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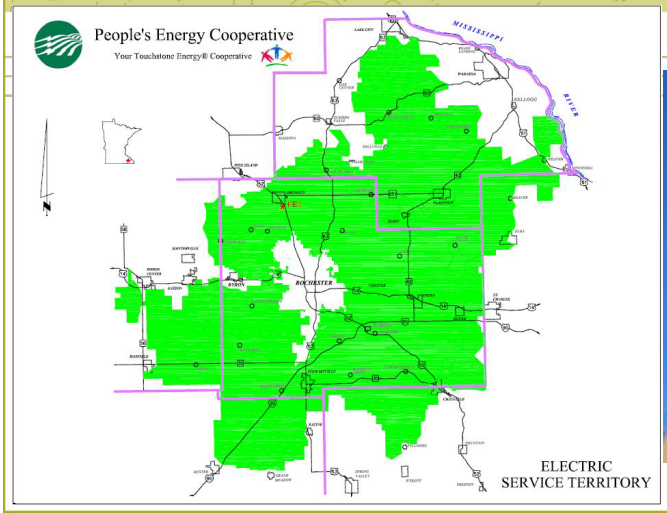
People's Energy Cooperative Business Retention & Expansion Program

Summary Report
May, 2022



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SUMMARY REPORT

May 2022

Authored by Gina Grensing, Monica Haynes, Jacque Jones, and Nana Kofi Austin of UMD and Michael Darger of UMN Extension

This program is sponsored locally by the following organizations:

People's Energy Cooperative in partnership with
RAEDI (Rochester Area Economic Development Inc.) and our local community EDAs
Minnesota Department of Employment and Economic Development
University of Minnesota Extension.

NOTE: The data, analysis, and findings described in this report are specific to the geography, time frame, and project requirements of the People's Energy Cooperative service area in Minnesota. Findings are not transferable to other jurisdictions. Extension neither approves nor endorses the use or application of findings and other contents in this report by other jurisdictions.

PEOPLE'S ENERGY COOPERATIVE BUSINESS RETENTION AND EXPANSION PROGRAM

The Business Retention and Expansion Program (BRE) is an essential element of local economic development efforts. The BRE strategy focuses on the retention and expansion of existing businesses to assist them in navigating today's global economy. While the attraction of new businesses and incubation of start-ups can be important components of an overall economic development strategy, communities realize that helping existing businesses to survive and grow is a practical strategy.

Expansions and contractions are defined as changes in employment at an existing plant or business location. Start-ups and dissolutions are defined as the creation or closing down of a separate plant or business location. This churning of business creation, dissolution, expansion, and contraction is a natural part of a local economy. The challenge to a community, or region in this case is to facilitate the expansions while taking preventative actions to reduce the number of dissolutions and diminish the contractions.

Commonly, more jobs are created by business expansions than by new business start-ups. Minnesota data from 2002-2017 confirms that roughly 71% of new jobs in the state were created by existing business.[1] People's Energy Cooperative (PEC), in launching this BRE program, has the potential to improve the climate for existing businesses and, therefore, benefit from the continued presence and growth of those businesses.

Another benefit of a BRE program is the information provided by the survey on the strengths and weaknesses in the area. The strengths can be highlighted in community promotional materials, while the weaknesses give an opportunity to make important changes to respond to businesses.

Program Objectives

The PEC BRE Program has six objectives:

1. Demonstrate support for local businesses
2. Help solve immediate business concerns
3. Increase local businesses' ability to compete in the global economy
4. Establish and implement a strategic plan for economic development
5. Build community capacity to sustain growth and development
6. Learn business perspectives and plans for investments in automation, electric vehicle technology, and distributed energy systems

Program Partners

The PEC BRE Program partnered with the following organizations:

- RAEDI (Rochester Area Economic Development Inc.) and local community EDAs
- Minnesota Department of Employment and Economic Development
- University of Minnesota Extension

BRE PROCESS AND KEY DATES

PEC officials, economic development leaders, and UMN Extension officials have worked together since the spring of 2021 to make the Business Retention and Expansion Program happen in the PEC service area. PEC funded the program.

Volunteer Training

Two business visitor training sessions were conducted on July 27 at PEC's conference center. The sessions oriented PEC officials and economic

[1] *Minnesota Economic Trends* Magazine, March, 2019

development leaders from local community EDAs to the BRE process and trained them on interviewing businesses. Visitors worked in teams of two during business interviews. One person held primary responsibility for asking the questions while the second person recorded the responses.

