Benchmarking Study
of the Small Business Environment
in Saginaw County

Prepared for:
Saginaw County Vision 2020 Entrepreneur & Small Business Committee

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George A. Erickcek
Brad R. Watts

The W.E. Upjohn Institute
For Employment Research
300 S. Westnedge Ave.
Kalamazoo, MI 49007

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Executive Summary

This report, *Benchmarking Analysis of the Saginaw County Small Business Environment,* analyzes the economic conditions and performance of Saginaw County, with special emphasis on small business. Conditions are not viewed on a stand-alone basis, but instead "benchmarked" against a composite group of 15 counties with industry and demographic characteristics that are similar to Saginaw County. Benchmarking provides a more realistic and controlled evaluation of an area's overall performance, since measurements are made against a peer group with the same set of strengths and weaknesses. In brief, the key findings of this comparison analysis are:

- Saginaw County's population has not grown. This creates a highly competitive environment for new businesses seeking to serve the local market. The number of residents declined 0.9 percent between 1990 and 2000 and remained flat with zero percent population change from 2000 to 2002. In contrast, the comparison group experienced a 2.9 percent average growth rate during the 1990s, and expanded 0.3 percent between 2000 and 2002.

- The number of adults in their 20s and 30s is not growing in Saginaw County. From 1990 to 2000, the number of residents between 25 and 34 years of age dropped 20.4 percent in Saginaw County. In the comparison group, this age cohort declined 17.7 percent, while nationwide the drop was only 7.6 percent. Not only do these negative trends point to the challenging environment facing most all small metropolitan areas in the region, it also raises concerns regarding both the supply and demand side of nurturing the county's small businesses. First, since a large portion of would-be entrepreneurs are in this age cohort, the county's potential pool of small business owners may be shrinking. Second, young adults represent a major share of the market for some of the more dynamic business opportunities available for small business start-ups.

- Between 1995 and 2000, total employment in Saginaw County grew 4.2 percent compared to 5.6 percent in the comparison group. From 2000 to 2001, Saginaw County employment declined 1.8 percent, versus a 1.5 percent loss in the comparison group.

- The manufacturing sector has taken a larger hit, slipping 3.9 percent in Saginaw County and 2.5 percent in the comparison group between 1995 and 2000.

- Poverty is a larger problem in Saginaw County than the comparison group—13.9 percent of residents lived below the poverty line in 2000, versus 11.2 percent in the comparison group.

- A lack of employment opportunities is reflected in the county's higher-than-average unemployment rate. The unemployment rate in Saginaw County reached 9.3 percent in September 2003. During the same month, the comparison group average was 6.6 percent.

Still, despite its harsh economic environment, Saginaw County's small business community has grown. It has also proven to be the county's prime source for new jobs.

- The percentage of people who are self employed has grown in Saginaw County from 4.9 percent in 1990 to 7.2 percent in 2000. During the same period, the comparison group went from 5.5 percent to 7.1 percent.

- Saginaw County has a strong retail market. In 2003, sales at area merchants represented 89.7 percent of county disposable income, compared to 80.1 percent in the comparison group. While this may suggest market saturation, it also reasonable to believe that this means the county has become a regional shopping location, which could be an attractive environment for new retail businesses.

- Small business start-ups are a significant source of new jobs in Saginaw County. Firms that began operating with 50 or fewer workers during the first six months of 1996 were responsible for a net gain of 802 jobs over a five-year period.

Finally, Saginaw County provides the same "basic core" of services to its small business community as is found in the comparison areas. Networking opportunities provided by the Chamber of Commerce and the small business technical assistance offered by the area's service providers are similar to those that are available in the comparison communities. What Saginaw County lacks is a focused effort or strategy to support the development of "economic base" small business, which sell their goods and/or services to out-of-county customers. Two possible components for such a strategy, which are currently operating in a few of the comparison areas, are:

- The establishment of a small business incubator which caters to the needs of small manufacturing or export service firms. To be successful such an incubator should offer more than an inexpensive work environment; it must also provide access to needed business services and create a "growth environment."

- A venture capital pool or, at least, a revolving loan fund which could provide needed gap financial assistance for small businesses.

Introduction

Many an economic developer has touted the importance of small business. In recent years, many communities have turned to the idea of growing existing small businesses and attracting entrepreneurs as a strategy for generating economic growth—particularly as large companies are increasingly unable to provide the security they once did in many small and mid-sized communities. However, because small businesses are so diverse and operate in so many different sectors of the economy, it can be difficult to identify the traits of a truly "successful" environment for small firms.

The purpose of this study is the examination of Saginaw County as an environment for small business. A system know as "benchmarking" was used to analyze both the county's overall economic condition, as well as the performance of small businesses. The advantage of using a benchmarking system is that it looks at economic performance and characteristics in a relative light; in other words, it presents a fair comparison amongst peer counties, as opposed to broad comparisons with arbitrary grouping such as the state or the nation.

The Comparison Group Selection Process

Perhaps *the* key component of a successful benchmarking study is found in the selection of the comparison group. If the criteria used is too detailed, the resulting comparison group will be too identical to the community being benchmarked and will be unable to highlight any performance variations. At the other end of the scale, if the criteria used is too broad—such as using only geography or population—the comparison data will be prone to significant deviations, since some of the areas in the group may be incompatible with the benchmark community. Finally, care must be given to avoid selection bias, which amounts to "stacking the deck" with poor performers. Therefore, a great deal of effort must be taken to ensure that multiple pre-existing conditions are similar in each community and that the communities have experienced comparable growth opportunities during the time period being examined.

The following list details the factors examined during the initial phase of the selection process.[1]

1. Region – Selection was limited to counties within Great Lakes states: Illinois, Indiana, Michigan, New York, Ohio, Pennsylvania and Wisconsin.

2. Size – limited to within approximately plus or minus 50% of the population of Saginaw County, 105,000 to 315,000.

3. Traits which might alter performance – Counties were eliminated if they possessed advantageous traits which cannot be duplicated or acquired: state capitals, a major university, or a suburban proximity to a major city area.

4. Urban Setting – To maintain similarity to Saginaw County, counties were eliminated if their "urbanized population"[2] wasn't within 15 percent of Saginaw County, 67.3 percent, and/or if the county did not qualify as a metropolitan statistical area.

5. Race – Counties lacking diversity were eliminated if less than five percent of their population at the time of the 2000 Census was black or Hispanic.

6. Industrial Composition – Since pre-existing industries are so important to an area's future economic prospects, the final selection was limited to counties with the most similar industry characteristics to Saginaw County. Due to the historical importance of manufacturing in the benchmark community, employment in the manufacturing sector was targeted to represent between 10 and 20 percent of each comparison county's total employment.

[1] The appendix contains the original correspondence with the task force detailing the selection procedure.
[2] As defined by the U.S. Census Bureau for the 2000 Census.

7. Historical economic performance – Although employment growth is more so a measure of success than an indicator of conditions, total employment change from 1990 to 2000 in each county was examined before final selection to check for any significant "outlier" communities which could possess characteristics which were overlooked.

In total, 566 counties in seven states were screened during this process. The preliminary group of comparison counties was presented to the entrepreneur development committee task force for consideration. Based on this review, final modifications were made to include Genesee County, Michigan (Flint) and Winnebago County, Illinois (Rockford) in the final comparison group. Although both communities are larger and more urban than Saginaw County, their racial composition, manufacturing concentration, and dependence on the automotive industry are so similar to Saginaw County that it was felt they would be highly comparable.

Just how similar to Saginaw County is the final comparison group? Table 1 shows the final listing of 15 counties which were selected to comprise the Saginaw benchmark group, along with a summary of major statistics of employment and population.

Table 1
General Characteristics - Population and Employment

Core City/Area Name	County Name	2002 Population	Percent of Population nonwhite in 2000	Manufacturing Employment 2001	Total Employment 2001	Manufacturing Employment as a Percent of Total
Saginaw, MI	**Saginaw**	**210,087**	**27.6%**	**19,268**	**116,538**	**16.5%**
Comparison Average		**199,703**	**15.4%**	**18,097**	**113,993**	**16.2%**
Comparison Median		**171,765**	**12.6%**	**15,729**	**84,220**	**16.8%**
Battle Creek, MI	Calhoun	138,375	17.6%	15,729	74,331	21.2%
Binghamton, NY	Broome	200,324	9.6%	16,682	122,158	13.7%
Erie, PA	Erie	280,370	10.2%	31,120	162,325	19.2%
Flint, MI	Genesee	441,423	25.9%	28,722	209,615	13.7%
Green Bay, WI	Brown	232,185	10.4%	28,333	173,113	16.4%
Jackson, MI	Jackson	160,972	12.6%	11,147	76,689	14.5%
Janesville, WI	Rock	154,092	10.8%	17,014	84,220	20.2%
Lima, OH	Allen	108,120	15.8%	12,081	72,057	16.8%
Mansfield, OH	Richland	128,004	12.4%	15,926	74,112	21.5%
Muncie, IN	Delaware	118,197	9.9%	8,616	69,619	12.4%
Muskegon, MI	Muskegon	171,765	20.5%	14,429	81,683	17.7%
Peoria, IL	Peoria	182,362	21.5%	12,927	126,701	10.2%
Rockford, IL	Winnebago	282,627	20.7%	34,870	172,962	20.2%
Springfield, OH	Clark	143,416	12.4%	11,892	70,607	16.8%
Youngstown, OH	Mahoning	253,308	20.4%	11,974	139,705	8.6%

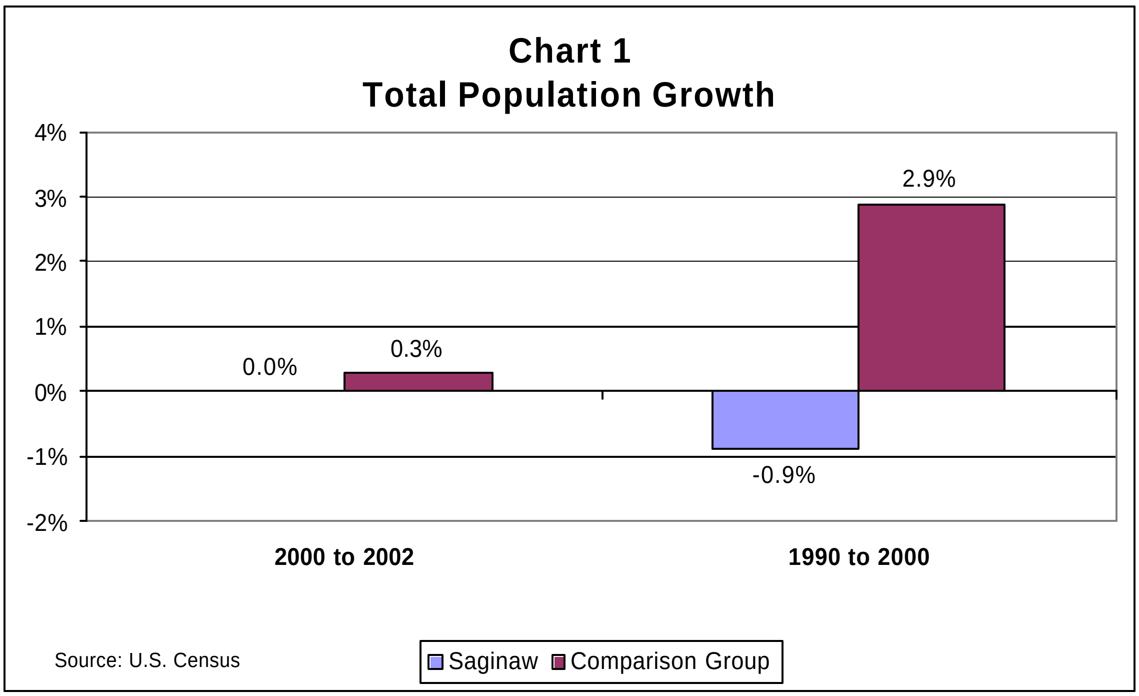
Source: U.S. Census Bureau and the BEA.

As can be seen in the first three lines of Table 1, the comparison group average is very similar to Saginaw County in almost every measure except racial diversity. The percentage of population which is nonwhite in Saginaw—27.6 percent—is very high compared to most locations nationwide, let alone compared to counties which fit similar size, industry and region criteria. However, in considering the environment for small businesses, this factor shouldn't have much of an effect on the overall comparison, though undoubtedly this racial diversity will prevent a slightly different set of both advantages and challenges to the Saginaw community.

In the next section, the overall economic performance of Saginaw County is examined. Most small businesses serve their local market, which clearly means that the overall performance of the local economy will weigh heavily on their likelihood of success.

Overview of Saginaw County's Economic Performance

Economists use many indicators to measure an area's economy. For example, data on unemployment are used to examine the economic prospects of residents, while earnings data might serve as an indicator of growth and profitability for area businesses. Typically, many variables are studied to get an overall picture of the economy, since one or two positive (or negative) factors alone do not give a sure picture of the conditions faced by the entire community. However, the one factor which might best on its own indicate an area's success is population growth. Population can grow in only one of two ways—through in-migration or a high birth rate. Areas that experience higher-than-average population growth over a given period generally have a strong economy and a good quality of life to attract and maintain residents.



Population Growth

As shown in Chart 1, Saginaw County has experienced far less population growth than the comparison group. In the 1990s, Saginaw County's total population declined by 0.9 percent, a loss of nearly 1,600 residents. Over the same time period, the comparison group grew 2.9 percent on average—although still a slow pace when compared to a nationwide increase of 13.2 percent. From 2000 to 2002, the trend has been about the same, with the comparison group growing by 0.3 percent while Saginaw County remained flat.

A closer examination of growth patterns by age cohort may reveal some underlying barriers to future growth. In Table 2, the breakdown of population headcounts by age bracket indicates Saginaw County is losing more young working age adults, 18 to 49 years of age, than the average comparison group community. Not surprisingly, given the greater-than-average loss in the number of young adults, the county also witnessed a decline in the number of children.

Table 2
1990 to 2000 Population Growth by Age Group

	under 5	5 to 17	18 to 24	25 to 34	35 to 49	50 to 64	65 to 74	75 and over
Saginaw	-12.9%	-3.9%	-10.2%	-20.4%	7.2%	17.7%	-1.8%	26.2%
Comparison Group	-7.2%	3.5%	-5.9%	-17.7%	16.5%	14.8%	-5.0%	25.2%
U.S.	4.5%	17.4%	1.5%	-7.6%	26.8%	28.8%	1.6%	26.4%

2000 Population Cohorts As A Percent of Total Population

	under 5	5 to 17	18 to 24	25 to 34	35 to 49	50 to 64	65 to 74	75 and over
Saginaw	6.8%	19.8%	9.0%	12.5%	22.6%	15.9%	6.9%	6.5%
Comparison Group	6.5%	18.8%	9.8%	12.8%	23.0%	15.3%	7.1%	6.6%
U.S.	6.8%	18.9%	9.6%	14.2%	23.2%	14.9%	6.5%	5.9%

Source: U.S. Census Bureau

Nationwide, demographic trends point to an aging society, as the large "baby boom" generation shifts into higher age brackets. However, the trend in Saginaw County is not encouraging, either compared to the nation or the peer comparison group. Clearly, members of the "25 to 34" and "35 to 49" age brackets are leaving the area in large numbers. Persons between the ages of 25 to 34 declined the most and account for only 12.5 percent of the county's population compared to 12.8 percent in the comparison areas and 14.2 percent for the nation. For area businesses, this means both a dearth of workers and customers, since individuals in these life stages tend to be at their educational and productivity peak, as well as being prime purchasers of new homes, cars and consumer goods. In addition, many potential entrepreneurs are in this age group as well, suggesting that the county may be losing its future supply of small business owners.

