



## **Using Targeted Industry Analysis in a “Comprehensive” Economic Development Extension Program**

by

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Abstract  
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Common components of economic development extension programs include:

- General economic information about community and area economies.
- Information about how economic development comes about.
- A planning process to help community leaders understand the strengths and weaknesses of their communities, and to help them develop community visions.
- Ideas and tools to address community service and infrastructure deficiencies in communities (water, fire protection, emergency medical, rural health clinics, ...).
- Ideas and tools directed toward the use of industry targeting to accomplish community goals and objectives.
- Ideas and tools directed toward helping entrepreneurs and business managers make good decisions about strengthening existing business operations, expanding business operations, and establishing new firms.

For reasons discussed in this paper, it is usually important that local economic development programs include this set, or a similarly comprehensive set of components.

Industry targeting is an important tool in this set of tools for community economic development. Industry targeting is an effective way to focus local team efforts to make them more efficient relative to community resources.

Some industry targeting tools are straight forward and simple. Others are highly analytical and require significant technical expertise. It probably does not make sense to apply the full arsenal of industrial targeting tools directly and fully to every local rural community economic development need. An effective scheme for allocating resources efficiently might be to apply a fairly comprehensive set of industrial targeting tools at the level of regional economies (maybe at the state level). Then results of such regional analyses along with specific local information about economic development opportunities (maybe derived from primary data collection) can be used effectively to develop local economic development programs that are consistent with the realities of regional economies.

Thus there may be a need for applied research and extension personnel (with appropriate expertise) to identify those industrial targeting tools that are most appropriate for use at the level of regional economies and those that are most readily applicable at the local level. Maybe research and extension economic development professionals should develop some guidelines concerning when and where to use what tools.

Then maybe interested research and extension personnel (with the participants at this meeting as the core?) should develop and implement appropriate state and sub-state regional models for industry targeting which can form a consistent base for local targeted industry based extension economic development programs throughout the country. A national publication specifying industries most appropriate for targeting in each state, and explaining why, would be an extremely valuable and useful output of this Industry Targeting Workgroup.

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Extension professionals working in economic development have noted several challenges they commonly encounter when using targeted industry lists, or for that matter other common tools, with community economic development teams (Homm, et al.). These include:

- Lack of community support,
- Preconceived team member notions about community priorities,
- Unrealistic community expectations,
- Inability of the community team to build and implement a plan, and
- Competition from other communities.

Often an effective way to deal with such challenges is to present community teams with comprehensive economic development programs that educate and inform them about not only a few tools that they need, but also about the conceptual bases, rationales, interdependencies and limitations of available tools.

In this paper the authors describe common components of comprehensive economic development extension programs, and we attempt to indicate how targeted industry analysis fits into extension economic development programs. Then, in the final section of this paper we make some suggestions about how targeted industry analysis might be used more effectively than is currently the case, given the resource limitations that constrain most rural community economic development efforts.

Common extension economic development program components are presented below in an order that matches with how they are often used in extension programs:

- General economic information about community and area economies.
- Information about how economic development comes about.
- A planning process to help community leaders understand the strengths and weaknesses of their communities, and to help them develop community visions.
- Ideas and tools to address community service and infrastructure deficiencies in communities (water, fire protection, emergency medical, rural health clinics, ...).
- Ideas and tools directed toward the use of industry targeting to accomplish community goals and objectives.
- Ideas and tools directed toward helping entrepreneurs and business managers make good decisions about strengthening existing business operations, expanding business operations, and establishing new firms.

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## **General economic information about community and area economies**

A great deal of secondary data is available about state, county and community economies. Much of these data originate with the U.S. Department of Commerce. Such data are commonly supplemented and organized by state departments of commerce and by commercial entities (such as ePodunk, Inc.) into state, county, and community profiles. Community profile information can be very useful to local citizens working on economic development as they strive to understand their local economies. They can see changes and trends in socio-economic variables, including population, income, employment, poverty, and local taxes, to name a few. Also they can get a sense for the economic importance of various industries in their economy, and how this has changed over time, by reviewing employment numbers by industry. From profile data they can also learn about many other issues in their state, county or community, including housing, crime, age distribution of the population, education of the population, commuting patterns, and land use. Finally, they can identify, at least tentatively, potential opportunities for further economic growth and development.

