companies are finding that traditional "fishing without a hook" advertising isn't producing results. And they also recognize that PR is inadequate to tell their story. Both evolutions suggest that past conclusions about the role and nature of advertising in economic development are due for reappraisal.

For all its shortfalls, advertising still represents a cost-effective way to reach large numbers of all kinds of prospects. It offers a message that comes to them rather than one they have to somehow locate in the thicket of today's Internet. It's a proactive medium that seeks out the people the advertiser decides should hear his message. Unlike PR, it allows an advertiser to tell his story in exactly his way. At the same time, traditional advertising that "fishes without a hook" can be enormously wasteful.

Marketing authorities suggest, however, that this waste can be greatly reduced with better advertising practices. Most fish will always elude even the most effective hook. But the prospective catch from a line bearing nothing more than attractive bait hardly justifies even dropping it into the water.

And it is nowhere more important to apply best practices than in advertising communities. It is hard to think of a higher-value product or one with greater economic significance. Successful community advertising can mean more jobs and tax revenues, higher incomes, lower taxes, and enhanced property values. If advertising a community is a much tougher job than advertising a product, the value of the payoff is also commensurately greater. Yet to bring these larger results about, communities can spend only a fraction of the funds on media that product marketers do. Since that's not likely to change, what this paradox calls for is a leaner, more muscular kind of advertising for communities.

Whether advertising to business or consumers, communities now need advertising that is less glitzy and more purposeful; less fluffy and more information-packed; and less Madison Avenue fantastic and more Main Street credible. That means less show and more person-to-person talk. It also means ads that are less about the stylishness of the ad world and more about the benefits of the product. Communities need advertising that prompts involvement, that allows measurement of its results, and that is constantly tested and refined to make it ever more powerful. The task of making that happen falls mainly not upon ad agencies but upon local leadership. While the ad agency's job is simply selling advertising, the job of selling a place for economic development will always belong to the community.

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the memphis depot

BUSINESS PARK

By Jim Covington, AICP

The Memphis General Depot was officially activated by the U.S. Army Corps of Engineers in January 1942.

Jim Covington, AICP, is the president of the Depot Redevelopment Corporation of Memphis and Shelby County, TN.

INTRODUCTION

The U.S. Army Corps of Engineers officially activated the Memphis General Depot in January 1942. The mission of the Depot was to supply the U.S. Army with food, clothing, tools, and engineering equipment. During World War II, the Depot also served as a prisoner of war camp for 800 prisoners. The installation became one of the original Depots in the Defense Supply Agency (now the Defense Logistics Agency-DLA) and in 1964 began providing general supply support to all military branches. The Depot provided logistical support to the U.S. Military from World War II through Desert Storm.

Based on decisions made by the 1995 Base Realignment and Closure Commission (BRAC), the base closed its doors to military use on September 30, 1997. More than 313,000 tons of supplies were shipped to other DLA storage locations. Many citizens believed that this once vibrant and bustling facility that employed 1,300 personnel at closure and 4,900 personnel at its peak would eventually become a deserted eyesore in the community. However, in response to the federal government's decision to close the facility, the city of Memphis and Shelby County government partnered with the economic development community to begin the process of converting the Memphis Defense Depot to non-military use in an effort to recapture jobs and community pride.

THE PLAN TO REVITALIZE

To spearhead efforts to help foster economic growth in this inner city community, officials created the Depot Redevelopment Planning Committee, whose main objective was to create a master plan to guide the reuse activities necessary to convert the Memphis Depot into private use. The planning process along with local staff expense was funded by the Department of Defense Office of Economic Adjustment. The Redevelopment Plan for the Memphis Depot was the result of an extensive community, business, education, and government participation process. Workshops that included neighborhood residents and other stakeholders were conducted, as well as in-depth evaluations of local, regional, and national markets. Input from stakeholders such as city and county administration officials, military representatives, design specialists, neighborhood representatives, real estate developers, transportation professionals, logistics special-

A SMOOTH TRANSFORMATION FROM A MILITARY SUPPLY DEPOT

The Base Realignment and Closure Commission continues to review and recommend closure of military bases across the country and overseas. The loss of a base is traumatic to any community; however, there is a good future for many of these facilities. The Memphis Depot Business Park (MDBP) has been successfully converted from a once vital military base into a modern industrial park. In 2004, the Association of Defense Communities, formerly the National Association of Installation Developers, selected the Memphis Depot Business Park as the Facility of the Year in its awards of excellence program. A number of steps involved in base conversion such as the planning process, funding opportunities, and organizational structure are transferable to other communities. This article reviews the progress of the conversion and modernization and provides insight into how other closed military bases can achieve successful results from base conversion and redevelopment.

ists, and a broad array of interested individuals helped ensure an outcome that would foster economic growth.