Finally, the fact that young adults in their 20s and 30s are also in the midst of their child-bearing years bears a direct impact on the declining number of children in the county. In coming years, this could lead to a crisis for local school districts as funding drops with dwindling enrollments. Although, in 2000 the percentage of population younger than five years of age still matched the nation.

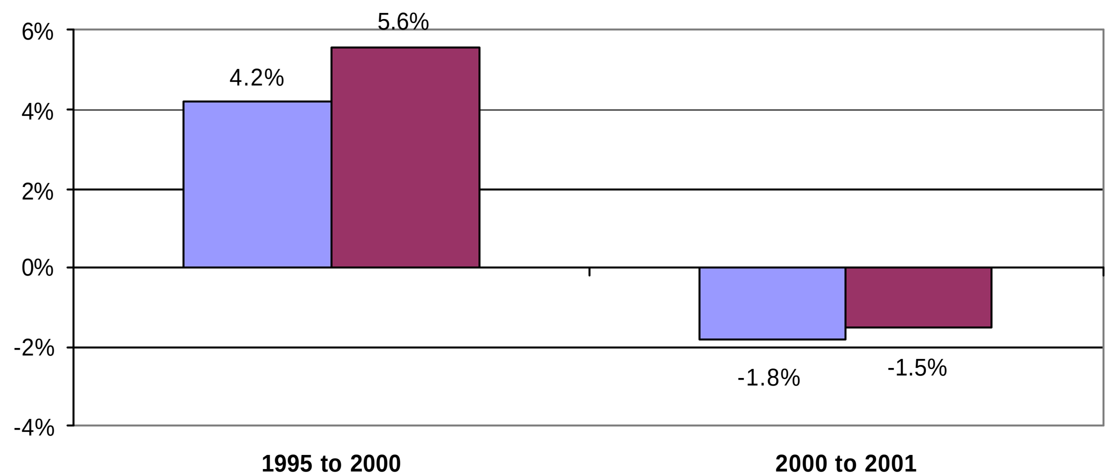
Although not age-specific, migration data from the Internal Revenue Service confirms that Saginaw County is indeed losing population to out-migration. During the period from 1995 to 2001, Saginaw County experienced a net loss of 5,549 households and $217 million in personal income due solely to net out-migration. Of all households moving in and out of Saginaw County during the same period, those moving out earned, on average, annual incomes $1,496 higher than those moving into the county.

Employment

One possible contributing factor to the county's out-migration problem may be the lack of employment opportunities. During the late 1990s economic boom, total employment did increase in Saginaw County, although at a rate slower than the comparison group's average (Chart 2). On net, this equated to approximately 4,800 jobs during the five-year period, or an increase of 4.2 percent. If the county had grown by the same percentage increase as the comparison group's average, 6,400 jobs would have been created.

Unfortunately, much of this employment gain was quickly erased between 2000 and 2001, when Saginaw County suffered a 1.8 percent decline in employment over the one-year period—a loss of around 2,150 jobs. This was a slightly harsher hit than experienced by the comparison group of counties, who fell 1.5 percent over the same yearlong period. Certainly, some loss might be expected during a national economic downturn; however, the extent of recessionary employment losses when contrasted with the modest expansionary gains reveals an underlying weak relationship to larger economic trends.

Chart 2
Total Employment Growth



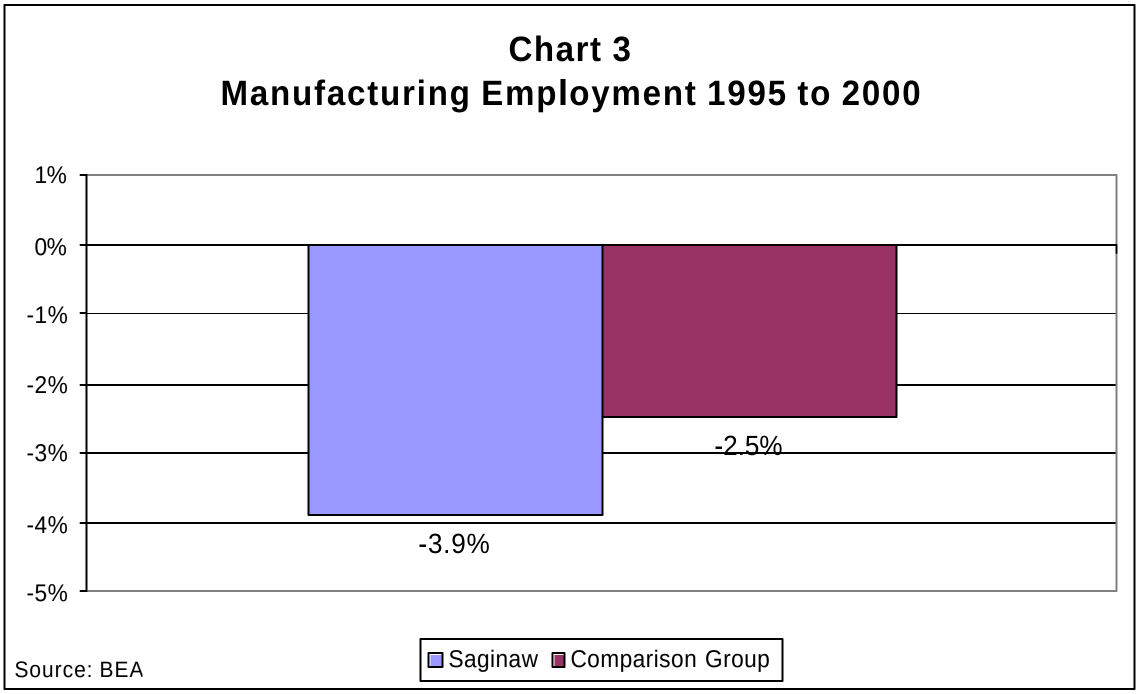
Source: BEA

Some of Saginaw County's economic weakness may be related to its historical dependence on the manufacturing sector. In 2001, manufacturing represented 16.5 percent of all employment in the county and 37.3 percent[3] of all private wage and salary earnings. Manufacturing earnings per worker were also among the highest of any sector in the county, and were higher than earnings in the comparison group by a substantial

[3] BEA-REIS 2001 data.

margin: $73,579 versus $50,031. Clearly, the area has benefited from the presence of major industrial production sites for automobiles, chemicals, and metals.

However, the number of employment opportunities in these high-paying industries has declined, even during periods when other sectors of the economy were rapidly expanding. As shown in Chart 3, despite an overall increase in employment in Saginaw County, manufacturing employment fell by 3.9 percent—a loss of 853 jobs. The comparison group experienced a slightly smaller manufacturing employment loss of 2.5 percent.[4]



Overall, Saginaw County's economy has remained lackluster during the past 13 years. When measured against the comparison group of counties—all of whom face similar challenges—Saginaw County trails in population growth, employment growth, and manufacturing sector performance. Area firms failed to gain competitive advantage during the late 1990s, and were quickly impacted by the 2001 recession. Future growth need not face the same constraints as in the past; however, a shrinking base of working-age adults, combined with a high mix of heavy industrial facilities in the community may make it difficult to attract growth in other sectors of the local economy.

The next section examines the impact of the economy as experienced by Saginaw County's residents. For small firms, the prosperity of the community, the quality of the workforce and the success of their business operations go hand-in-hand.

[4] Overall national and state trends in the manufacturing sector were not strong even during the late '90s. Between 1995 and 2000 manufacturing employment fell 0.4 percent nationwide and grew only 0.1 percent in the state of Michigan as a whole.

Economic Conditions in Saginaw County

Certainly, if one asked a group of Saginaw County residents for their opinion on the state of the local economy, there would likely be a diversity of replies. A long-term automotive company employee might feel that things are relatively good, with the area offering him or her good wages, stability and a low cost of living. On the other hand, to a younger adult looking to start a career, Saginaw County's economic conditions and quality of life might seem quite limited. A poor mix of industries, large pockets of poverty and too few new job opportunities would likely make the area less desirable.

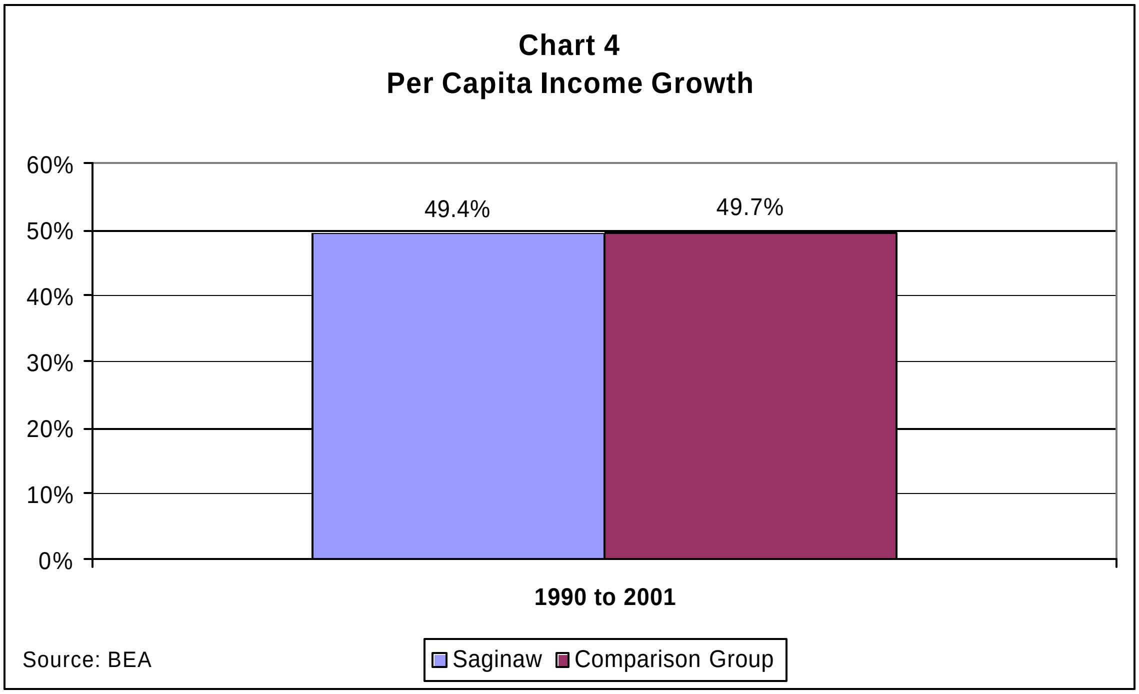
Among small business owners, the economic picture is even more mixed. For suppliers with the right contracts, these may indeed still be the boom years. However, for small firms dependent on a broader customer base—such as is the case in retail and service operations—there is likely little choice but to compete for market share from existing customers since population growth is non-existent.

Per Capita Income

While job creation is the typical measure used to monitor the success of local economic development efforts, growth in per capita income is the preferred metric of most economists, since it captures the economic well-being of the area's residents. Per capita income growth is both a measure of the growing purchasing power of local residents as well as a measure of the quality of jobs being generated.

For the business community, increasing per capita income may be just as important as a growing customer base, particularly to firms offering premium services or products. In Saginaw County, residents have experienced income growth, at a rate roughly equal to the comparison group of counties, 49.4 percent[5] (Chart 4). This is good news, since it suggests that the area's standard of living has kept pace despite lackluster employment growth and negative population trends.

[5] Nominal growth, not adjusted for inflation.

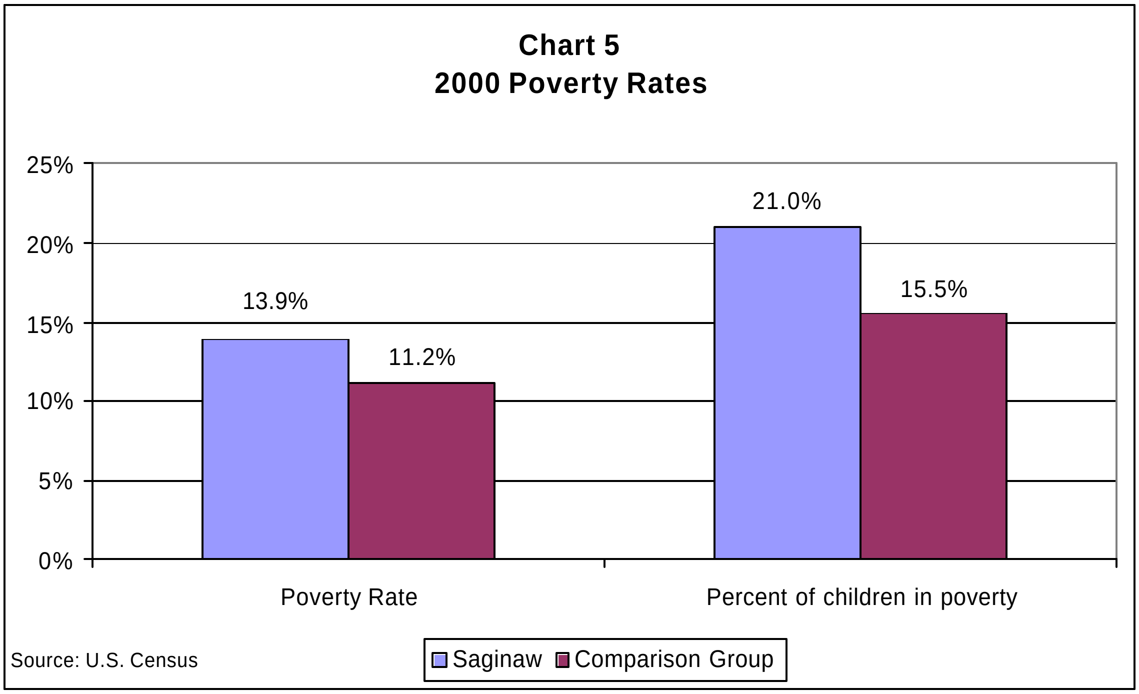


The nominal level of per capita income in Saginaw County is below the comparison group average, however. According to the Bureau of Economic Analysis, in 2001 Saginaw County's per capita income was $24,747, about 3.7 percent less than the comparison group, $25,700. Both figures, however, are significantly below the national per capita income for the same year, $30,413, and would seem to confirm both the overall lower cost of living of small urban communities, as well as perhaps a lower standard of living. [6]

Poverty

Saginaw County has a greater proportion of residents living in poverty than the comparison group average. Chart 5 below shows the percentage of all persons, and the percentage of children ages 0 to 17, who were living below the poverty level at the time of the 2000 Census. Unfortunately, the data shows that Saginaw County experienced a higher rate of poverty, both among persons of all ages and children, than the comparison group of counties. The conditions faced by the county's children is particularly disturbing, since growing up in poverty is frequently associated with health problems, poor school performance and diminished future achievement.

[6] Due to the lack of data, we are unable to adjust for the relative cost of living in Saginaw County compared to the comparison cities. However, this problem is reduced by the fact that the comparison communities were selected specifically for their similarity to Saginaw County.