## **Information about how economic development comes about**

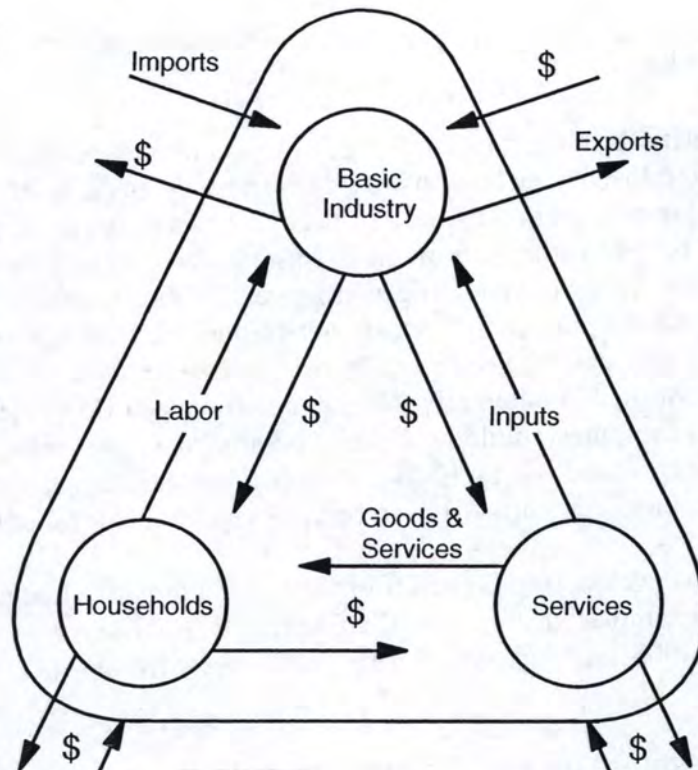
The type of data mentioned above can be useful to help local citizens working on economic development better understand the problems, as well as the strengths in their economy. However, seeing local data does not generally contribute much to helping people know what to do to address problems. To begin to get a sense for how problems might be addressed, people need to know something about how dollars, goods and services, and labor flow within an economy. A simple flow chart (Figure 1) can be very useful in explaining these concepts.

Once people think about these economic flows, it is often fairly easy for them to understand how economic development (more jobs and income) can only occur if more locally produced products are exported (export enhancement) or if more local business inputs and more goods and services consumed by local households are produced locally (import substitution). Export enhancement occurs if local exporters increase their market shares in the markets they sell to, if they maintain their market shares and the markets grow, or if they or other firms add new value to products before they are exported. Citizens working on economic development also need to understand that operationally these things occur through business creation, attraction, retention, and expansion (Woods, et al.).

## **A planning process to help community leaders understand the strengths and weaknesses of their communities, and to help them develop community visions**

Once communities understand the basic concepts of economic development that are discussed above, they must address the questions, "What does our community want to be? What is our community vision?" At this stage, it is time for local citizens working on economic development to embark upon a planning process. They need to define community goals (What would the community like to be?) and objectives (targets) that will help them identify and agree upon a strategy to move toward what the community wants to be (Woods, et al.).

**Figure 1. A Flow Chart of Economic Activity in a Local Economy**



To be successful, the community economic development plan that results from such a planning process must be supported by the consensus (or near consensus) of an engaged community, and there must be adequate resources available to implement the plan. A successful planning process provides a foundation for future development efforts.

**Ideas and tools to address community service and infrastructure deficiencies in communities (water, fire protection, emergency medical, rural health clinics, ...)**

It would be a rare situation indeed for a community economic development planning process to not point out at least a few significant deficiencies of community services and infrastructure that constrain economic development. Extension has a long history of programs addressing such constraints.