Interview Guide

PEC and UMN Extension officials thought through what a utility company-led BRE partnership with local communities could look like since this was the first of its kind. An interview guide was adapted from the UMN's well-tested survey instrument and an agreement was entered into by both institutions.

Business Selection & Visits

PEC identified their 250 top energy-consuming members based on an average of the last five years of electric consumption. From this list, PEC staff removed non-employer members, such as cell phone and radio towers; government agencies, such as schools, public works departments, and family farms. Larger corporate farms were kept on the list. The government category was removed as these entities are not generally with much mobility, however the list was kept in case there was a need to build out the data set with additional responses. This tactic did not end up needing to be used. Several other members from the list were removed as they had minimal local management, had recently gone out of operation (and only appeared on the list because of previous consumption), or were a subsidiary of another company on the list already.

A total of 104 business partners were identified. They were sent a letter in late July 2021 from Mike Henke, People's Energy Cooperative President and CEO, inviting them to participate in a visit to their business. Twenty-four business visits were completed between August and December 2021.

Online Research Review Meeting

As a result of the ongoing COVID-19 pandemic, the research review meeting was conducted online using various tools and technology. While the Warning Flag Review identifies individual business concerns, the Online Research Review meeting identifies overarching, universal themes in the survey results. Once these are identified through a SWOT analysis, the Online Research Review participants suggest ideas for projects the Task Force might undertake to address these themes. Participants included PEC leaders and various economic development professionals, including representatives from the Minnesota Department of Employment and Economic Development (DEED) and University of Minnesota.

Warning Flag (aka Red Flags) Review

Reviewing the surveys individually for follow-up opportunities is an important opportunity in a BRE program. This is probably the single most important activity that a BRE initiative can do—responding appropriately and confidentially to businesses on issues such as business relocations, concerns with public service, needs for resources, etc. PEC staff continuously assessed for warning flags while business visits were being conducted. PEC reported "in particular, we got ahead of expansions to identify work and supply chain issues that would take longer than the business expected."

Research Report Development

Following the online Research Review meeting, the UMD Bureau of Business and Economic Research (BBER) and UMN Extension prepared the research report. The goal of the research report is to detail the overarching themes identified by the Research Review team and to suggest potential projects. Potential projects are ideas the Task Force might use to address the larger themes identified by the survey. The Research Report also summarizes the survey data, gives a history of the BRE project, and contains the aggregated survey data. You can contact Marty Walsh at PEC if you wish to view this comprehensive report.

BRE Summit and Action Planning

At this retreat, PEC area stakeholders were

presented with the overall results of the survey, overarching strategies for addressing the universal issues identified, and potential projects for addressing these issues. A lunch was served and then the action team decided on the major projects to implement in "PEC country." The BRE action team was free to recommend any of the projects listed in the report, to revise and then adopt any of the projects, or to develop its own project recommendations. Typically, a BRE initiative in a specific community adopts three to five priority projects in the first phase of implementation.

PEC BRE PROGRAM PARTICIPANTS

Conducting a comprehensive business retention and expansion project is a resource intensive and time-consuming task. It's not done overnight, and it's not done with one to two people. Instead, successful groups initiate the process and then work throughout the process to include as many members of the community as possible. In BRE projects, there are important teams of people that are involved in making the project successful.The PEC participants include the BRE leaders, program sponsors, businesses, and research review meeting panelists.

Assistance from the University of Minnesota

The University of Minnesota provided technical assistance as noted below:

- Michael Darger, Extension Business Retention program director, provided overall leadership to the project for the University of Minnesota with some assistance from Jennifer Hawkins and Eric King, Extension educators in Community Economics.
- The BRE research report was authored by Monica Haynes, Jacque Jones and Nana Kofi Austin with edits by Gina Chiodi Grensing, of the UMD Bureau of Business and Economic Research, chapters 1-3; and chapter 5 by Michael Darger and other edits as well.
- UMN Extension's Lauren Sorgaard did the data input and tabulation,

BRE Visitors

- Kirk Bustrom
- Cathy Enerson
- Joya Stetson
- Marty Walsh (overall leader for the PEC BRE project)
- Lexi Williams

Businesses Visited

The following 24 businesses graciously agreed to be interviewed as part of the BRE visitation process. While survey responses are confidential, it is important to acknowledge the effort of participating businesses.