However, not all news regarding poverty in Saginaw County is bad. In fact, conditions have improved greatly since 1990, when the poverty rate was 17.2 percent for all persons and 26.3 percent for children. In population terms, this means the total number of residents living below the poverty level declined by over 7,400 individuals over the 10 year period. For the persons and families that have managed to improve their lives, this is a truly great accomplishment, which only serves to highlight the importance of economic growth to all members of the community. Yet, what remains to be seen is how the recessionary phase of the business cycle has affected the degree of poverty in Saginaw County. Sadly, since 2000, these numbers have most likely increased.

Educational Attainment

Another aspect of the Saginaw County population that affects both the employability of individual residents and the attractiveness of the area to prospective employers is the level of education attained by the workforce. In the past, many firms did not emphasize formal education requirements, and most were willing to provide on-the-job training to generate the skill sets needed for a particular job—especially in the world of manufacturing. However, post-secondary levels of education are now routinely required for positions in businesses, large and small, across all sectors of the economy. Research shows that even when formal education is not directly tied to job duties, it is still an important factor since it "is seen as reflecting qualities such as basic literacy, work attitudes, and ability to learn on the job, rather than as a source of productive knowledge."[7]

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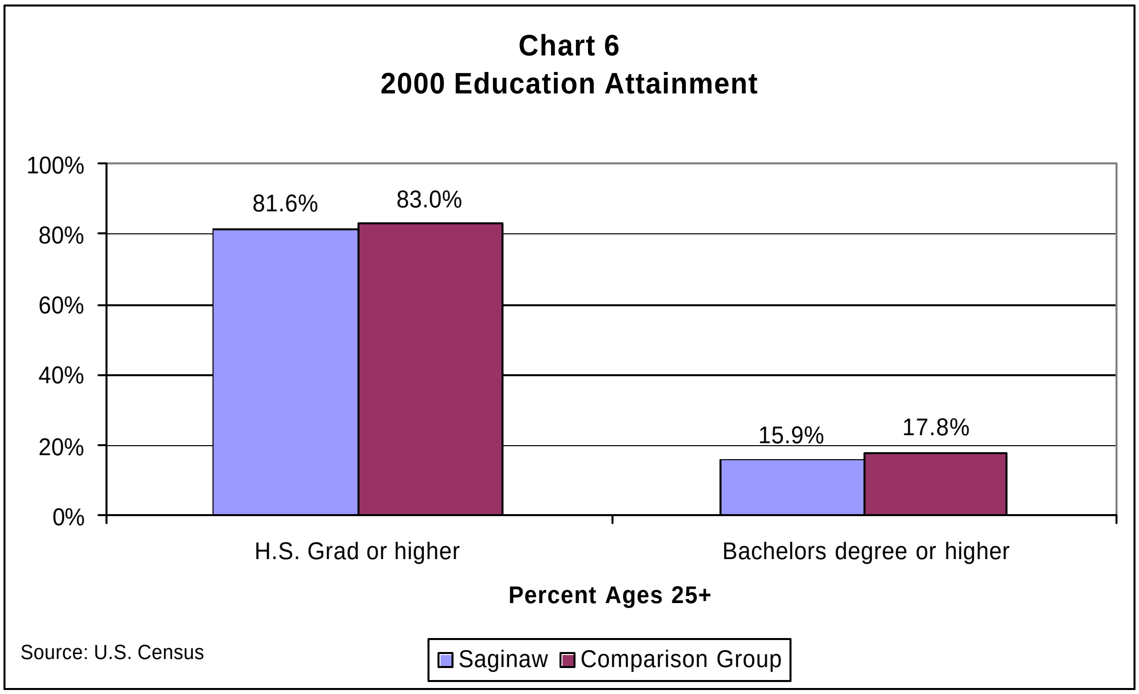
[7] Doeringer, Peter et. al. *Start-up Factories: High Performance Management, Job Quality and Regional Advantage.* Oxford University Press, 2002. Pg 127.

As shown in the next chart, Saginaw County trails in overall educational attainment. Amongst residents ages 25 and over, 81.6 percent graduated high-school, and 15.9 percent hold a four-year bachelor's degree or higher level of formal education, compared to 83.0 percent and 17.8 percent, respectively, in the comparison group of counties (Chart 6). Although the disparity between Saginaw County and the comparison group is small, it is important to note that nearly one-quarter—24.4 percent—of the national population over age 25 holds a bachelors degree or higher level of degree. This suggests that, in general, education is an issue across most counties of this size.[8]



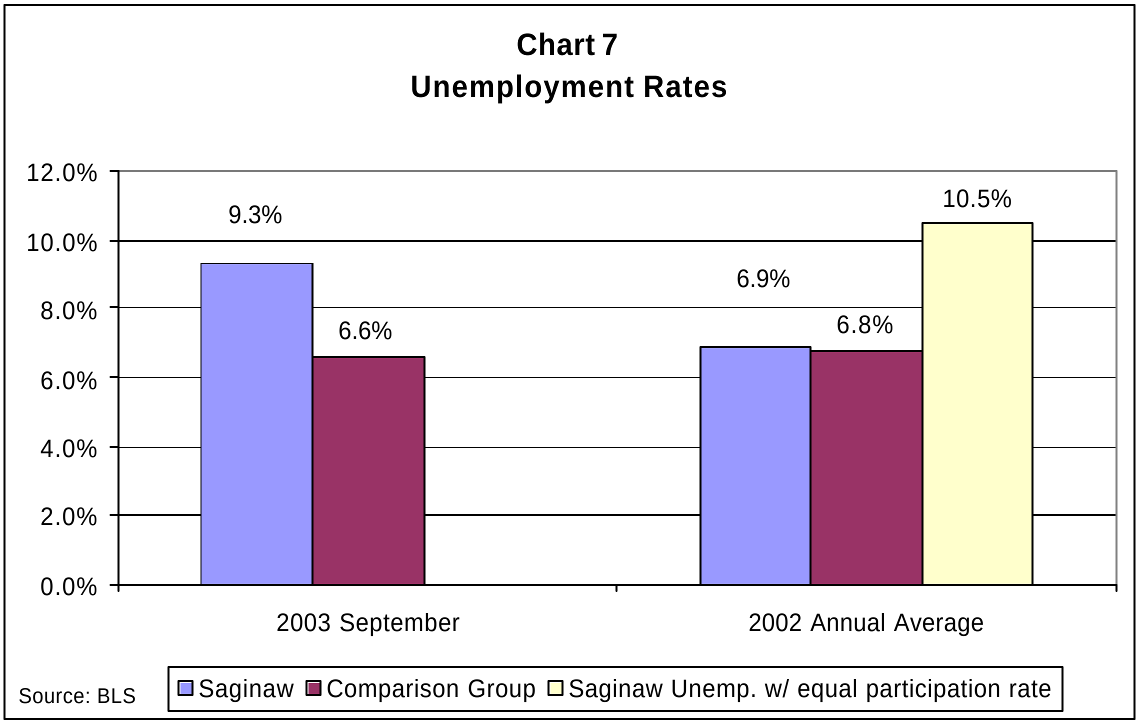
Unemployment Rate

Of all possible measures of the success of an area's workforce, the most often cited and perhaps most important is the unemployment rate. The unemployment rate measures the percentage of people *actively* looking for work who are unable to find employment. In essence, this provides a measure of the fit between an area's residential labor force, and the number and type of jobs available within a reasonable commuting distance.

In 2002, Saginaw County's unemployment rate was essentially equal to the comparison group—6.9 percent versus 6.8 percent (Chart 7). However, during the first nine months of 2003, conditions have grown worse, with unemployment in Saginaw County hitting 9.3 percent in the most current available month, September 2003. This compares poorly

[8] Michigan as a whole is also behind the national average level of educational attainment. Statewide, 21.8 percent of persons ages 25 and over possessed a bachelor's degree or higher level of education in 2000.

with the comparison group, whose average unemployment rate has improved slightly during the same period to 6.6 percent.

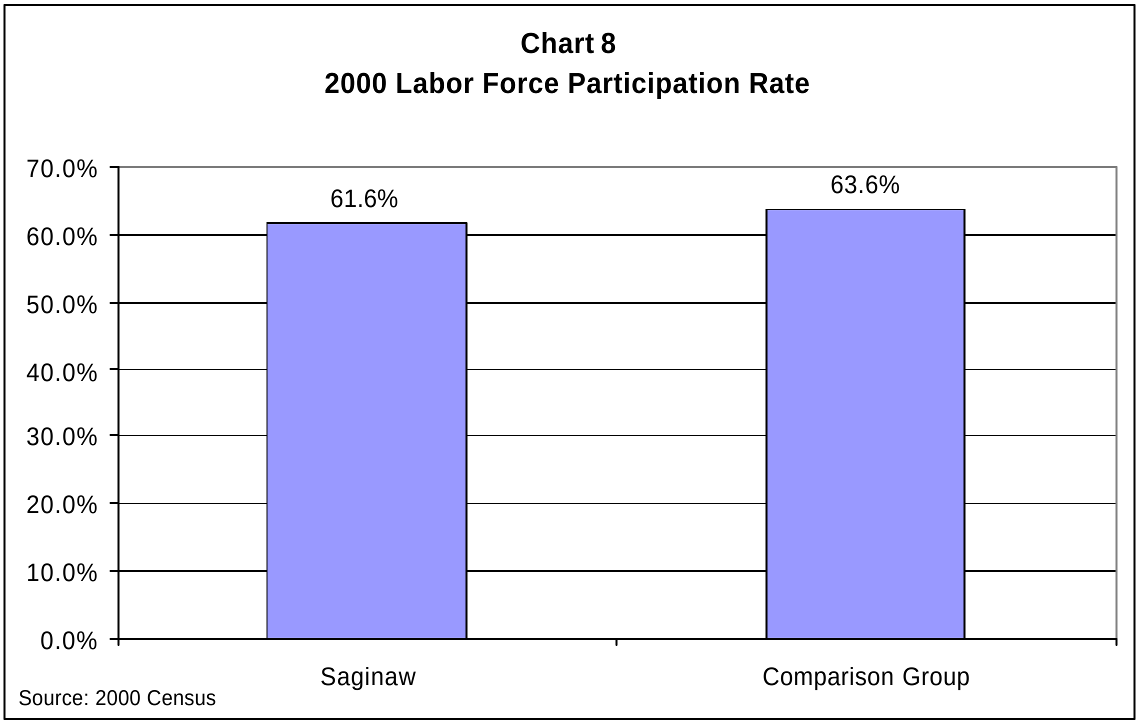


Labor Force Participation

One of the major drawbacks of the local unemployment rate statistics are that they do not account for the number of working age adults who have simply given up looking for work. In sluggish economies, the area's unemployment rate can be deceptively low because many persons have just given up and dropped out of the labor market. This appears to be the case with Saginaw County.

The participation rate—the percentage of persons over the age of 16 who are employed or looking for work—in Saginaw County is lower than the comparison group. According to the 2000 Census, 61.6 percent of Saginaw County residents were participating in the labor force in April 2000, compared to 63.6 percent in the group of comparison counties (Chart 8). This suggests that Saginaw County residents of legal working-age are not seeking employment at the same rate as in other, similar communities. To see how a low participation rate hides an area's true level unemployment, if Saginaw County had the same participation rate as the average for the comparison group, its unemployment rate would have been 10.5 percent in 2002.[9]

[9] Estimated by the W.E. Upjohn Institute, using Census Bureau and BLS data sources.



Each facet of workforce performance considered in this section measures a different aspect of economic performance. The quality, quantity, and ability of an area's human capital are complex, and cannot be gauged by one or two stand-out variables. For example, a high per capita income means little in a county besieged with poverty, or a low level of educational attainment in a community might not be considered a problem in an economy with a very low unemployment rate. In essence, each related variable may reinforce, complement, or offset one-another.

For Saginaw County, however, the analysis seems to be clear: its performance in every category is slightly behind expectations, as measured by the comparison group of peer counties. Simply stated, per capita income is marginally lower, poverty rates are higher, educational attainment lags, and unemployment is a growing concern. While the differences are small, these will be important issues to keep sight of in understanding the county's ability to promote future economic growth, particularly in the small business sector.

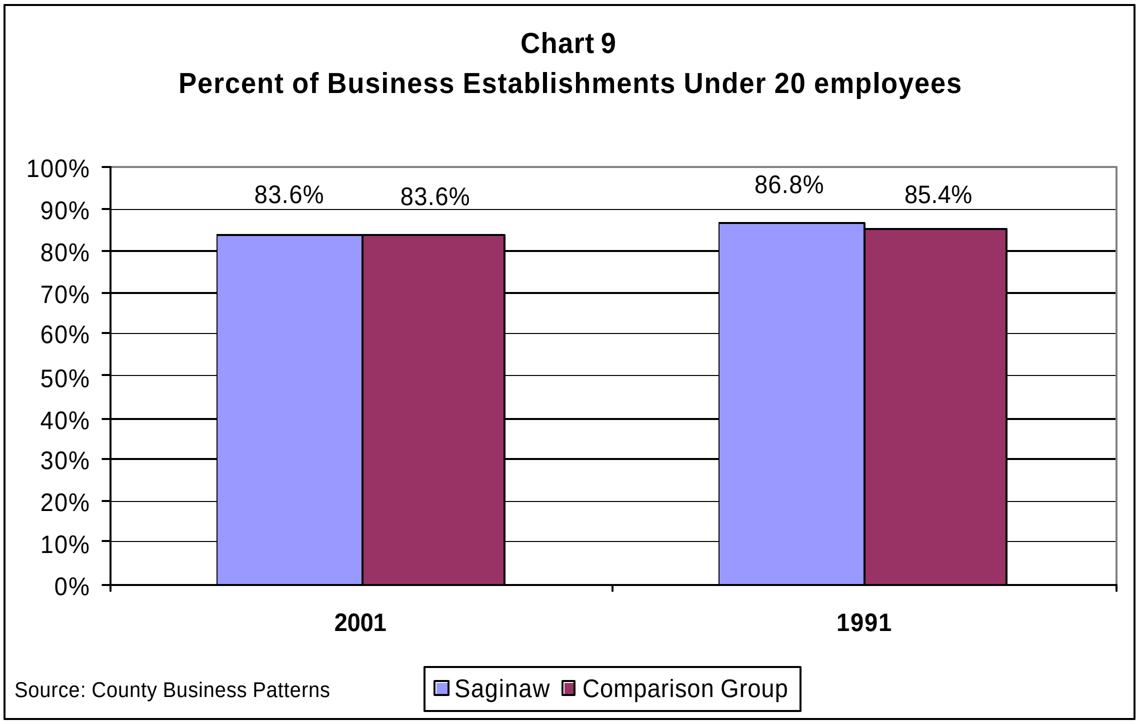
Measures of Small Business Success in Saginaw County

Nationwide, the small business sector has gained the attention of the local economic developers as community leaders look for ways to offset the employment losses of larger firms caused by the recent downturn. Unlike mid-sized and large businesses, many small firms in sectors such as professional services, information, and manufacturing are in their early-life stages, giving them strong potential for future expansion and employment growth. These are the “prize” firms sought by many communities that have targeted technology fields and entrepreneurs, looking for the “next big thing.”