In general, these programs involve using community service budgets to estimate needs, costs and revenues. A budget-based methodology for evaluating alternative community services provision options must include:

- Definition of constituent needs and desires for particular services.
- Designation of alternative systems for the provision of these services.

- Costs and revenues associated with alternative systems and financing options.

In many instances decision makers are interested in evaluating alternatives to existing community service systems.

A brief example will clarify the budget methodology. Community leaders in Fairfax, Oklahoma recently wanted to evaluate how to provide emergency medical services (EMS). The constituent needs were evident as they were over 20 miles from the nearest emergency medical services. Based on data gathered from the existing EMS operation the community could expect over 400 EMS calls per year. The alternative systems they chose to evaluate were a basic EMS system and a paramedic system. In addition, the leaders wanted to consider part-paid and on-call staffing versus a fully paid system for each level of service. Thus, costs and revenue for the four alternatives had to be estimated. Costs included all capital costs (ambulance, equipment, building and all operating costs). Revenue options included fee per call, sales tax, and special EMS districts. From the alternative budgets, decision-makers could evaluate tradeoffs between costs of service and level of service.

Methodologies have been developed and tested for analysis of alternative budgets for many types of services. Some examples include: Fire (St. Clair, et al.,2001); emergency medical services (St. Clair, et al., 2003); rural clinics (Barnes and Doeksen); and solid waste (Eilrich, et al.).

### **Ideas and tools directed toward the use of industry targeting to accomplish community goals and objectives**

Once the members of an economic development team have worked their way through the planning steps discussed above, they should be ready to develop specific strategies to accomplish their community's goals and objectives. Certainly the process for getting to that point may not be as "clean" or modular as implied here. For example, some strategies may require addressing specific community service and infrastructure situations. This may not be critical for other strategies. So a good economic development team must be flexible enough and thoughtful enough to develop multifaceted strategies that focus not only on particular industries or types of jobs but also on specific local changes that will support creation, attraction, retention or expansion of firms that can provide such jobs.

Once economic development teams have developed general strategies, they often have difficulty moving forward with specific tactical actions. Industry targeting can be a useful tool in such situations.

Targeted industry analysis can be as simple as asking major local employers what inputs they purchase from outside the local economy, then working with them, and with local business entrepreneurs and non local firms to produce some of these inputs locally (import substitution).

In contrast to such a simple application of targeted industry analysis would be a project using an input-output model to identify opportunities for import substitution to meet input needs of

local industries. Similar simple and more complex approaches can be taken to identifying local opportunities for export enhancement. Either the simple or the more complex methods for identifying import substitution and export enhancement opportunities can be coupled with fairly straight forward methods, based on secondary data, to identify sectors that are expected to grow, to identify those that tend to have larger establishment sizes, to identify those that tend to have higher wages, to identify sectors that are likely to pay more local taxes, and so forth.

Other data based models, which tend to be rather complex relative to the capabilities of most local leaders serving on economic development boards and committees, can provide likelihood estimates of success (survival over time), and of growth of particular types of firms. Most of these estimates can be evaluated with analytical hierarchy procedures to evaluate the relative importance attached to different factors by local economic development decision makers.

Determination of whether more complex and comprehensive or less complex and comprehensive methods are used to identify and evaluate industry targeting opportunities in specific real world situations can be based on several factors including:

- Resources available.
- Time available. (How soon is information needed by decision makers?)
- Expertise of economic development practitioners involved.
- Interests of local leaders and their opinions about what information they need to make decisions.

The importance of understanding what local leaders want to know and what they think they need to know to make decisions cannot be overstated. To “push” information onto such people even though they are not interested can cause them to lose interest in the process and can result in loss of credibility on the part of the information pusher. Giving people information they do not really want to know, even when they really need to know it, should be attempted only with considerable finesse and subtlety.

**Ideas and tools directed toward helping entrepreneurs and business managers make good decisions about strengthening and expanding existing business operations, and establishing new firms**

An important aspect of a “comprehensive” economic development extension program is decision making assistance for entrepreneurs and firms. This is especially true in rural communities where most businesses (existing or new) are small businesses. Small businesses face high risks. About one-third of small business startups survive for less than two years. About fifty percent of small business startups survive for less than four years. (U.S. Small Business Administration).