The reuse plan focused on attracting distribution, light manufacturing, and appropriate service businesses to the facilities. In addition to incorporating light industrial businesses, the plan provided facilities for education, community services, parks, and public recreation activities. Former officers' housing was to be converted to transitional housing for local homeless veterans, and a site was designated for a new Police Precinct. After these extensive planning efforts were complete, the Depot Redevelopment Plan was adopted by the Memphis City Council and the Shelby County Board of Commissioners in May 1997.

The plan projected a 15-year redevelopment period to address essential goals and to accomplish required infrastructure improvements for the World War II vintage facility. The goals of the redevelopment effort were adopted as follows:

- Maximize community employment, wages, and capital investment through redevelopment of the Depot,
- Improve the local quality of life through utilization of Depot facilities to meet community needs and ensure development compatible with the surrounding area,
- Generate cash flow early in the redevelopment process through interim leases to support maintenance improvements and marketing efforts, and
- Maintain overall community health as the number one priority in environmental remediation.

Objectives adopted early in the redevelopment process to facilitate accomplishment of the goals were:

- Encourage hiring of minority contractors and women-owned businesses in construction and maintenance operations, and
- Become financially self-sufficient in all construction and maintenance operations.

THE ADMINISTRATIVE TEAM

The Depot Redevelopment Corporation

After adopting the Redevelopment Plan, the next step in conversion of the Defense Depot was to establish an organization to execute the plan. The Depot Redevelopment Corporation (DRC) of Memphis and Shelby County was created as a special purpose corporation to facilitate transfer of the Depot property from the federal government to the local community and to implement the Depot Redevelopment Plan. The DRC is an Industrial Development corporation with board members appointed by the city of Memphis and Shelby County government. The Corporation can receive title to the property as well as being able to develop and sell the property. It can issue bonds, borrow funds, and use its project revenue to satisfy debt obligations. The DRC was established to separate the city and county governments from environmental and other liabilities of redevelopment and to function like a private landlord or business. The DRC began as a start-up company and has a full time staff of seven employees. In addition to the DRC staff, the federal government provided a Base Transition Coordinator (BTC), who assisted in translating government programs and navigating through the federal reuse process.

DAY TO DAY BUSINESS OPERATIONS

As a new organization, the DRC had to establish a process for day to day business activity. With consistent growth, the DRC expanded its financial capabilities to deal with business decisions that included maintenance activities, capital improvement projects, marketing, and leasing. The most important financial items were to hire an accountant, establish bank accounts, and establish relationships with area vendors.

Insurance for four million square feet of buildings was a unique challenge. This process demanded not just an agent, but an experienced insurance consultant who could analyze federal requirements, translate the insurance language, and provide advice on important investment decisions.

When renaming the business park, a portion of the military name was retained because of tradition and regional name recognition.

Recruiting a real estate attorney with expertise in producing and negotiating sales and lease agreements, as well as reviewing and advising on deeds from the federal government was also a major priority. The development of standard leases and sales contracts has led to over 50 successful transactions with tenants. Equally important was finding a real estate consultant to set lease rates, provide appraisals, and determine competitive sale prices.

The Redevelopment Plan for the Memphis Depot was the result of an extensive community, business, education, and government participation process. Workshops that included neighborhood residents and other stakeholders were conducted, as well as in-depth evaluations of local, regional, and national markets.