Of course, many small businesses stay small filling a “capacity” niche, based on the population and income characteristics of an area. These firms are less likely to become a breakout success, due to higher levels of competition and the lack of an export-based market. Businesses such as dry cleaners, merchants, restaurants, cafes and repair shops all provide income to the community and are important contributors to an area’s quality of life, but they cannot generate new income for the area. Still, maintaining vitality in an area’s small locally-based economic businesses keeps consumer dollars circulating in the community, as well as providing a wide variety of employment opportunities.

There is no agreed upon definition of what a small business is.[10] To some the term “small business” brings to mind the “mom & pop” convenience store—which might only employ two or three people. On the other hand, in the world of manufacturing—where employment levels often range from the hundreds to the thousands—a machine shop with 50 workers might be considered “small” compared to the typical firm in the industry. Even definitions of small business based on family ownership or form of company governance are made difficult by the relative ease and popularity of incorporation. For the purposes of this report, unless otherwise identified, we have defined “small business” to indicate those establishments with fewer than 20 employees.

[10] The U.S Small Business Administrative labels any firm with 500 workers or less as a small business, a definition few others follow.

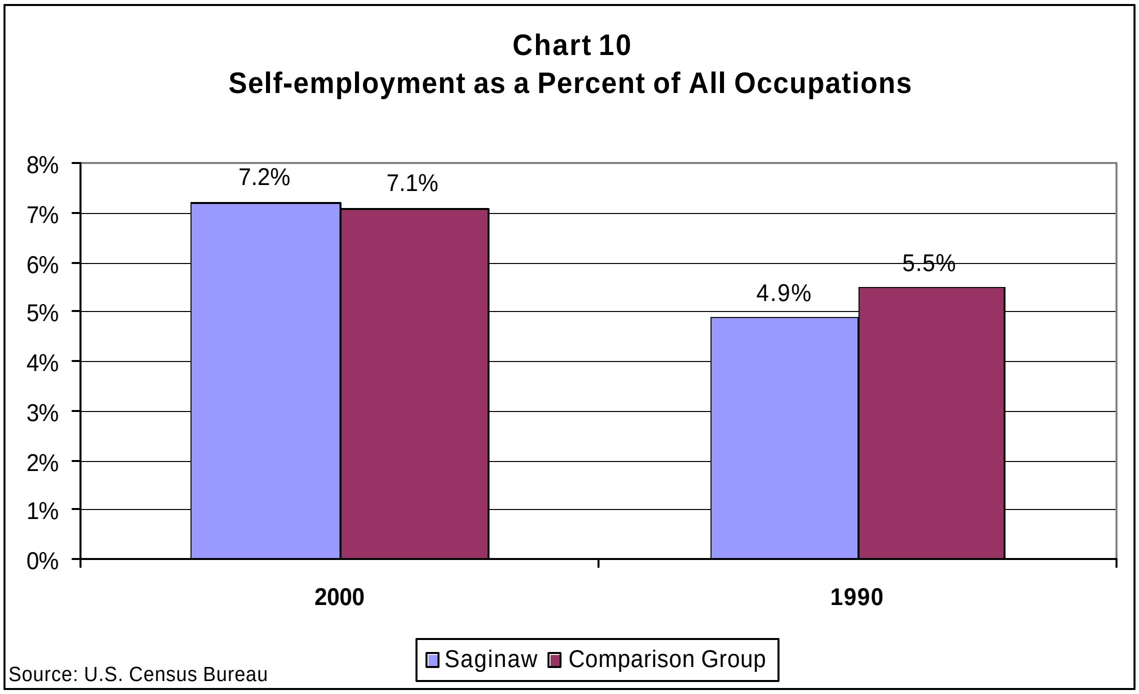


Small Business Employment

Small business establishments (those employing 20 or fewer workers) have declined as a percent of all business establishments between 1991 and 2001 in Saginaw and the comparison counties. In Saginaw County, this decline was larger than the comparison group, from 86.8 percent in 1991 to 83.6 percent in 2001 (Chart 9). In terms of real numbers, this equates to a loss of nine small businesses in Saginaw County between 1991 and 2001, compared to an average increase of 137 small business establishments in the comparison group.

A look at data on self-employment reveals the opposite trend during the 1990s. According to data on occupations, the percent of residents who were self-employed grew significantly between 1990 and 2000. As shown in Chart 10, entrepreneurs in Saginaw County increased from 4.9 percent of all occupation-holders to 7.2 percent during the 10-year period. This surpasses the comparison group, which increased from 5.5 percent self-employment in 1990 to 7.1 percent in 2000. Clearly, this suggests that a greater number of residents are striking out on their own. However, it is impossible to tell if this indicates a trend toward entrepreneurship that will generate future job growth or if it is limited to an increase in the number of independent contractors, most of whom will likely never expand beyond a solo operation.

Self-employment among minority residents was also examined and found to be essentially equal to the comparison group. A greater portion of self-employed workers live in neighborhoods with above-average minority concentrations in Saginaw County merely because there are a higher number of these neighborhoods overall than the comparison group. However, the ratio of self-employed to total employment between neighborhoods is nearly identical in Saginaw County and the Comparison Group, 0.56 and 0.563 respectively.



Proprietor's Income

Indeed, it is difficult to ascertain what might or might not attract an entrepreneur to seek self-employment or start his or her own business. In terms of income, potential is—of course—unlimited. However data on proprietors income[11] is mixed and suggests that many proprietors are achieving a smaller monetary reward from their labor than the average employee.

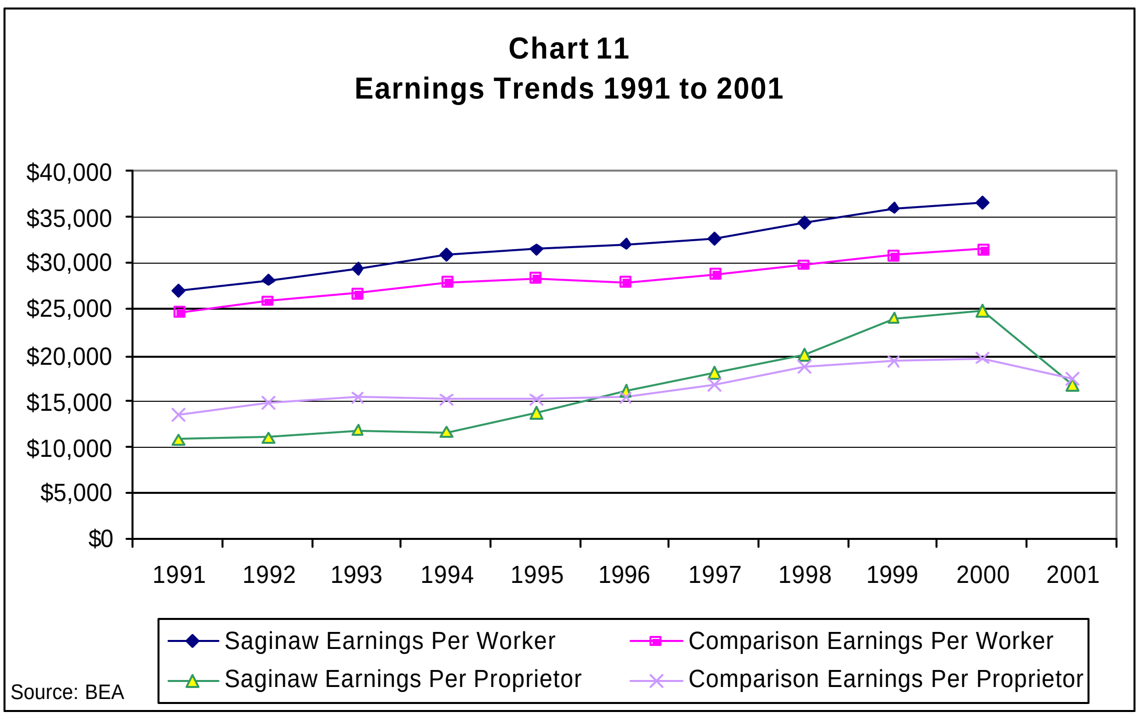
If potential growth is the draw, proprietorships in Saginaw County seemed to offer growing rewards to some during the 1990s. Between 1991 and 2001, proprietor's income grew in Saginaw County. When measured as a percent of total personal income, the gain was modest, climbing from 3.6 percent to 4.3 percent during the period, but still remained below the comparison group. On the other hand, the comparison group actually declined slightly over the same 10 years, from 4.9 percent in 1991 to 4.8 percent in 2001.

When the annual growth pattern of earnings per proprietor is examined, however, the results are encouraging. Starting in 1991, earnings per proprietor grew significantly in

[11] Proprietor's income is measured by the BEA and includes only sole proprietorships, partnerships and privately-owned tax-exempt cooperatives. Other popular forms of business ownership such as limited liability companies and "S" corporations are not included, even though their ownership may consist of as few as one individual.

Saginaw County, from $10,812 in 1991 to surpass the comparison group in 1996 and reach a peak of $24,833 in 2000 (Chart 11). A strong performance, only to be dampened by a mysterious plunge to $16,814 in 2001, and a return to earnings very similar to the comparison group. While seemingly odd, it is likely that this drop is tied to the 2001 recession, which certainly impacted proprietorship sales as well as perhaps creating a legion of "reluctant entrepreneurs" who attempt marginally successful business ventures following a layoff or other life event.

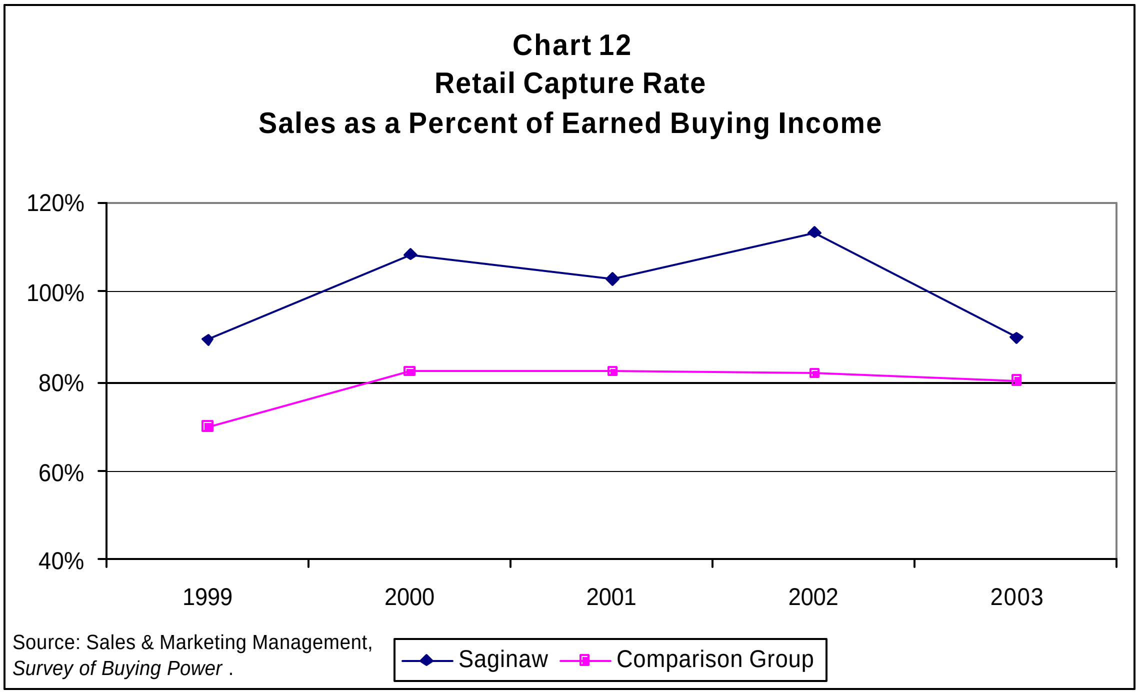
In any case, the dramatic changes are clearly illustrated in Chart 11, which also includes earnings per worker in both Saginaw County and the comparison group for a contrast against earnings per proprietor. It is interesting to note that average earnings per worker are consistently higher in Saginaw County than the comparison group, and have grown at a slightly faster rate over the 1991 to 2000 period.



Retail

Perhaps the largest sector for small business operations and entrepreneurs is retail. The sale of goods and services in the marketplace is an extremely diverse activity in the economy, allowing for firms of all types and sizes to compete against one another. In Saginaw County, the retail market certainly benefits from the above-average wages many local employees receive as well as the county's ability to draw tourists and shoppers from surrounding areas.

For the local retail market as a whole, Saginaw County appears to be a very good place to do business. The suburban Saginaw area serves as a regional shopping center, while Frankenmuth draws significant tourist crowds, particularly during the holidays. This brings a higher relative ratio of retail sales to the county, as measured by retail sales as a percentage of earned buying income[12]. By this measure, Saginaw County consistently exceeds the comparison group of counties and even managed to exceed a 100 percent ratio in 2000, 2001, and 2002 (Chart 12). This indicates clearly that Saginaw County is capturing retail dollars far above and beyond what could be expected from local residents.

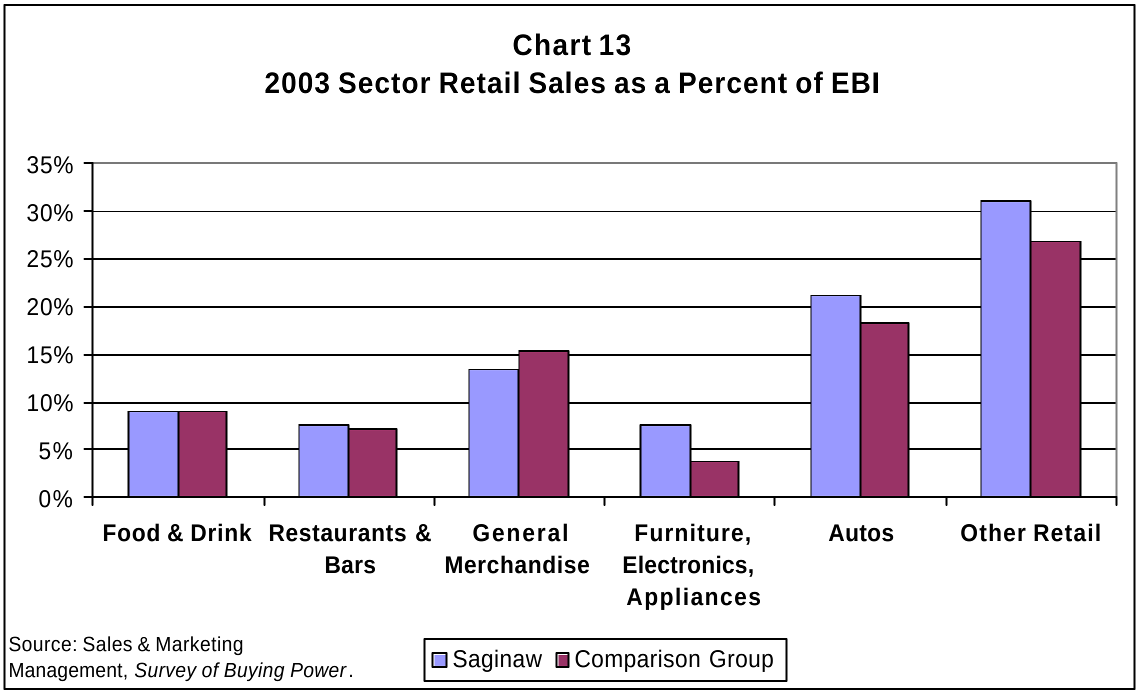


While a high retail-capture rate is good for Saginaw County merchants, it may not provide much of a boost to small business. For one, the county has a high retail *capture* rate, not a high *growth* rate, which suggests a large and most likely saturated market. Secondly, a more in-depth look at sector-level retail sales shows that not all types of retailers are achieving an above-average capture rate. As shown in Chart 13, merchants in *Food & Drink* (groceries), *Restaurants & Bars*, and *General Merchandise* experience sales that are roughly at or below the comparison group average. This is especially surprising since the *Restaurants & Bars* sector is usually associated with tourism.