A high proportion of new business failures occur because potential costs, profitability, cash flow, and risk and uncertainty associated with new enterprises are not given thorough pro

forma consideration. These issues can also be critical for existing firms that expand with new enterprises, new markets, or whatever.

To address these issues, new and changing small businesses need help with economic feasibility analyses and business plans. So it is appropriate, and often very important, that extension economic development programs include such assistance.

Economic feasibility analyses are conceptually rather simple. They involve estimating investment costs, annual operating costs, net revenues and cash flows. However, it can be quite problematic to actually conduct such an analysis for a planned business venture for which some of the costs (especially some of the operating costs) may not be easy to predict; and for which markets for products, market prices for products, and quantities of products to be sold are almost certainly difficult to predict. A generalized small business feasibility model such as the one developed by Widner and Nelson can be very useful for this purpose.

Once it has been determined that a new business or a potential expansion or relocation of an existing business may be economically feasible, it is important (critical?) that a thorough business plan be developed for the planned business venture. This is important because a business plan facilitates consideration of business issues that go far beyond the cost and revenue estimates of a feasibility study. A thorough business plan addresses issues of entrepreneur and family goals related to the business; entrepreneurial and business skills needed to run the business; specific plans for financing the business; and in-depth consideration of competition, markets, marketing issues and labor force issues.

Completing a thorough business plan is not a short term process. To do it well takes several months of research, contemplation, writing, and rewriting. A good way to approach a business plan is in a structured course. Such courses are commonly taught for academic credit and as outreach or extension courses at many universities, colleges and community colleges.

It is important for extension professionals and others working with firms and entrepreneurs on issues of business creation, attraction, retention and attraction to recognize that developing a business plan requires a great deal of research, thought and decision making on the part of the entrepreneur or business owner-manager who needs the business plan. Developing business plans for entrepreneurs and small business owner-managers is not usually a very productive process. Helping them develop business plans for themselves is generally much more likely to benefit them and their planned businesses. Many good references are available on developing business plans (National Home-Based and Micro Business Design Team, Sumner, Wold, et al.).

Many entrepreneurs and owner-managers are not willing to devote the necessary time and effort to develop thorough business plans. These individuals should be reminded that it may be worth several months of intensive effort on their part to avoid losing their life savings, forfeiting their children's college educations and maybe destroying their marriages.



Most new small businesses fail. The payoffs for small business success can be high in terms of profits and personal satisfaction. But the risks of failure are also high, especially if thorough and realistic business planning is not carried out.

### **Conclusions and implications**

Clearly targeted industry analysis can play an important role in extension economic development programs. At a minimum, the conceptual framework of industry targeting contributes greatly to the rationale of community economic development. Simply knowing about the imports and exports of existing local firms provides a solid basis for an important set of local economic scenarios.

However, given typical resource constraints it probably does not make sense to apply the full arsenal of industrial targeting tools directly and fully to every local rural community economic development need. An effective scheme for allocating resources efficiently might be to apply a fairly comprehensive set of industrial targeting tools at the level of regional economies (maybe at the state level). Then results of such regional analyses along with specific local information about economic development opportunities (maybe derived from primary data collection) can be used effectively to develop local economic development programs that are consistent with the realities of regional economies.

If the approach discussed above is a reasonable one for incorporating the full range of industrial targeting tools into specific local programs, then there is a need for applied research and extension personnel (with appropriate expertise) to identify those industrial targeting tools that are most appropriate for use at the level of regional economies and those that are most readily applicable at the local level. Maybe research and extension economic development professionals should develop some guidelines concerning when and where to use what tools.

Then maybe interested research and extension personnel (with the participants at this meeting as the core?) should develop and implement appropriate state and sub-state regional models for industry targeting which can form a consistent base for local targeted industry based extension economic development programs throughout the country. A national publication specifying industries most appropriate for targeting in each state, and explaining why, would be an extremely valuable and useful output of this Industry Targeting Workgroup.

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