Exhibit 1

A Must Have List - Essential Assets

1. **A good redevelopment planning consulting team** - Understanding the conditions, values and potential of facilities; and having a workable action plan with timelines and cost estimates is essential.
2. **A good real estate consultant** - Competitive lease rates and sales prices are critical to the success of redevelopment.
3. **A good real estate attorney** - Drafting leases and sales contracts is a specialty that only comes with experience.
4. **A good accountant** - Redevelopment is complicated with complicated revenue sources that have to be audited and accounted for in separate ways.
5. **A good business development manager** - Someone who can understand the needs of potential tenants and buyers and can professionally lead them through the proposal process to a final contract.
6. **A good insurance advisor** - Not just an agent but someone who can translate the government requirements and technical insurance language to help make complicated decisions.
7. **Good networking with other closed military facilities** – The Association of Defense Communities, formerly the National Association of Installation Developers (NAID), is the best source of contacts and sharing information on base reuse and redevelopment.

The DRC did not want to establish lease rates so high that buildings would not lease or so low that they would undercut other private landlords. This important balance is protected by re-evaluating community-wide lease rates periodically and adjusting DRC rates when necessary. A final and major piece to this puzzle was the administrative staff that was comprised of a president, a leasing/marketing manager, a construction project manager, and a facility maintenance manager. See Exhibit 1 for a list of essential advisors for day to day business operations.

THE OLD MADE NEW

The conversion of Memphis Depot into a modern business park actually began in 1997. There were five major phases of redevelopment that took place over a six-year period. Over one million-square-feet of obsolete buildings were demolished to make way for new roads, parking lots and infrastructure that included fiber optic communications. A new entrance boulevard was necessary to improve access and internal circulation for modern trucking operations and employee parking. Most gas and electric services were antiquated and had to be replaced. High pressure water lines were added to improve fire protection to 3.5 million square feet of existing buildings; and sewer lines were repaired and expanded. Internal roadways were developed, as well as new employee and truck parking lots adjacent to existing buildings. Landscaping improvements included over 1,000 trees and 4,000 shrubs. More than 26 miles of substandard railroad track was removed to allow the subdivision of land for future development and the construction of a four-acre storm water runoff retention reservoir.

Funding for the Modernization Program was provided by a variety of sources. Over a period of four years, the city of Memphis and Shelby County loaned $10 million to the DRC for infrastructure improvements. Over a five-year period, the Economic Development Administration provided $6 million in matching grants set aside for the redevelopment of closed military facilities. A $750,000 Tennessee Infrastructure Improvement grant was provided by the state of Tennessee and a Delta Regional Authority grant of $300,000 was also made available for utility upgrades. The Defense Logistics Agency provided $3 million in funding for building and grounds maintenance, while code improvements to existing buildings were funded through rent income and tenant rent credits.

Unique problems were associated with the transformation of a military supply facility to a business park. When a single occupant facility is converted into a multiple tenant facility, certain challenges must be addressed. Under military use, there was only one electric, gas and water meter for the entire 4.2 million square feet of buildings on the site. Rather than estimating the cost of utilities for each tenant, individual meters needed to be installed. Lease credits were issued to the new tenant in lieu of rent so that the meters could be installed at the beginning of the lease term. In addition, military buildings were not constructed under local building codes and occupancy of these buildings required coordination with the local building inspectors. Particularly, code issues with the number and location of restrooms, the capability of fire sprinkler systems, the capacity of fire protection water pressure, and operation of overhead doors had to be resolved. The use of rent credits for meters, restrooms, fire protection improvements, and the addition of office space prevented the need for DRC to borrow additional funds to pay for these capital improvements. The current cost of the Modernization Program, from all sources, is more than $20 million. Exterior roofs and drains, along with interior wooden roof trusses are continuously being maintained. See Exhibit 2 for lessons learned related to redevelopment.

The environmental testing and cleanup process for the MDBP has been very extensive. Before buildings or land could be leased or transferred, there were environmental concerns that had to be examined and tested. In 1995, the BRAC Cleanup Team was established with members from the Defense Logistics Agency, the Environmental Protection

Agency and the Tennessee Department of Environment and Conservation. It was charged with the responsibility for making decisions on how to test and clean up the MDBP site. In addition, the Restoration Advisory Board (RAB), comprised of community leaders and government officials, was established in 1995 and it is also still operating today. Through public meetings and supplemental presentations this board makes recommendations to the government decision makers who oversee the process for cleanup. The environmental cleanup has been completed on the majority of the property and the remainder of the cleanup should be complete by 2009.