The retail sectors that are capturing a high share of earned buying income—*Autos; Furniture, Electronics, Appliances; and Other*—tend to require larger market areas, suggesting that Saginaw County has become a regional shopping center. For small businesses and entrepreneurs, however, this may not be of much appeal. A concentration of shopping in the "Bay Road" area—heavily dominated by corporate "chain" and

[12] Earned buying income (EBI) is also know as disposable income and constitutes the personal income left after paying taxes.

franchise operations—combined with a lack of successful downtown or neighborhood shopping districts may limit the ability of some small businesses to thrive in Saginaw County.



Eating and Drinking Places

Because eating and drinking places (restaurants & bars) are usually so closely tied to successful tourism areas and because they are also a popular small business, it seems necessary to explore the sector in greater depth. This is especially the case since data on retail sales suggest this sector is no more successful than average in Saginaw County. Overall, Saginaw County possesses a smaller concentration of small restaurants & bars (Chart 14), and has fewer total establishments in the sector overall than the comparison group, despite a slightly higher concentration of employees (Chart 15).

Again, this is not too surprising given Saginaw County's below-average income and population growth, combined with established competition from larger "chain" competitors. Furthermore, small operators often thrive in a more clustered area such as a downtown business district, or in more neighborhood-oriented developments that draw a large number of diners, yet are more accessible than some heavily-traveled suburban strips.

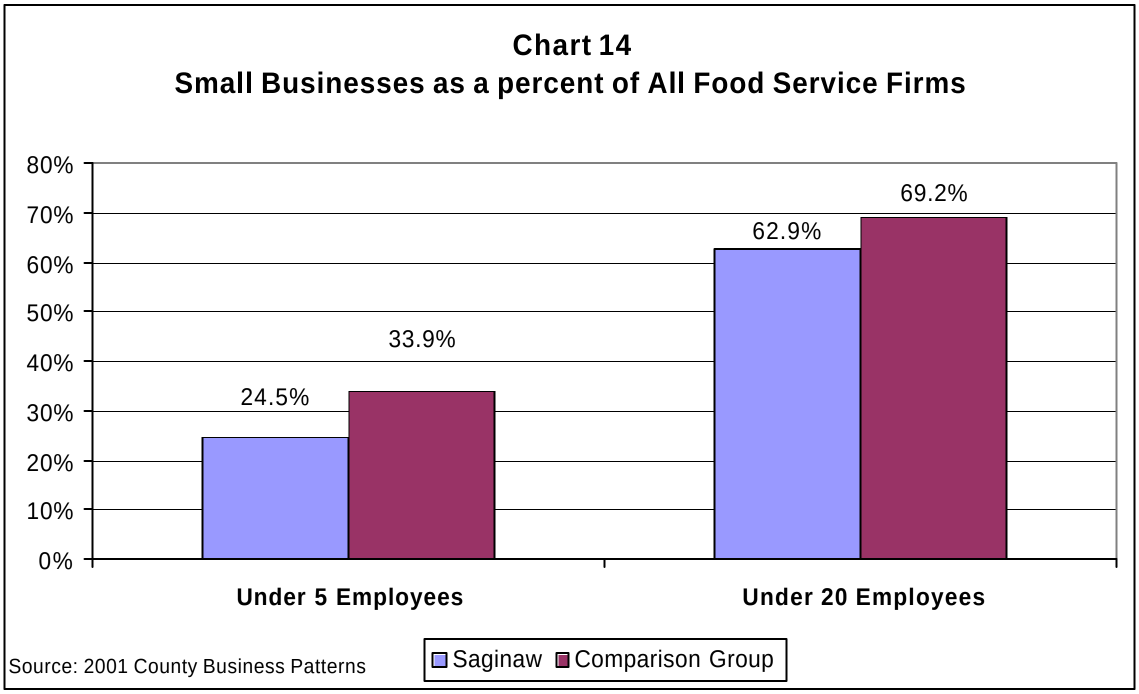


Chart 14
Small Businesses as a percent of All Food Service Firms
80%
70%
60%
50%
40%
30%
20%
10%
0%
24.5%
33.9%
62.9%
69.2%
Under 5 Employees
Under 20 Employees
Source: 2001 County Business Patterns
Saginaw
Comparison Group

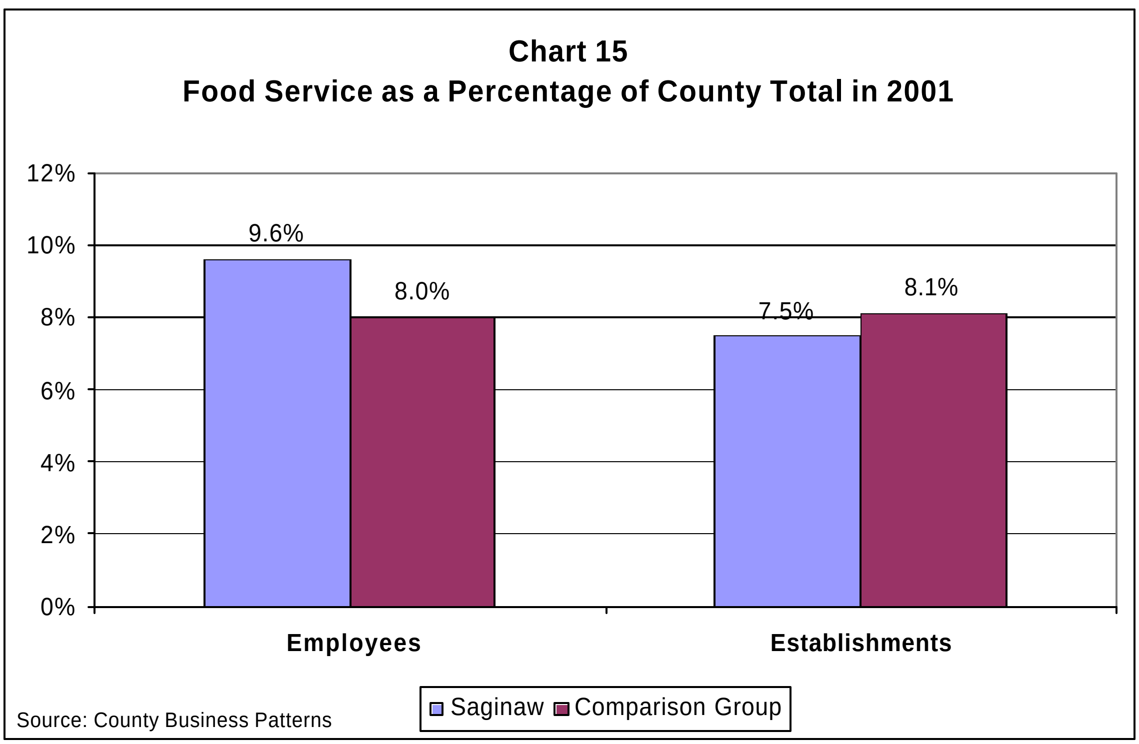


Chart 15
Food Service as a Percentage of County Total in 2001
12%
10%
8%
6%
4%
2%
0%
9.6%
8.0%
7.5%
8.1%
Employees
Establishments
Source: County Business Patterns
Saginaw
Comparison Group

Overall Small Business Performance

In terms of growth and share of the overall economy, data suggest that small businesses in Saginaw County are operating at a level fairly similar to the comparison group average. This is neither bad nor good, but merely indicates that Saginaw County is doing about as well as might be expected. However, the greatest test of the small business market is its ability to create jobs and move companies from the initial growth stages of the business cycle into the established medium-to-large size operations.

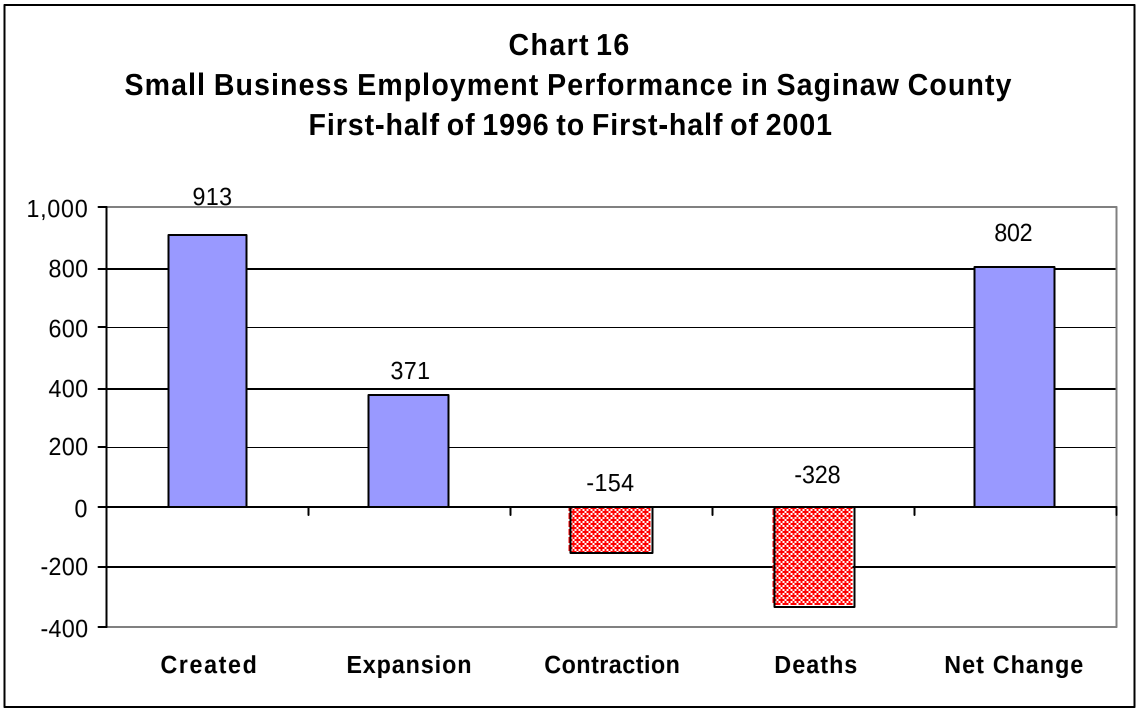
Unfortunately, data limitations hinder the ability to track the success of individual businesses. Most public data sources provide a "point-in-time" view of the economy that can give only a simple count of the number of employees, establishments or other factors being measured. To truly gauge the number of successful transitions, it is necessary to track the changes in individual firms over a set period of time, to understand which firms grew, which firms died, and where each started out at the beginning of the period.

To perform this type of high-detail analysis, the Upjohn Institute maintains a database of individualized ES-202 from the Michigan Department of Career Development. These records are part of the unemployment insurance system and must, by law, be filed quarterly by every non-exempted business establishment in the state. This allows for a very complete examination of business conditions. However, because individual firms can be identified using this data, very strict confidentiality rules govern how it may be used and what may be released. Therefore, the Upjohn Institute is restricted from providing any greater detail than is provided in this summary.

Chart 16 summarizes the employment performance of firms that were new businesses[13] in Saginaw County with a starting employment level of 20 or fewer positions[14] during the first six months of 1996. In total, 257 firms employing 913 workers met the criteria. After five years, 48.2 percent, or 124 out of the original 257 small businesses had ceased operations in the county, resulting in the loss of 328 jobs due to these business "deaths.' Of the remaining 133 firms that were still operating five years later, some expanded their employment, some downsized, and others retained a stable employment level. In total, this equates to 154 jobs lost through downsizing and 371 jobs added through business expansion. Thus, on net, over the five-year period, businesses that started out small created a total of 802 new jobs in Saginaw County.

[13] Data on "new" businesses also includes ownership transfers of existing businesses and, in some cases, relocations where the prior business location cannot be traced—such as in the situations of relocations from another state, following a prolonged closure of operations, or a significant change in the nature of the business (different SIC or NAICS classification).

[14] The initial findings of this report presented publicly 10/21/03 presented similar figures, based on firms beginning operations with fewer than 50 employees. For the sake of consistency with this report's definition of small business, the ES-202 data has been calculated to reflect the net-gain in employment resulting from firms starting with fewer than 20 employees. Not surprisingly, however, the inclusion of slightly larger (but still relatively small) firms demonstrated the same trend, only too a larger degree. For the sake of reference, here are the number of jobs created and lost by firms starting with under 50 employees in the first half of 1996: created, 1,874; expansion, 463; contraction, -275; death, -628; for a net total of 1,434 new jobs.



These 802 net jobs created in Saginaw County during the five-year period represent a very large portion—43.5 percent—of the net total increase in jobs during the time period, 1,842. This certainly illustrates the importance of small, start-up companies to the growth of the local economy. However, it is also true that many medium and large firms also created many new jobs during the same time period; though these gains are more likely to be offset by the layoffs and closures of other large firms that tend to be in declining stages of the product cycle.

It is important to note that a small subset of the surviving 133 firms accounted for the lion share of the job growth. Only 5 percent of the survivors created 52 percent on all jobs created through expansions while the top 10 percent accounted for 73 percent. Moreover the high performing firms were in a variety of different industries, suggesting that it is very difficult to identify potential high-performers (gazelles) in advance. All of the establishments in the top 5 percent were in different industries, ranging from construction to warehousing to nursing to management/professional services. Given the diverse nature of these fields, along with the fact that none of them (perhaps with the exception of nursing) are especially thought of as "hot" industries in the way that biotech is today, or telecom was in the '90s, reinforces the fact that success stories are almost impossible to identify ahead of time.

Comparison of Small Business Development Services

Saginaw County offers the same set of core small business assistance services as is found in the 15 comparison counties. All have Small Business Development Centers which offer similar one-on-one counseling services and training programs that are available at its Small Business Technology Development Center (SBTDC). The Chambers of Commerce in the other counties offer similar networking opportunities for new businesses as are available at the Saginaw County Chamber of Commerce. Most also have the ability to assist in procuring SBA 504 and SBA 7(a) Guaranteed Loans for eligible small businesses. Finally, the Saginaw County Revolving Loan Fund is also matched by similar products in the other areas.

The value of examining the service offerings in other areas is to identify activities which may be effective in Saginaw County. The unique services that are available in one of more of the comparison counties are small business incubators, and a faith-based intensive business development program.

Several of the comparison counties have "standard" small business incubators including Flint (Genesee County) and Jackson County in the state. Most of these incubators offer space at market rate, provide a small set of common services such as a loading bay, conference rooms, and shared minor equipment, such as a copier. In many respects, most of these facilities are not true incubators because they do not have a policy to graduate the firms. In short, these facilities can become permanent locations for these establishments.