All-American Co-Op / Ag Partners

Bennett's Eyota Market

Briese Iron Works

Burts Meats

Camp Victory

Dover Processing/Hidden Stream Farm

Emerald Spring Dairy

First Alliance Credit Union

Foresight Bank

GAR-LIN Management, Inc. (aka GAR-LIN Dairy Farms, Inc.)

GEOTEK

GLS Industries

Halcon

Higgins Custom Cabinetry

House Chevrolet Co.

Jimmy's Salad Dressing and Dips

Merit Construction

People's Energy Cooperative

Podein's Power Equipment

Rochester Precision Machine

Sargent's Landscape Nursery

Sprouts Childcare and Early Education Center

Wescott Agriproducts

ZetCorp DBA International Collagen Resources

Online Research Review Team

The Online Research Review panel was comprised of University of Minnesota faculty and staff, Minnesota Department of Employment and Economic Development (DEED) specialists, other economic development professionals, and PEC area participants. This group analyzed the survey data to identify both the SWOT (strengths, weaknesses, opportunities, and threats) as well as to ideate potential project ideas that address issues emerging from the SWOT analysis. A list of participants in the Online Research Review follows.

Online Research Review Attendees

PEC area participants

- Kirk Bustrom, RAEDI
- Cathy Enerson, City of Eyota/CEDA
- Jenny Radcliffe, Dairyland Power Cooperative
- Joya Stetson, City of Stewertville/CEDA
- Marty Walsh, People's Energy Cooperative
- John Wade, RAEDI
- Lexi Williams, City of Stewertville/CEDA

Minnesota Department of Employment and Economic Development

- Natalie Siderius, Economic Development Program Specialist

Other Economic and Community Development Professionals

- Kathi Schaff, Minnesota Chamber of Commerce

University of Minnesota

- John Bennett, Extension Educator – Community Economics
- Michael Darger, UMN Extension Specialist - Community Economics and BRE Director
- Gina Chiodi Grensing, UMD Bureau of Business and Economic Research
- Jennifer Hawkins, Extension Educator – Community Economics
- Monica Haynes, UMD Bureau of Business and Economic Research
- Jacque Jones, UMD Bureau of Business and Economic Research
- Laura Kalambokidis, UMN Professor of Applied Economics and Minnesota's State Economist
- Eric King, Extension Educator – Community Economics
- Brigid Tuck, UMN Extension Senior Economic Impact Analyst
- Lauren Sorgaard, UMN Extension

PEC Interview Results

Out of the 24 businesses surveyed, 75% of businesses began their operation in the community where they started. However, 21% of businesses reported beginning operations elsewhere. Also, when asked what year their operations began, the responses ranged from 1902 to 2018. Of the surveyed businesses, nearly two-thirds consider their facility to be headquarters. Common facility types include manufacturing (38%), retail (25%), other (13%), and distribution (13%). Out of the 24 businesses surveyed, 96% of businesses are locally owned.

Surveyed businesses were asked to indicate the reasons for increasing/decreasing employees over the last three years. A majority, 54%, reported growth in demand, 29% reported expansion, and 17% reported "other." Notable responses in "other" included lack of labor (both general and as a result of COVID-19 vaccination

requirements), filled open positions from three years ago, and opting to work less than 30 hours for a second job or for unemployment benefits. A related question asked businesses to indicate in which job categories they have had trouble recruiting. Skilled manufacturing, unskilled manufacturing, and managerial positions caused the most recruitment issues for these businesses. To assess the cause of recruitment issues, businesses were asked to identify up to three of the most important reasons for recruitment problems. Competition for employees was, by far, the most common problem cited by PEC businesses (58%). Notably, this value was much higher than the average among past University of Minnesota BRE communities (29%).[2] Other common responses included inadequate labor skills (29%), other (25%), and high wage rates (25%). Some responses from the "other" category included "limitations on health benefit offerings", "older workforce retiring", and "not enough skilled or unskilled willing to work this hard".

The businesses surveyed used a variety of tactics to locate new employees. Some of the most common methods included word of mouth (79%), internet job boards (75%), and referrals (54%). The most commonly used method, word of mouth, is significantly higher than past BRE communities data (52%). Of note is that surveyed businesses did not report using CareerForce (Minnesota's career resource) as much as past BRE communities did. Only 4% reported using it, whereas previous BRE communities have an average of 17% of businesses using CareerForce.