REBUILD IT AND THEY WILL COME

One of the early decisions for the reuse of the former Army Depot was to determine a new name for the facility. It was believed that removing the military perception of the facility played an important role in the conversion and reuse process. After evaluating and discussing new names with international and national connotations, the DRC decided to retain part of the old name because of the tradition and regional name recognition. The Memphis Depot Business Park (MDBP) became the new name for the facility. The park is zoned for light-industrial use and is situated on a 575- acre site, with more than four million square feet of enclosed space. It is located about seven minutes or less from the Memphis International Airport, Interstates 240 and 55, the FedEx World Hub, and the Southern Regional Headquarters of United Parcel Service.

One of the greatest amenities in the park is the 24-hour a day, seven days a week gated security entrance.

Marketing and leasing for the MDBP is the responsibility of the in-house business development manager. Brochures, newsletters, a comprehensive web site, and other marketing materials were developed to expound on the benefits of the MDBP. The marketing plan was designed to take advantage of the local and regional recognition of the facility, the investment in modernization, extremely good location, and competitive lease rates as the main selling points. Real estate brokers were the primary focal point of the plan and a professional relationship was developed quickly. A quarterly *Brokers' Newsletter* was developed and updates were mailed regularly to over 100 brokers and economic development professionals. A brokers' luncheon and tour was conducted annually to address questions and encourage leasing opportunities. Of the 3,810,000 square feet leased, 2,021,000 square feet or 53 percent came through brokers' assistance. Advertising through local, national, and technical publications was also implemented, along with local television, radio, and billboards.

BENEFITS ADD UP

In addition to economic development incentives offered by state and local agencies for job tax credits, employee training, revolving loan programs, and utility rate discounts, there are two unique programs that have been made available to businesses that locate in the Memphis Depot Business Park:

- **Foreign Trade Zone, Number 77-** After three years of application and discussion with the U.S. Commerce Department, a Foreign Trade Zone (FTZ) was established which includes over four million square feet of buildings in the MDBP. A U.S. Foreign Trade Zone is a designated area which, for customs purposes, is considered to be outside the U.S. Nearly any imported merchandise can be brought into a FTZ for almost any kind of processing, duty-free. Existing industries at the MDBP have shown interest in the FTZ, but the most important use is to attract new industries that need the FTZ component to import and manufacture products. It provides

Exhibit 2

Lessons Learned

1. **Obtain a clear understanding with grant agencies** concerning criteria and grant requirements. The Economic Development Administration had a five-year window of eligibility for funding redevelopment projects on closed military bases. Other grant agencies have once-a-year application deadlines. Understanding submittal deadlines and criteria can mean the difference between either being funded early in the redevelopment process or being forced to wait until another application period.
2. **A Redevelopment Corporation is a good vehicle** for the conversion of a military base. The Corporation can function like a business and move quickly to make decisions, sign leases, and enter into contracts.
3. **The strict review of credit and audited financial statements** for potential tenants is critical. It is much better to be selective than to have to deal with bankruptcy or to have to evict a tenant.
4. **A Base Transition Coordinator (BTC) with prior experience** from other closed military bases can be an invaluable guide to help translate the myriad of federal requirements and programs.

one more tool to attract businesses and compete with other locations for future economic development opportunities.

- **Renewal Community Designation-** The U.S. Department of Housing and Urban Development has designated the MDBP, along with a large area that surrounds it, as a Renewal Community (RC). The designation provides federal tax incentives to encourage businesses to locate or expand operations in the RC and to hire RC residents. Incentives are available through December 31, 2009, and include wage credits for all existing employees and every new hire that lives in the RC. The designation also allows tax deductions on certain machinery and equipment, on revitalization of commercial buildings, and on capital gains of the sale of certain assets. Other incentives include Welfare to Work credits for businesses that hire long-term family assistance recipients and a New Markets Tax Credit for qualified investments. These incentives have been well received by current and potential tenants as one more reason to locate in the MDBP.

LEASING

There are 4,250,000 square feet of existing buildings at the MDBP. Leasing began almost immediately after the formal closure of the facility in September 1997. A master lease was negotiated with the Army Corps of Engineers for the initial reuse process. Buildings were made available to the DRC as they were reviewed and cleared by the federal government for leasing or transfer. About 500,000 square feet of buildings were available for leasing in 1997. By 1998, all the buildings had been made available for reuse.