The two exceptions to this finding are the Youngstown Incubator and the Green Bay Incubator. The Youngstown Incubator has been in operation since November 1995 and currently houses nine companies. The incubator is unique because:

- It is limited to businesses that are working to develop business-to-business software packages that have a product/service that has the potential for robust future growth. The company's product must be deemed to be "ready for market." Finally the owner of the enterprise must be "coachable."

- For firms that are developing business-to-business software packages but are not ready for production, the incubator maintains a "client relationship" which includes providing the firms with support services. However, the firm is not invited into the incubator until the product is ready for market. Currently the incubator has approximately 12 client firms.
- Tenants in the incubator do not pay for rent or utilities. They have access to free internet service, are provided furniture, given access to advanced computer services and equipment, offered the use of free presentation equipment and have discounted professional services available.

- The Incubator, which as a budget of $350,000 per year, is funded through the state's Department of Economic Development.

- Each tenant must develop and follow an exit strategy so that their space can be used by the other tenants.

The operator of the incubator has developed strong relationships with the region's major universities including Case-Western University in Cleveland and Carnegie-Mellon in Pittsburgh.

The Green Bay Incubator does not target any industrial sector for the use of its facility, and it charges rent. The unique feature of this incubator is that the rent increases each and every year, and the tenants are further encouraged to leave in three years. Rent starts at $9.50 per square foot and advances to $11.50 in the third quarter. The average tenure is 2.6 years. The Incubator offers two meeting rooms, copiers and fax machines. The area's Small Business Development Center and SCORE office are located in the building.

Urban Hope is a unique and seemingly successful faith-based program located in Green Bay. It couples a leadership development program with an intensive entrepreneur development training program. To enter the program, staff must first agree that the business idea is feasible. Second, the would-be entrepreneur enters a two-session credit and budgeting class which teaches basic home and business budgeting techniques. Finally, the would-be entrepreneur enters a 12-week entrepreneur development program where he/she completes a comprehensive business plan, has the opportunity to meet with successful business leaders, and obtains a good financial understanding of how to operate his/her business. The success of the program depends on its solid teaching staff.

In summary, with the exception of these programs, Saginaw County offers nearly the same set of services as are found in the other comparison counties. Either could have merit for Saginaw County. However, if an incubator is considered, it must be designed to offer more than simply a low-cost site for small businesses.

Conclusions and Recommendations

Generally speaking, the data provided in this report should be of little surprise to those familiar with Saginaw County. Typically, it is the *degree* of a given condition—for better or worse—that attracts one's attention, not the presence of a totally new problem or an out-of-the-blue success. For policy makers this can be a dilemma since data rarely point to a clear-cut solution.

The following points below summarize the conclusions of this report, based on the data contained within.

- Available statistics suggest that Saginaw County did "about as well as can be expected" during the 1990s. In other words, the comparison group of counties with similar industrial structures and demographic properties did not perform significantly better or worse in most economic measures than Saginaw County.

- Population and economic trends do not reflect a robust environment for small business growth in Saginaw County. A shrinking population and flat income levels point to a stagnant market for consumer and business services.

- Shifting age demographics in the county will be a drawback to future growth. The aging of the "baby boomer" generation combined with a loss of adults in their 20s and 30s points to a shrinking workforce and declining school enrollments in the future. Moreover, it may be cutting into the county's pool of potential entrepreneurs.

- Most small businesses serve the local market only. In Saginaw County, more than 50 percent of firms with fewer than 20 employees are in the consumer services, retail, health services or construction sectors. Most of these businesses do not have an "export base" and are completely dependent on local customers.

- An inventory of economic development programs in Saginaw County reveals about the same core mix of programs is available in similar communities of its size. These facilities are very important to maintaining the area's competitiveness but do not provide a distinct advantage over other areas. The one major development program lacking in Saginaw County is a business incubator.

Appendix

Contents

An Activity of the W.E. Upjohn Unemployment Trustee Corporation

W.E. Upjohn Institute for Employment Research

300 South Westnedge Avenue ! Kalamazoo, Michigan 49007-4686 ! U.S.A.
Telephone (269) 343-5541 ! FAX (269) 343-7310

Benchmarking Study of the Small Business Environment in Saginaw County
July 8, 2003

Selection of Comparison Counties:

A key step in the development of a regional benchmarking analysis is the careful selection of the comparison group of counties. Below is the list of 14 counties which we have selected to be included in this comparison analysis. While all of these counties share salient economic characteristics with Saginaw County, none match Saginaw County's unique characteristics completely.

Selected Comparison Counties

City	County	State	2001 Pop	% of Pop. Urbanized	% of Pop. Black or Hispanic	% of Mfg Workers	% of Food & Lodging. Workers
Saginaw	**Saginaw**	**Michigan**	**209,973**	**67.3%**	**25.0%**	**16.5%**	8.0%
		Average:	**169,629**	**70.9%**	**10.9%**	**15.9%**	**7.1%**
Battle Creek	Calhoun	Michigan	138,175	57.3%	13.8%	21.2%	7.4%
Binghamton	Broome	New York	200,243	73.8%	5.3%	13.7%	6.1%
Erie	Erie	Pennsylvania	280,699	69.3%	8.2%	19.2%	6.6%
Green Bay	Brown	Wisconsin	229,410	82.6%	5.0%	16.4%	7.2%
Jackson	Jackson	Michigan	159,826	55.5%	9.9%	14.5%	6.9%
Janesville	Rock	Wisconsin	153,468	71.0%	8.3%	20.2%	6.8%
Lima	Allen	Ohio	108,350	66.3%	13.4%	16.8%	6.2%
Mansfield	Richland	Ohio	128,171	61.8%	9.7%	21.5%	7.1%
Muncie	Delaware	Indiana	118,907	76.6%	7.7%	12.4%	7.0%
Muskegon	Muskegon	Michigan	171,166	69.4%	17.4%	17.7%	7.7%
Peoria	Peoria	Illinois	182,140	79.6%	17.9%	10.2%	7.8%
Springfield	Clark	Ohio	143,916	72.2%	9.9%	16.8%	7.0%
Terre Haute	Vigo	Indiana	105,080	75.1%	7.2%	12.9%	8.6%
Youngstown	Mahoning	Ohio	255,250	82.4%	18.3%	8.6%	7.2%

In selecting this group of comparison counties to benchmark Saginaw County's economic environment for small business development, the following constraints were used:

1. The search was first limited to counties with populations of between plus or minus 50 percent of Saginaw County's (105,000 to 315,000) and those which are located in the Great Lakes states of Illinois, Indiana, New York, Ohio, Pennsylvania and Wisconsin. Research suggests that small- to medium-sized metropolitan areas offer less robust/dynamic business environments than are found in larger cities. The search was limited to the Great Lakes states because other parts of the nation face dissimilar economic opportunities and challenges for small businesses. For example, many small businesses in the Sunbelt states depend upon the continued in-migration of retirees.

   Total count of qualifying counties: 98

2. We excluded all counties which were:
   a. Suburban counties of larger cities - Even suburban areas tied to a declining core city will enjoy, on average, stronger growth potential than smaller independent metropolitan areas.
   b. College/university-based counties – Major universities can provide unique settings that are attractive to young professionals interested in setting up their own businesses.
   c. State Capitals - State government can spawn numerous public policy consulting firms.
   d. Not in a metropolitan statistical area according to U.S Census Bureau in 1999.

   Total remaining counties: 49

3. Related to the last constraint listed above, we examined the urban settings of the potential comparison counties as well. We selected only those counties that are within plus or minus 15 percent of the Saginaw County's percentage of total population living in its urbanized areas, 67.3 percent.

   In addition, we examine the size and performance of the counties' core cities as well. A couple of possible candidates were eliminated because their core cities were too small, i.e., Benton Harbor; Portage, Indiana; and Lebanon, Pennsylvania. As shown in the following table, the average size of the core cities in the comparison counties is very similar to Saginaw's, while its average performance is slightly better.

   Total remaining counties: 36

Core City Comparison

	2000 Population	Share of County	1990 Population	Percent Change
Saginaw	**61,842**	**29.4%**	**69,512**	**-11.0%**
Average	**63,132**	**38.0%**	**66,326**	**-5.4%**
Battle Creek	53,251	38.6%	53,540	-0.5%
Binghamton	47,380	23.6%	53,008	-10.6%
Erie	103,725	36.9%	108,718	-4.6%
Green Bay	102,368	45.1%	96,466	6.1%
Jackson	36,316	22.9%	37,446	-3.0%
Janesville	31,730	20.8%	34,681	-8.5%
Lima	40,263	37.1%	45,549	-11.6%
Mansfield	41,402	32.1%	50,627	-18.2%
Muncie	67,468	56.8%	71,035	-5.0%
Muskegon	40,136	23.6%	40,283	-0.4%
Peoria	112,892	61.5%	113,504	-0.5%
Springfield	65,322	45.1%	70,487	-7.3%
Terre Haute	59,563	56.3%	57,483	3.6%
Youngstown	82,026	31.8%	95,732	-14.3%

4. Next we examined the racial composition of the potential comparison counties. This proved to be the most difficult specification to fulfill. In 2000, 25 percent of Saginaw County's population was either African-American or Hispanic. None of the other comparison counties were as diverse. We limited all counties where the combined population of African-Americans and Hispanics failed to represent at least 5 percent of total population. Notice that Green Bay barely made the cut.

   Total remaining counties: 24

5. Finally, we examined the comparison counties' industrial compositions. In particular, we attempted to pick only counties where manufacturing represents between 10 and 20 percent of the total employed workforce. In this instance, we had to expand the criteria to include Battle Creek and Janesville on the top end and Youngstown in the bottom end. Finally, we also selected counties where food and lodging services represented between 6 and 9 percent of the employed workforce.

   Total remaining counties: 14

The final step in the selection of a good comparison group is to check to see that its overall economic performance is similar, but slightly better than the targeted area. As shown below, not only do the comparison counties share many of Saginaw County key economic and social attributes, but their average employment growth during the 1990s was higher than that for Saginaw County.

Employment Growth: 1990 to 2000

	1990	2000	Percent Change
Saginaw	**107,458**	**118,689**	**10.5%**
Average	**89,294**	**100,750**	**12.5%**
Battle Creek	69,711	75,514	8.3%
Binghamton	124,486	122,772	-1.4%
Erie	146,509	165,326	12.8%
Green Bay	125,994	173,552	37.7%
Jackson	66,119	78,218	18.3%
Janesville	73,799	85,655	16.1%
Lima	65,560	73,972	12.8%
Mansfield	71,212	74,594	4.7%
Muncie	63,463	70,006	10.3%
Muskegon	70,868	83,728	18.1%
Peoria	114,394	126,693	10.8%
Springfield	65,866	73,072	10.9%
Terre Haute	60,193	64,767	7.6%
Youngstown	131,935	142,626	8.1%

Source: BEA - REIS

An Activity of the W.E. Upjohn Unemployment Trustee Corporation

W.E. Upjohn Institute for Employment Research

300 South Westnedge Avenue ! Kalamazoo, Michigan 49007-4686 ! U.S.A.
Telephone (269) 343-5541 ! FAX (269) 343-7310

Review of Selection Criteria and the Role of Racial Concentration in the Comparison Counties

July 15, 2003

George A. Erickcek
Brad R. Watts

During July's progress meeting for the Saginaw Small Business Benchmarking study, concern was raised regarding the importance of the concentration of racial minorities in the selection of comparison communities. Some participants felt that more emphasis should be placed on attempting to locate communities with levels of diversity more similar to those found in Saginaw County. One county in particular—Genesee County—was suggested repeatedly, due not only to its nearly identical racial composition but also its similar industrial background and physical proximity in the state of Michigan.

A brief analysis of all 566 counties in our seven state Great Lakes region (Illinois, Indiana, Michigan, New York, Ohio, Pennsylvania, Wisconsin) shows that few areas have racial compositions similar to Saginaw County. In fact Saginaw County's 2000 population ratio of 25.1 percent Hispanic and Black residents is above all but 14 of 566 counties. Coincidentally, when looking for counties within a "range" similar to Saginaw County, there are 14 counties within five percentage points (between roughly 20 and 30 percent Hispanic and Black).

Of these counties with similar racial concentrations, it is easy to see why most were eliminated during our initial comparison process: most are core or suburban portions of *much* larger urban areas. Places such as New York City, Milwaukee, Chicago, Detroit and Cleveland are obviously not appropriate comparisons to modestly-sized Saginaw. They face completely different difficulties and advantages directly related to a more populous and urban environment, such as thicker labor markets, increased competition, more diversified industries, and higher business costs.

The following table lists statistics for the 38 counties in the seven-state region with a 17 percent or greater ratio of Hispanic and Black/African American residents to total population. Saginaw County is highlighted, as are other areas already included in the comparison group under our original criteria.

Area description or city of note in a potential match county	County, State	Hispanic and Black alone population	Percent Hispanic and Black alone	Total 2000 Population
Chicago	Cook County, Illinois	2,462,188	45.8%	5,376,741
Detroit	Wayne County, Michigan	941,834	45.7%	2,061,162
NYC	Queens County, New York	979,436	43.9%	2,229,379
NYC	New York County, New York	652,514	42.4%	1,537,195
Gary	Lake County, Indiana	180,500	37.2%	484,564
rural	Alexander County, Illinois	3,476	36.2%	9,590
Milwaukee	Milwaukee County, Wisconsin	310,877	33.1%	940,164
rural	Pulaski County, Illinois	2,356	32.1%	7,348
East St. Louis	St. Clair County, Illinois	78,886	30.8%	256,082
Cleveland	Cuyahoga County, Ohio	426,475	30.6%	1,393,978
Chicago suburb	Kane County, Illinois	118,401	29.3%	404,119
White Plains	Westchester County, New York	269,351	29.2%	923,459
Indianapolis	Marion County, Indiana	240,006	27.9%	860,454
	Saginaw County, Michigan	52,750	25.1%	210,039
Cincinnati	Hamilton County, Ohio	206,706	24.5%	845,303
Flint	Genesee County, Michigan	98,508	22.6%	436,141
rural	Brown County, Illinois	1,530	22.0%	6,950
Toledo	Lucas County, Ohio	97,165	21.4%	455,054
Chicago suburb	Lake County, Illinois	136,296	21.2%	644,356
Dayton	Montgomery County, Ohio	117,550	21.0%	559,062
NYC	Richmond County, New York	93,254	21.0%	443,728
Harrisburg	Dauphin County, Pennsylvania	52,113	20.7%	251,798
NYC	Rockland County, New York	59,321	20.7%	286,753
Kankakee	Kankakee County, Illinois	20,901	20.1%	103,833
Columbus	Franklin County, Ohio	213,931	20.0%	1,068,978
suburban NYC	Nassau County, New York	263,142	19.7%	1,334,544
suburban NYC	Orange County, New York	65,305	19.1%	341,367
Joliet	Will County, Illinois	95,748	19.1%	502,266
Benton Harbor/St. Joe	Berrien County, Michigan	30,617	18.8%	162,453
Rochester	Monroe County, New York	137,239	18.7%	735,343
Comparison	Mahoning County, Ohio	47,910	18.6%	257,555
Racine	Racine County, Wisconsin	34,431	18.2%	188,831
Comparison	Peoria County, Illinois	33,147	18.1%	183,433
Comparison	Muskegon County, Michigan	29,972	17.6%	170,200
Rockford	Winnebago County, Illinois	48,244	17.3%	278,418
rural	Sullivan County, New York	12,736	17.2%	73,966
NYC	Suffolk County, New York	242,673	17.1%	1,419,369
rural	Johnson County, Illinois	2,189	17.0%	12,878

There are, however, a few independent, mid-sized communities that may be appropriate additions to the comparison group. These include Lake, IN (Gary); Genesee, MI (Flint); Dauphin, PA (Harrisburg); Lucas, OH (Toledo); Racine, WI (Racine); Winnebago, IL (Rockford); St. Clair, IL (E. St. Louis) and Kankakee, IL (Kankakee).