Businesses were asked to rate their employees with respect to their attitude toward work and their productivity. For worker attitude, 17% of respondents gave employees a "fair" rating, 63% gave an "above average" rating, and 21% gave an "excellent" rating. For worker productivity, 13% of respondents gave employees a "fair" rating, 58% gave an "above average" rating, and 29% gave an "excellent" rating. The mean rating for these businesses is a 4.04 out of 5.0 for attitude and 4.17 for productivity. These values are, however, lower than the mean ratings for previous BRE communities of 4.28 and 4.23, respectively.

Surveyed business were asked to indicate how they currently train their employees. Surveyed businesses were invited to select more than one option for this question, which is why responses add up to 342%. The survey results in Figure 1 show that 96% of businesses trained their employees in-house, 67% sent their employees to training, and 54% relied on self-taught employees. These values are much larger than previous community trends of 75%, 42%, and 40%, respectively. The survey also shows lower patronage of public onsite vendors, public online vendors, and government programs.

Surveyed businesses were asked if they currently export internationally. The majority (67%) reported not having any international exporting activities, and 21% said they export either directly or indirectly through another company. Surveyed businesses were also asked to indicate what prevents them from exporting their product. One-quarter of respondents indicated that their business was designed to serve a specific area, and 13% said their business is too small to export. One-third of those surveyed listed some other reason, including "not relevant", "cybersecurity", "customer-driven", "franchise agreements do not allow", and "enough business here".

Surveyed businesses were asked if there were major technological innovations on the horizon in their industry that might affect their business. Of the responses, 58% responded "Yes," and 33% responded "No." It is important to note that past

[2] The University of Minnesota Extension maintains a benchmark database of BRE data. These data included BRE surveys from 1993 through 2021. When referring to the averages for previous communities that have participated in the UMN program, the authors refer to the communities as "previous BRE communities." http://www.extension.umn.edu/community/business-retention/research-development/benchmarks/

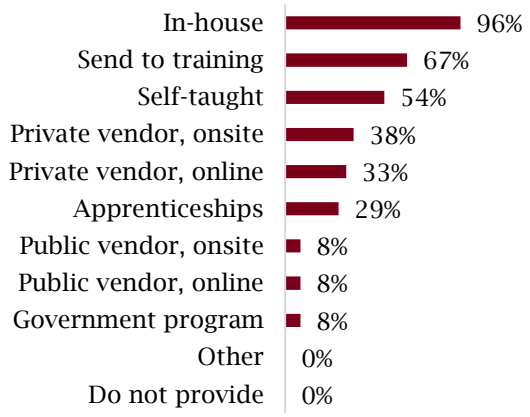

Figure 1. How do you currently train your employees?

BRE community data only has 45% of businesses responding "Yes." Businesses were asked to indicate whether they had a written transition plan for ownership, leadership, or both. Of the surveyed businesses, just over half (54%) reported having written transition plans, and 38% did not. When asked to indicate whether they had a written business plan, 71% of surveyed businesses reported having business plans, and 29% reported they did not. Note that these figures for written transition and business plans are the highest levels seen by Extension's BRE director.

Surveyed businesses were asked to indicate which of the following topics from a list of economic development topics they would like to know more about. Again, in this question and several others, participants were invited to select more than one option for this question. Of the surveyed businesses, 67% wanted more information on workforce training (DEED Job Training Incentive Program). Other responses included state and local development incentives (29%), business planning and technical assistance (25%), mentoring/coaching (21%), grant writing (21%), legislative assistance (17%), and business financing (17%).

Many businesses (46%) indicated they were considering expanding at their current location. While there was a significant number of responses for "none of the above" (33%), 29% of businesses also indicated expanding by adding another location. The options of "merging with or acquiring" received 17% of the responses, and "other changes" received 4%. "Expanding at this location" and "expanding by adding another location" were significantly higher than the average for past BRE communites from 1994 through 2021 (which were 20% and 15%, respectively). Another area where PEC communities deviated from past BRE communities is in "mergers and acquisitions." Roughly 8% of past BRE communities responded that they were considering this decision, while 17% of current surveyed businesses were considering this method.