Lease rates were established with a precise evaluation of other comparable buildings of similar age, clear height, and size. Three basic building types were available under a modified triple net lease. World War II vintage buildings with clear heights of 12-15 feet with 110,000 square feet of space rent for $1.65 /square foot/year. Korean War era buildings with 207,000 square feet and 20-foot clear-heights, rent for $1.85/square foot/year. Newer buildings from the 1990's with 209,000 square feet and 28-foot clear height rent for $2.55/square foot/year. In addition, a $.24 per square foot operation cost fee is collected for common area items such as property security, grounds maintenance, and street lighting. Brokerage fees and renewal fees are paid using the normal rates in the Memphis market. Real estate brokers can receive the maximum full brokerage commission of four percent for the first five years of a firm term, two percent for the second firm five-year term and one percent of firm terms longer than 10 years. The DRC began and continued a steady marketing effort to raise the recognition level of the facility as a private industrial park facility.

Exhibit 3

Leasing Activity 1998-2005

Year	Square Footage Leased
1998	165,000sf
1999	316,752sf
2000	477,406sf
2001	347,637sf
2002	1,579,204sf
2003	225,225sf
2004	1,220,997sf
2005	484,597sf

The first lease was signed in October 1997, and others followed in a gradual process of occupying space. The process has had up and down results with both long and short term leases. The goal for leasing was to promote five- year leases as the main term length. DRC has been reasonably successful in this regard with 25 percent of current leases being five years or longer and 53 percent of the leases being four years or longer.

Leasing in general has been very successful. Leasing activity for the past eight years is shown in Exhibit 3. The 2005 total of square feet leased is 3,810,476 out of a total of 4,250,457 square feet available. This total square footage gives MDBP an occupancy rate of nearly 90 percent. The 29 tenants vary in size of space leased from 860 square feet to 1.2 million square feet. The break-down of the tenant base is 16 percent manufacturing, 6 percent trucking, 16 percent services, 18 percent specialty warehouse-distribution, and 44 percent bulk warehousing. Leasing income and Operating Cost Fees generate approximately $5,800,000 annually.

SUBDIVISION OF LAND

Part of the Master Plan for the redevelopment of the MDBP was to reuse existing buildings to produce immediate cash flow and then to subdivide underutilized land to provide for future industrial development. Rail yards and obsolete buildings were removed to produce approximately 200 acres of land for new development. A land planning consultant and surveying company were hired to develop a conceptual plan that considered the layout of existing utilities, buildings, drainage and roadways to produce several alternatives and a final plan was selected and submitted to the Memphis and Shelby County Office of Planning and Development. Since the exact needs of future land purchasers were unknown, the Planned Unit Development process was chosen to subdivide the property because of flexibility in determining the size and shape of lots. The Planned Development approval process included public notice and public hearings before the Land Use Control Board and the City Council.

Fifty-five years of construction of existing utilities both active and abandoned were difficult to identify and locate. The surveying and planning

Transformation from a single military facility, requiring one comprehensive meter, to multiple businesses presented many challenges.

process took over two years to accomplish before the final plat was ready to record. Three parcels have been sold through a lease purchase process. The design projections indicate that approximately two million square feet of new industrial buildings can be constructed in this area. Estimates are that it will take more than six years to sell all the available lots.

FACILITY MAINTENANCE

Maintenance of 461 acres of grounds and 4,250,000 square feet of buildings is a daunting task. Instead of staffing up to carry out maintenance, the DRC opted for keeping the staff and payroll small and contracting maintenance services to local small and minority or woman-owned businesses when possible. It also met the goal of mitigating the loss of the military payroll by supporting local community businesses. The annual maintenance budget is funded in a large part by the $.24 Operating Cost Fee (OCF) that is collected from tenants. The OCF portion of the budget is approximately $1,020,000. This covers a large part of the 24-hour-a-day gate operations, common area utility cost, fence repair, parking/street repair, street lights, grounds maintenance, high pressure fire main maintenance, and fire pump maintenance. Under the modified triple-net rent structure, the DRC is responsible for maintenance of the roofs, foundation, and structure of 4,250,000 square feet of buildings. Most of the buildings have built up roofs and many have wooden trusses. There are more than 3,000 roof drains that must be checked and maintained on a regular basis.