A further look at the employment and manufacturing concentrations in these counties is shown on the following table. In addition, we also list the reason why each community was originally eliminated from consideration for inclusion into the comparison group. In general, this was the result of either a population size mismatch or an external influence such as proximity to a major urban area.

Potential Candidates for the Comparison Group

County	Total Employ 2001	Manufacturing Employ 2001	Percent Manufacturing	Initial Reason for Exclusion
Saginaw, MI	116,538	19,268	16.5%	
Kankakee, IL (Kankakee)	54,530	6,459	11.8%	too small
St. Clair, IL (East St. Louis)	122,789	6,977	5.7%	suburb of St. Louis
Winnebago, IL (Rockford)	172,962	34,870	20.2%	level of urbanized pop.
Lake, IN (Gary)	243,093	32,190	13.2%	size/proximity to Chicago
Genesee, MI (Flint)	209,615	28,722	13.7%	too large
Lucas, OH (Toledo)	287,469	31,968	11.1%	too large
Dauphin, PA (Harrisburg)	211,411	16,512	7.8%	state capital
Racine, WI (Racine)	93,093	22,049	23.7%	suburb of Chicago/Milwaukee

After taking into consideration the importance of racial diversity in the benchmark selection process, it is our recommendation to:

1. Increase the number of comparison counties from 14 to 15.

2. Remove Terre Haute, IN from the list of comparison counties. Of the original 14 communities, it has the smallest population, smallest concentration of manufacturing employment, and third-smallest percentage of Black & Hispanic population—making it perhaps the weakest overall match.

3. Add Genesee County, MI (Flint) and Winnebago County, IL (Rockford) to the comparison list.

Benchmarking Study of the Small Business Environment in Saginaw County

Purpose:

To provide useful information on the strengths and weaknesses of Saginaw County's environment for small business growth, relative to similar areas in the Great Lake region.

Brief Description of Current Conditions:

Saginaw County suffered a loss in population from 1997 to 2001 which dampened its growth in per capita income. The county's lackluster performance was not shared by five similar Michigan counties, as show below. Moreover, its economic condition in 2001 (per capita income) was below the overall average of the state's metro areas.

Economic Indicators: 1997 to 2001	% Chg.in Pop.	% Change in Per Capita Income	2001 Per capita income
Saginaw	-0.7%	9.8%	$24,747
Average	**1.0%**	**12.1%**	**$25,108**
Bay County	-1.2%	14.5%	$26,771
Berrien County	-0.2%	11.7%	$25,826
Calhoun County	1.0%	7.7%	$25,367
Jackson County	2.9%	11.8%	$24,415
Muskegon County	2.4%	15.1%	$23,161
Metro	1.7%	16.7%	$31,296
Non-metro	3.3%	13.3%	$21,930

Still, despite its below-average performance, proprietors in the county did no worse than those in the comparison counties. However, it has fallen behind the average performance for all of the state's metro areas:

Nonfarm Proprietors' I	% of Total Income		Change	% Chg in
	2001	1997	in Share	Prop. Income
Saginaw	**4.3%**	**5.2%**	**0.83**	**-9.9%**
Average	**4.3%**	**5.5%**	**0.79**	**-10.0%**
Bay County	3.2%	4.0%	0.79	-11.0%
Berrien County	6.0%	6.4%	0.93	3.7%
Calhoun County	4.4%	6.3%	0.71	-23.1%
Jackson County	3.7%	6.2%	0.60	-31.4%
Muskegon County	4.2%	4.4%	0.95	11.7%
Metro	6.1%	5.5%	1.10	31.1%
Non-metro	5.9%	6.5%	0.91	6.0%

This preliminary analysis suggests that between 1997 and 2001 proprietors in Saginaw County did as well, if not better, than could be expected given its overall economic performance.

Focus Group Questions:

Today, we would like you to address the following three questions.

- **What are the key area attributes needed for small businesses to start and be successful?**

- **What are the current barriers to small business growth in the county?**

- **What are the strengths of the county to small businesses?**

You will be given a few minutes to jot down your answers on each of the questions on the paper provided (Relax, we will not be collecting your these sheets). Then, we will lead a round-table discussion and prioritize the findings.

Thanks for your participation!

Summary of Saginaw Focus Groups on Small Business
June 23-24, 2003

Over the course of two day, four focus-group meetings were held in order to understand the perspectives of small business owners, economic developers, government officials and Saginaw county residents. Three questions concerning the state of small businesses in Saginaw County were discussed:

What are the key area attributes needed for small businesses to start and be successful?

What are the current barriers to small business growth in the county?

What are considered the strengths of the county by small businesses?

The responses listed below, while not all-inclusive, represent the answers expressed repeatedly over the course of these focus group sessions. Certainly, these answers should not be taken as wholly definitive; many times did we hear dissenting voices or the same answer given as a *barrier* and as a *strength* by different participants. However, we believe that ultimately these answers represent the core attributes, barriers and strengths currently facing small businesses in Saginaw County.

Attributes of a successful small business environment

- Availability and ease of financing—willing banks
- A good "market match" to the area's income, demographics, location of demand
- Infrastructure—roads, highways, water & sewer, etc.
- Quality of life—ability to attract residents (pop & income growth)
- Community support for small businesses
- "Friendly environment" i.e. low regulations, gov't stability, source of assistance in dealing with local codes
- An appearance of success—successful small biz owners, strong community appearance
- Access to media/advertising
- Tax breaks, renaissance zones, incentives
- Area labor market—availability of skilled workers, union profile, wages

Current *barriers* to success for small businesses in Saginaw County

- Crime. The perception of Saginaw as a high crime area was thought to be even more damaging than the actual instances of criminal activity, in terms of the effect on businesses.
- A poor perception of the Saginaw area overall—low income, blight, poor quality of life, low levels of education are “felt” to be major problems in the area.
- Competition from large companies/national chains/”big box” retailers. Participants cited a lack of community support for small business, the power of large outside corporations to undercut local companies and ingrained shopping habits.
- A lack of funding sources and the loss of local banks/local decision makers.
- Declining population and low-income in the region.
- Difficulty in navigating a mix of local/state and federal regulations and codes.
- Lack of a “vision” identity, or specific plan for developing small businesses in the area.
- Supplier and service requirements of larger manufacturing firms exclude many small companies.
- A community orientation toward recruiting “big” employers and preparing students for employment and not entrepreneurship.
- Not enough incentive programs geared toward small businesses.

Current *strengths* of Saginaw County as a place for small businesses to succeed

- Local economic development efforts—Saginaw Future, Vision 20/20, SBTDC.
- Convenient transportation network—I-75, 675, Tri-city airport.
- Proximity to other major metropolitan areas: Bay City, Midland, Flint, Detroit.
- Medical care—strong regional hospitals.
- Size of the current regional population.
- Tourism and recreation opportunities—Frankenmuth, wildlife refuge, inland lakes.
- Educational opportunities—SVSU, Delta Community College.
- Business and community leaders who are dedicated, interested in Saginaw and welcoming to newcomers.
- A “critical mass” of manufacturers and other large companies who help support overall employment, income and commerce the county.
- Low cost-of-living—plenty of available land for housing and business expansion.

Benchmarking Study of the
Small Business Environment in Saginaw County:
Findings and Conclusions

George A. Erickcek
Brad R. Watts
W.E. Upjohn Institute for Employment Research
October 21, 2003

Purpose

To provide useful information on the strengths and weaknesses of Saginaw County's environment for small business growth, relative to similar counties in the Great Lakes region.

The Selection Process –
Steps in selecting the comparison group:

- Counties with a similar population: +-50%.
- Eliminate "unique" counties: State capitals, college towns, rural counties.
- Comparable "core city" to the city of Saginaw.
- Look at basic performance statistics to avoid "outliers."
- Consider the importance of other factors such as race, union profile, and industry concentration.

Benchmarking Comparison Group for Saginaw County

- Peoria, IL (Peoria)
- Winnebago, IL (Rockford)
- Delaware, IN (Muncie)
- Calhoun, MI (Battle Creek)
- Genesee, MI (Flint)
- Jackson, MI (Jackson)
- Muskegon, MI (Muskegon)
- Broome, NY (Binghamton)
- Allen, OH (Lima)
- Clark, OH (Springfield)
- Mahoning, OH (Youngstown)
- Richland, OH (Richland)
- Erie, PA (Erie)
- Brown, WI (Green Bay)
- Rock, WI (Janesville)

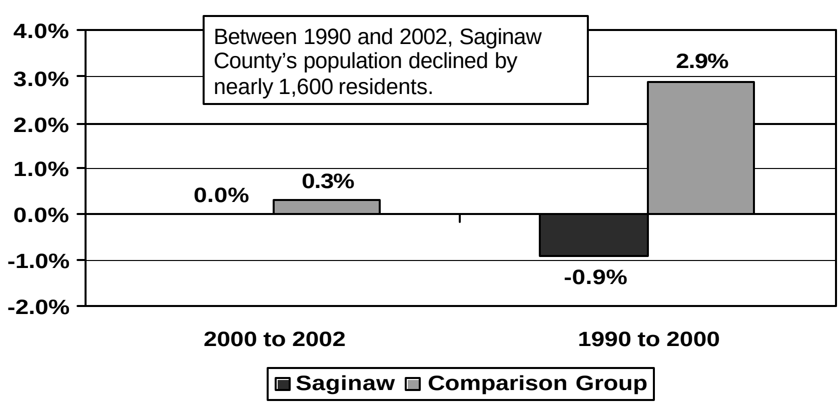
Selected Comparison Counties

General Characteristics - Population and Employment

Core City/Area Name	County Name	2002 Pop	Percent of Population nonwhite in 2000	Manufacturing Employment 2001	Total Employment 2001	Mfg as a Percent of Total
Saginaw, MI	**Saginaw**	**210,087**	**27.6%**	**19,268**	**116,538**	**16.5%**
Comparison Average		**199,703**	**15.4%**	**18,097**	**113,993**	**16.2%**
Peoria, IL	Peoria	182,362	21.5%	12,927	126,701	10.2%
Rockford, IL	Winnebago	282,627	20.7%	34,870	172,962	20.2%
Muncie, IN	Delaware	118,197	9.9%	8,616	69,619	12.4%
Battle Creek, MI	Calhoun	138,375	17.6%	15,729	74,331	21.2%
Flint, MI	Genesee	441,423	25.9%	28,722	209,615	13.7%
Jackson, MI	Jackson	160,972	12.6%	11,147	76,689	14.5%
Muskegon, MI	Muskegon	171,765	20.5%	14,429	81,683	17.7%
Binghamton, NY	Broome	200,324	9.6%	16,682	122,158	13.7%
Lima, OH	Allen	108,120	15.8%	12,081	72,057	16.8%
Springfield, OH	Clark	143,416	12.4%	11,892	70,607	16.8%
Youngstown, OH	Mahoning	253,308	20.4%	11,974	139,705	8.6%
Mansfield, OH	Richland	128,004	12.4%	15,926	74,112	21.5%
Erie, PA	Erie	280,370	10.2%	31,120	162,325	19.2%
Green Bay, WI	Brown	232,185	10.4%	28,333	173,113	16.4%
Janesville, WI	Rock	154,092	10.8%	17,014	84,220	20.2%

Population Growth

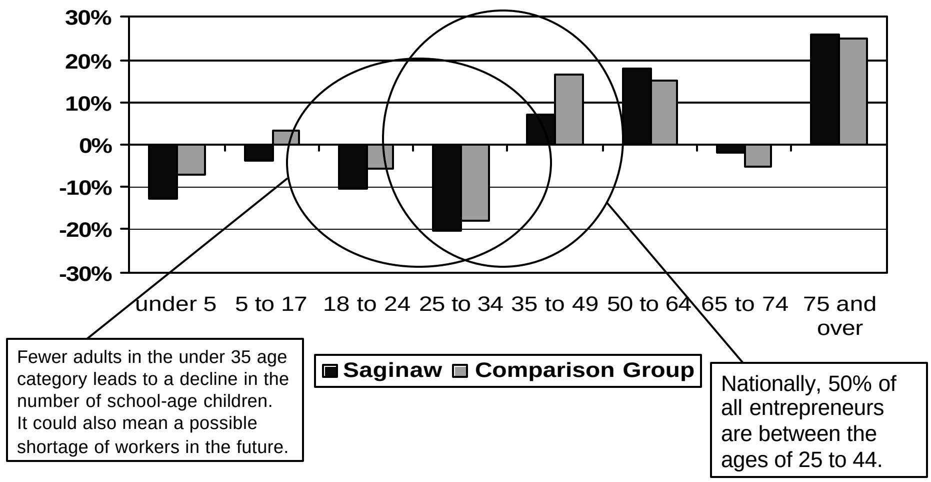
Saginaw County lost population in the 1990s, while the comparison counties grew modestly.



Source: U.S. Census Bureau

Nationwide, population rose by 13.1 percent from 90 to 00.

Population Growth by Age Cohort, 1990 to 2000



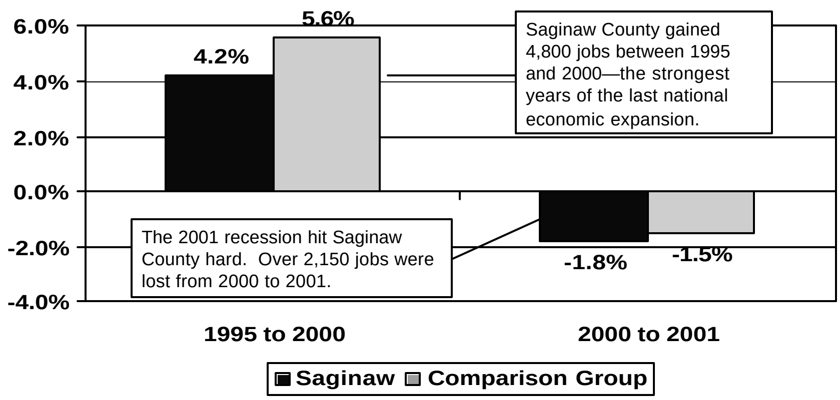
Source: U.S. Census Bureau

Population and Migration

- Population losses in Saginaw County are a result of more persons moving out of the county than moving in.
  - In the period of 1995 to 2001, Saginaw County experienced a net loss of 5,549 households and $217 million in income due solely to out-migration.
  - The average household moving out of Saginaw County earns $1,496 more than the average household moving into the county.