Surveyed businesses were asked to rate their community in two ways: as a place to live and as a place to conduct business. A total of 71% of

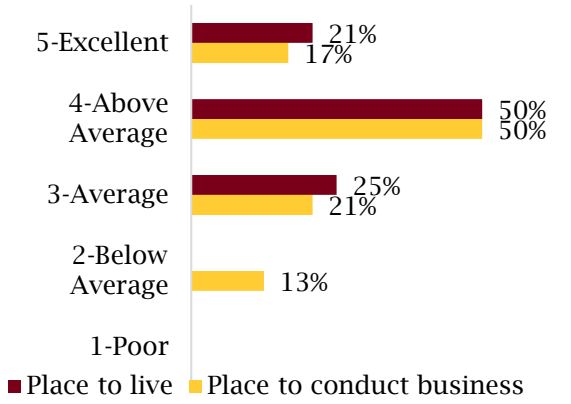

Figure 2. What is your overall opinion of your community as a place to live and as a place to conduct business?

surveyed businesses rated their community as above average or excellent as a place to live, and 67% stated that it was above average or excellent in terms of doing business (see Figure 2). No business rated their community as poor in either category. The average overall ratings of PEC communities as a place to live (3.94) and a place to conduct business (3.71) were high, but they fell slightly short of past BRE communities. Among past BRE communities, 32% rated their community as an excellent place to live, and 20% rated their community as an excellent place to conduct business. Please note that these represent very small sample sizes when drilling down to the individual communities in the PEC area.

Identified Strategies

Four primary strategies emerged from an analysis of the interview results and discussions by the Online Research Review Panel. Each of the strategies is a theme, supported by data from the business interviews. As such, each strategy provides a way of framing the BRE situation in the PEC service area but they are not mutually exclusive from each other.

Strategy 1: Expanding Training and Recruitment Strategies

Strategy 2: Encourage Businesses to Innovate and Expand

Strategy 3: Address the Region's Housing Shortage

Strategy 4: Energize Businesses

SELECTED PRIORITY PROJECTS

Under each strategy, the Research Report listed potential projects that the PEC BRE Task Force could consider to help fulfill the strategy. During its April 5, 2022, retreat, the Task Force developed five priority projects for near term action. The Task Force built on project ideas in the Research Report to create projects that were suitable for PEC. These priority projects are listed here and described below.

1. **Improve technical training**
2. **Organize tour of businesses using automation**
3. **New state level economic development policy to reward business retention & expansion based on other metrics than jobs created**
4. **Creative redesign of zoning laws**
5. **Create housing RLF (revolving loan fund) for PEC service area**

The project descriptions below include general reasoning for each project. Furthermore, the interview results that highlight the need for the project are included, where appropriate. If you are interested in assisting in any of the projects' implementation, please contact Marty Walsh.

Priority Project #1: Improve Technical Training

This project responds to the issue of dissatisfaction with technical training programs among surveyed businesses. (See p. 27 of the research report for more details).

According to the survey, 38% of businesses reported being somewhat or very dissatisfied with technical training programs, and the average rating was 2.7 on the 4-point scale (4 = very satisfied). This value is significantly lower than what is typical for past BRE communities, where there is an average rating of 3.27. Surveyed businesses were also heavily represented in the manufacturing industry. Of those surveyed, 29% indicated they were in manufacturing (see Figure 3). Of note is that within the Southeast region of the state, there were 672 manufacturing establishments (as of Q1 2020), demonstrating the strength of that sector in the region overall.

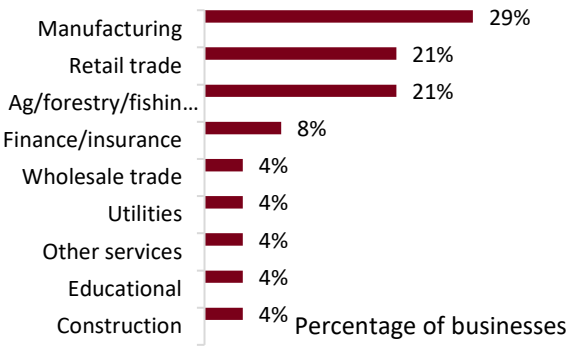

Figure 3. Which NAICS categories best describes your business?