SUMMARY

In 1997, the Memphis Depot Redevelopment Plan was completed as the Depot was closing. The 15-year plan set out land development guidelines, construction schedules, cost estimates, and leasing absorption estimates. The implementation results are as follows:

- Two 50-acre public parks have been transferred to the Memphis City Parks Division.
- A 40-acre site has been transferred to the Memphis City Police Division and a new $5,500,000 Police Precinct building has been constructed.
- Eight housing units and 50 acres of land have been transferred to the Alpha Omega organization for housing for homeless veterans.
- Over 3,810,000 square feet of existing buildings have been leased; 90 percent occupancy has been accomplished seven years ahead of the Redevelopment Plan schedule.
- The corporation became financially self sufficient in the fifth year and in the eighth year had a cumulative cash flow that is 54 percent ahead of the Redevelopment Plan estimate.
- Approximately 26 miles of rail track and over one million square feet of obsolete buildings have been demolished.
- More than 200 acres of land have been redeveloped for a new industrial subdivision that can accommodate two million square feet of additional buildings.
- Approximately 1,200 employees work for businesses in the MDBP.
- Approximately 40 contractors provide maintenance services to the MDBP.
- More than 16 miles of electric lines were replaced; three miles of major roads constructed; over 200 street lights installed; approximately 9,000 feet of gas mains installed and more than 1,000 employee parking spaces constructed.

CONCLUSION

The conclusion of the redevelopment and reuse of the MDBP is now in the preliminary stages. The plan since 1997 has been to sell the land and improvements to private companies and to put the property on the local tax rolls. The strategy is to sell the main portion of the facility on a 230-acre lot with over four million square feet of buildings and associated utilities and improvements to a Real Estate Investment Trust or an institutional investor such as an insurance company or credit union. The remaining 200-acre subdivision would be sold in smaller parcels to individual developers or industries. The sales process could be completed with transfer of titles to new owners as early as 2009. Some lots could still remain for sale at that time. Lease-purchase contracts are being used to secure long term sales.

Covenants for the MDBP have been developed with conditions and restrictions to ensure the orderly transition of the ownership from the DRC to private owners in an incorporated Owners Association, in which voting rights and assessments are established through the purchase of property. Although there is much work to be done, the overall implementation process is moving quickly toward completion and ahead of schedule.

2006 Technology-Led Economic Development Conference

May 21-23, San Jose Marriott, San Jose, CA

Many communities embark on a major technology strategy building effort every three or four years. But only a few are successful in making this process energize a successful technology-based economic development program. Helping communities create and maintain an environment for future technology-based growth by attracting and retaining technology firms is the focal point of this event. Issues to be analyzed in-depth include:

- Changing Nature of the Tech Workplace
- The New Global Business Model
- Encouraging Entrepreneurship & New Business Incubation

This conference will pack the knowledge and experience of the leading technology communities in the U.S. into a program focused on the realistic strategies needed to make your community a technology center. It will demonstrate how to build a tech-led strategy with legs and illustrate the critical leadership role of the local economic development professional.

IEDC Takes a Delegation to China

IEDC took a delegation to China in January 2006. Steve Budd, Luke Rich and Ken Dobson joined IEDC staff Ed Gilliland, CEcD, and Roy Luo. The trip was hosted by the United Nations Industrial Development Organization – Investment & Technology Promotion Office (UNIDO). The IEDC / UNIDO team traveled to Shan Dong Province where they were joined by Provincial officials and representatives from a large state-owned construction & engineering firm, China Railway Erju Group Corp. (CREGC). The delegation met with the Vice Governor and then visited the cities of Tai An, Feicheng, and Dong Ying, meeting with party general secretaries and mayors.

The purpose of the trip was to explore an IEDC role to assist China in small city and town development. China is experiencing massive migration from rural to urban areas with much of the migration going to large cities. To relieve the pressure from the large cities, the government, working through UNIDO, has instituted a pilot program to undertake large-scale master development and industrial development in smaller cities. IEDC is assisting UNIDO and CREGC in implementing this program. Following the trip to Shan Dong Province, the delegation went to Chengdu in the Sichuan Province for meetings with CREGC. IEDC and CREGC signed a letter of intent to work together.

IEDC's Disaster Recovery Initiatives

IEDC's response to Hurricanes Katrina and Rita has been immediate and focused. The organization recently built upon the call of members to coordinate the Gulf Coast Business Reinvestment Forum. The Forum was co-sponsored with the US Chamber of Commerce, and in partnership with Gulf Coast states. More than 130 economic development, business, and policy leaders helped create strategies to enhance the position of the Gulf Coast on the federal legislative agenda and provide a set of recommendations to serve as an economic recovery and development agenda.

The organization also launched The Economic Recovery Volunteer Program in December through support from the Economic Development Administration. To date, this program has deployed 20 members to Chambers of Commerce, Economic Development Organizations, and Business Assistance Centers located in areas that suffered heavy hurricane damage. Volunteers have served over 100 businesses in the region, and IEDC continues to schedule volunteers and expand the program.

IEDC is a co-sponsor in the upcoming 'Restoration 2006' ICMA conference, May 16-17 in New Orleans, focusing on community and economic recovery after a disaster. Through our Accredited Economic Development Organization program, we are also working with Louisiana Economic Development to evaluate and enhance its capacity. In addition, CEO and President Jeff Finkle has spoken to several Gulf Coast audiences regarding disaster-recovery and economic development lessons and strategies.

For more information contact: Rebecca Moudry (202) 942-9450 Rmoudry@iedconline.org

Roadmap for the Knowledge-Driven Economy

2006 Annual Conference, September 17-20, New York City

IEDC's Annual Conference has become the premier economic development event of the year. It brings together more than 1,500 leaders in business, government, and academics to examine current economic development policy issues and debate solutions. It's an intensive learning and networking experience for participants, offering a wide range of choices, including over 50 plenary, concurrent, and seminar sessions and educational tours.

This world class economic development event will present three days of in-depth analysis and perspective in five tracks:

1. Creative Side to Economic Development: Building Community Through Taking Risks,
2. Attracting, Training and Retaining a Skilled Workforce to Compete in the Creative Economy,
3. The Nuts and Bolts of Economic Development: Tools for Attracting New Investment and Building Strong Communities,
4. High-Impact Real Estate Financing, and
5. Leveraging Urban, Suburban and Rural Assets for Sustained Economic Growth.

"Business retention and expansion in Islip is our number one priority. IEDC helped us develop a professional marketing strategy that refocused our efforts and brought us closer to our goal."

William Mannix, Executive Director, Town of Islip Economic Development Authority, NY

"The high quality work IEDC did on the re-use of the former Rhodia Chemical plant changed the way Metro Government was thinking of the site and led to a more constructive channel with potential for greater impact on our community. The excellent report IEDC prepared has become the foundation for future planning efforts."

Bonnie Biemer, Assistant Director, Environmental Division, Metro Development Authority, Louisville, KY

"IEDC's case studies, scenario alternatives, and sample RFQ helped us plan for the redevelopment of a key property in our downtown."

Vern Morgan, Senior Planner and Brownfields Coordinator, Springfield, MO

INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

ADVISORY SERVICES AND RESEARCH

For over 20 years, IEDC Advisory Services & Research (ASR) has delivered sound economic development solutions and advice to its clients. An experienced membership and in-house library complement a dedicated and forward-looking staff, on-call to bring customized reports and research to your community. Our services are responsive to the ever-changing set of issues facing the economic development profession. Local and state economic development organizations, federal agencies, and many others rely on ASR for help in:

- Strategic planning
- Organizational development and program analysis
- Real estate development
- Finance and funding
- Technology-led development
- Business attraction, retention, and expansion

HOW CAN ASR HELP YOUR COMMUNITY?

ASR is a cost effective way to bring valuable resources directly to your community. IEDC maintains an unparalleled body of technical information for quick access by ASR team members. With a membership base of 4,300 economic development professionals, we can easily research best practices and bring nationally recognized member experts to your community.

IEDC clients include regions seeking to fine-tune their existing portfolio of economic development services, at-risk urban neighborhoods, rural areas, and cities seeking to redevelop their central business district, inner suburbs, or transit corridors. IEDC also works with federal agencies, corporations, and foundations to provide research for education and policy development.

For more information, call Ed Gilliland at 202-942-9461 or visit www.iedconline.org and click on "Advisory Services" in the left hand column.