Considering that PEC area businesses appear to be only moderately satisfied with the technical training programs available to them, an alternative strategy might be to reach out to a consulting organization with more specialized experience. Enterprise Minnesota is an ISO 9001:2015 certified consulting organization that works with small and medium-sized manufacturing companies

Priority Project #2: Organize Tour of Businesses Using Automation

As part of the BRE survey, PEC customers were asked "Which of the following energy topics would you like to know more about?" According to the survey, 63% of businesses responded that they were interested in learning about automation using robotic or human augmentation technologies to assist in manufacturing or other processing (see Figure 4). This topic was the most popular of all the energy topics listed in the question.

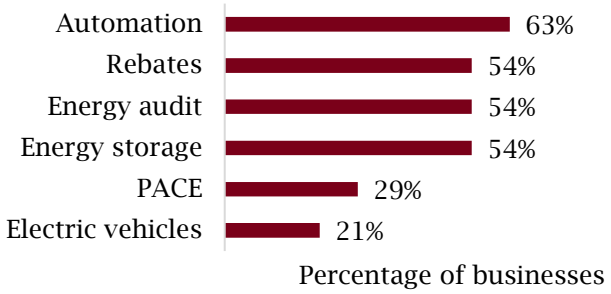

Figure 4. Which of the following energy topics would you like to know more about?

Local business representatives could tour neighboring facilities with robotic or human augmentation technologies. PEC staff could work with local chamber members, DEED, and local manufacturers to facilitate the tour.

Priority Project #3: New State Level Economic Development Policy to Reward Business Retention and Expansion Based on Metrics Other Than Created Jobs

The BRE Task Force recommended encouraging the legislature to craft new policy for incentivizing business expansion utilizing automation, focusing on metrics such as total payroll or tax base instead of the number of jobs created.

Community Factor	Importance	Satisfaction
Employee health care costs	3.29	1.95
Housing costs	3.43	1.96
Housing supply	3.52	2.00
Cost of land	3.65	2.26
Property taxes	3.50	2.35
Availability of skilled labor	3.67	2.42
Wage rates	3.18	2.74
Business incentives	3.13	2.75
Local taxes	3.33	2.78
Availability of land	3.48	2.87
Code enforcement	3.17	2.90
Availability of child care	3.35	2.95
Energy cost	3.48	2.96

Table 1. Community factors with high importance and low satisfaction (1 = Low; 4 = High)

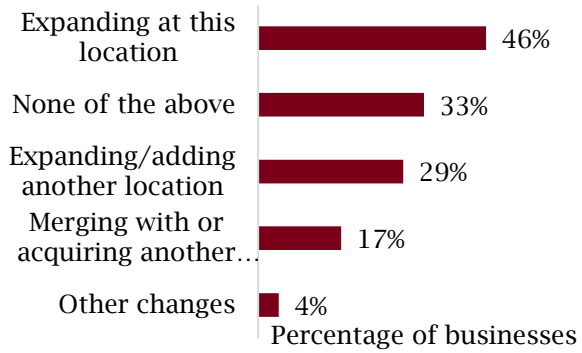

Figure 5. Which of the following decisions are you currently considering?

Priority Project #4: Creative Redesign of Zoning Laws

PEC businesses were asked to rate the importance of and satisfaction with 49 different community factors. Thirteen factors rated above average in importance and below average in satisfaction (see Table 1). Housing cost and housing supply both fall under this category and received two of the three lowest satisfation ratings. In addition, thirteen of the open-ended comments in the survey mentioned the need for additional housing and reduction in housing costs, specifically for entry-level employees and apartment living.

Example: converting single family homes into multi-family homes, reducing required setbacks, or allowing additional building materials.

Priority Project #5: Create Housing RLF (Revolving Loan Fund) for PEC Country

As stated before, housing cost and housing supply were both rated as very important but with relatively low levels of satisfaction (see Table 1). In addition, thirteen of the open-ended comments in the survey mentioned the need for additional housing and reduction in housing costs, specifically for entry-level employees and apartment living. In the survey, one participant noted that if more manufacturing business is wanted in the community, then affordable housing projects are required.

Therefore, the BRE Task Force recommended that PEC lead the formation of a housing revolving loan (RLF) to serve as an intermediary organization to assist with the creation/redevelopment of additional housing in the PEC service area.

Credits

The PEC BRE Task Force selected these priority projects. Gina Grensing, Monica Haynes, Jacque Jones, and Nana Kofi Austin of UMD and Michael Darger of UMN Extension compiled this report using the five priority projects identified in the BRE retreat on April 5, 2022.

For more information about the PEC BRE Program, contact Marty Walsh at mwalsh@peoplesenergy.coop.