Employment Growth

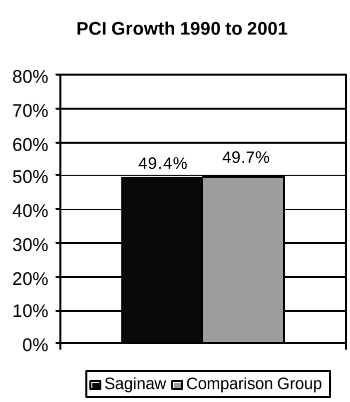
Saginaw County's employment lagged in the '90s and during the recession.



Source: BEA-REIS

Per Capita Income

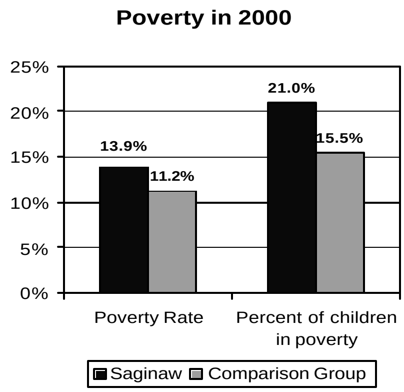
In 2001, Saginaw County's per capita income was $24,747, which was 3.7% below the comparison group average.



- Despite strong gains in manufacturing earnings, overall income growth in Saginaw County was similar to the comparison group.
- Per capita income, nationwide, was $30,413 in 2001. In the comparison group it averaged $25,700.

Source: BEA-REIS

Poverty in Saginaw County

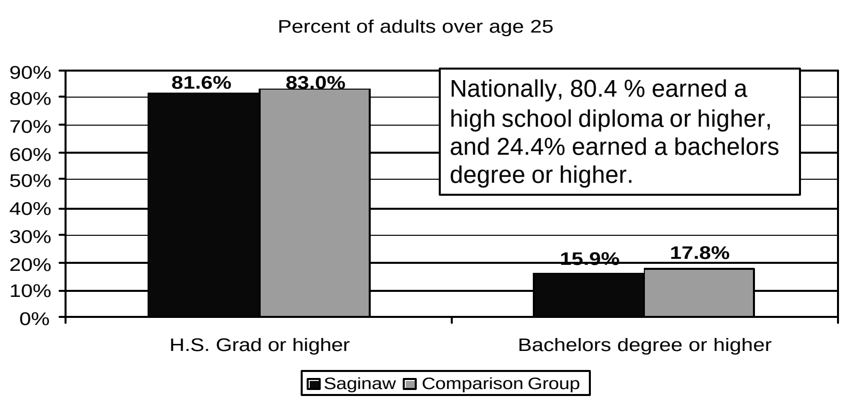


Source: U.S. Census Bureau

- Poverty is a greater problem in Saginaw County than in the comparison group.
- Poverty in Saginaw County has dropped significantly since 1990 from an overall rate of 17.2 percent for all persons and 26.3 percent of children.

Educational Attainment in 2000

Saginaw residents are slightly less educated than the comparison groups' residents.

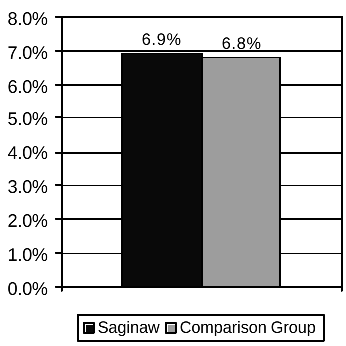


Source: U.S. Census Bureau

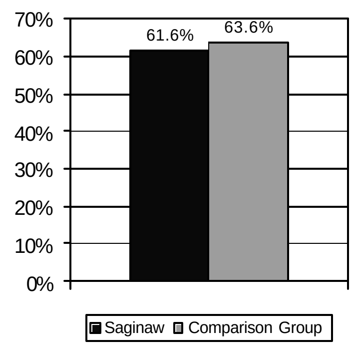
Saginaw County Labor Force

Unemployment rates are roughly equal, however Saginaw's participation rate is low.

2002 Unemployment Rate



2000 Participation Rate



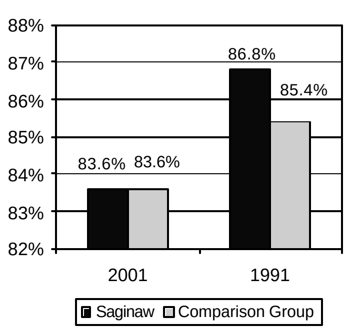
If Saginaw County had the same participation rate as the comparison group, its unemployment rate would have been 10.5%.

Source: State labor market information agencies and the U.S. Census.

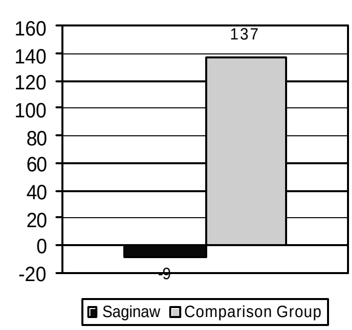
Small Business Establishments in Saginaw County

The number of small establishments has not increased in Saginaw County during the 1990s.

Percent of Businesses Under 20 Employees



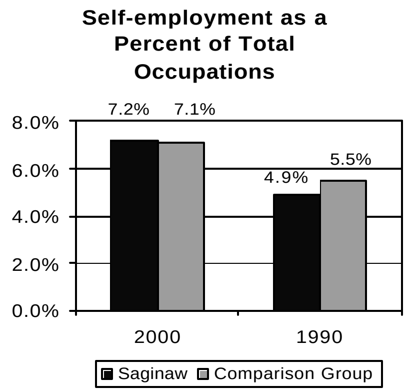
Change in the Number of Small Businesses 1991-2001



Source: County Business Patterns.

The Growth of Proprietorships and Small Businesses

- The number of self-employed grew during the 1990s in all areas.
- The ratio of entrepreneurs to other occupations in Saginaw County was about the same as the comparison group in 2000. In 1990, it was lower, 4.9 versus 5.5 percent.

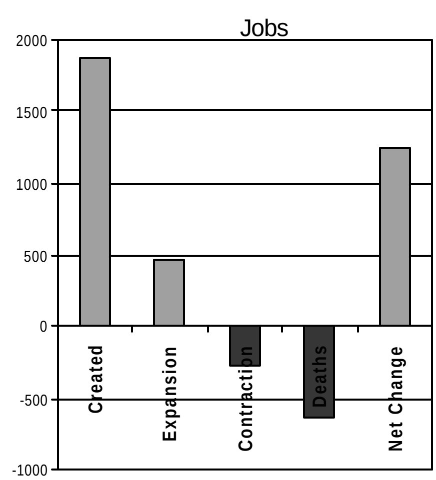


Source: U.S. Census Bureau

Small Business Performance in Saginaw County

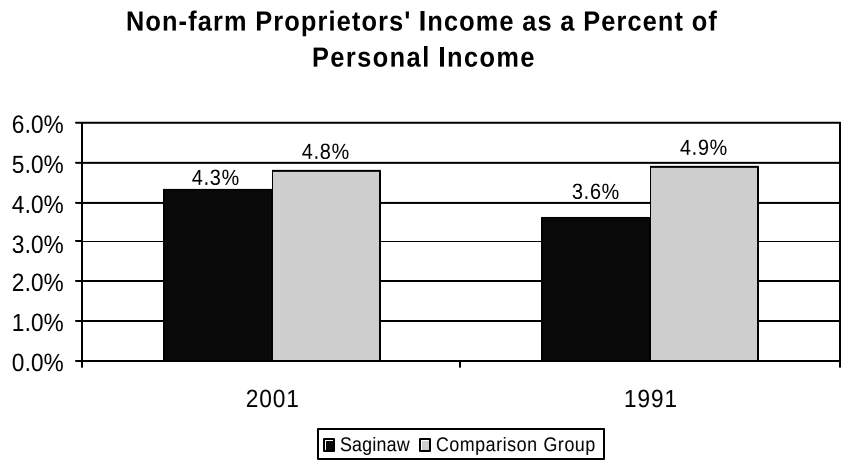
Jan-Jun,1996 to Jan-Jun, 2001

- 287 new firms started in the first six months of 1996, creating 1,874 jobs.
- By 2001, 46.3% closed, eliminating 628 jobs.
- Still, after five years, the surviving 154 firms employed 1,246 workers.
- Total employment rose by 1,842 in the period.
- High-growth industries accounting for 60% of the growth:
  - Recreation
  - Apparel stores
  - Nursing and personal care facilities
  - Prof. services



Source: MDCD ES-202

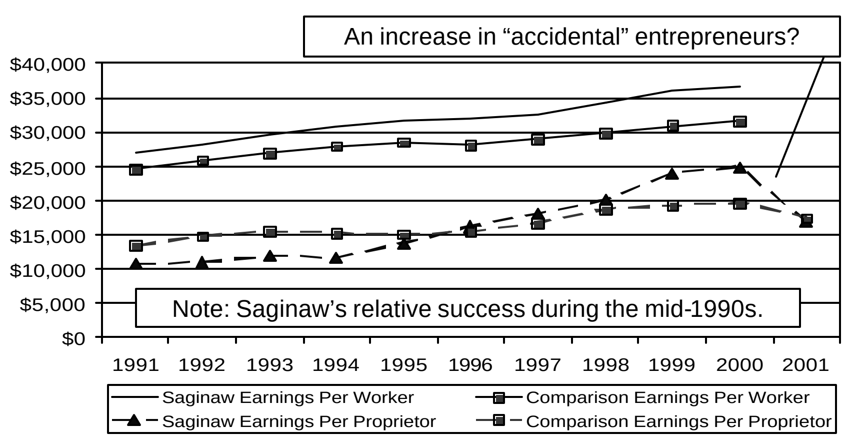
Proprietors' Income



Source: BEA-REIS

Earnings Trends 1991 to 2001

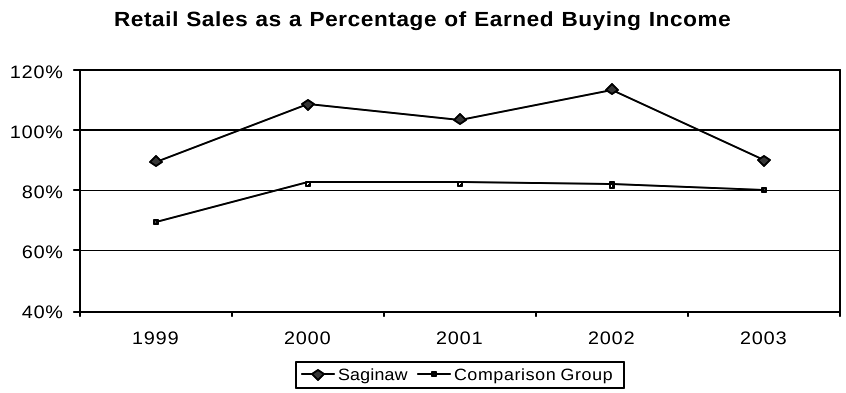
Employee Wages vs. Proprietors' Income



Source: BEA-REIS

Retail Capture Rates

Saginaw County serves as a regional shopping center and has a strong tourist draw.

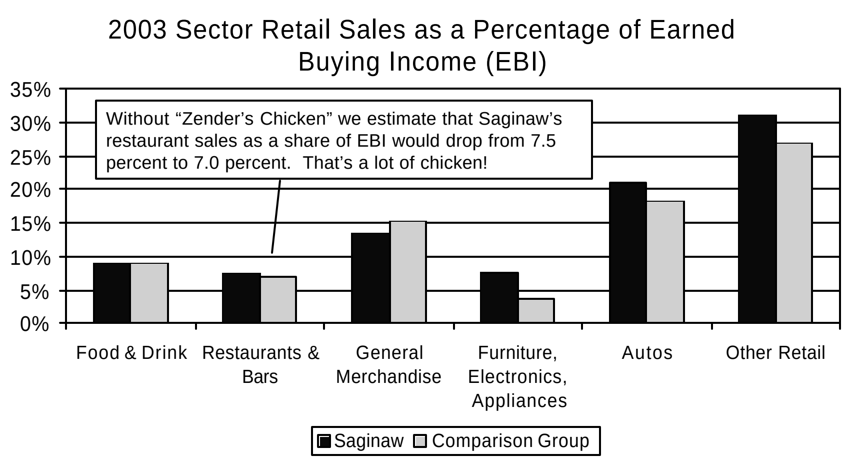


Reflects 1) the impact of the county's tourism industry and 2) that the county's retail market may be saturated.

Source: *Sales and Marketing Management Survey of Buying Power.*

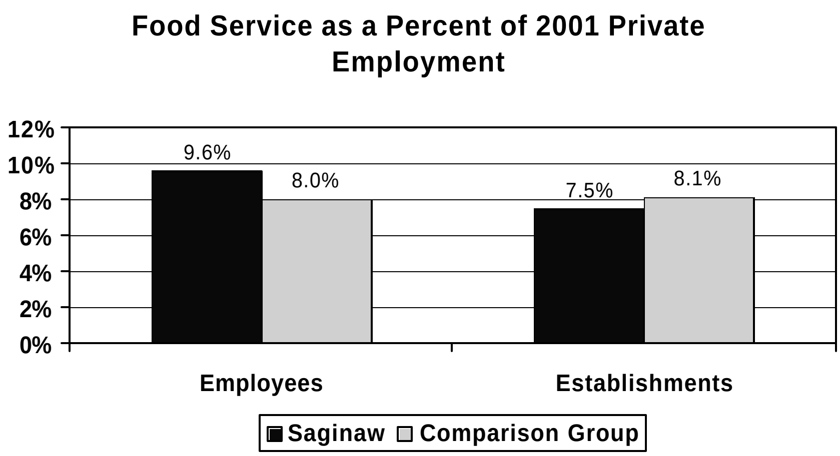
Retail Performance

Tourism and regional shopping combine to support strong retail sales in Saginaw County



Source: Sales & Marketing Management, Survey of Buying Power, 2003. Zender's Chicken estimate by the Upjohn Instutute. Based on average retail sales per food service employee and average Zender's employment of 650, as quoted on the company web site.

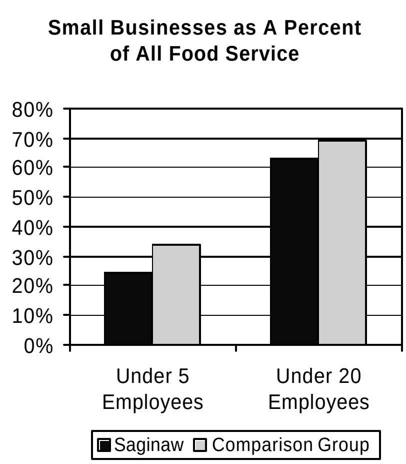
Restaurant Strength in Saginaw County



Source: County Business Patterns, 2001.

Large and Midsize Businesses Dominate the Eating and Drinking Sector in Saginaw.

- Small operators may face several challenges in Saginaw:
  - Below-average disposable income growth.
  - "Chain" competitors.
  - Lack of a dining cluster, i.e. downtown lunch crowd, an entertainment district.
- The largest food service operations are tourism focused. Saginaw's local market is not overly saturated, but about average.



Source: 2001 County Business Patterns

Findings

- General economic and demographic trends and conditions in Saginaw County do not create a robust environment for small business growth.
  - Slow growth reflects stagnant markets for local consumer and business services.
  - Changing age structure of the county's population is a drawback, both on the supply side and demand side (quality of life concerns).

Findings (continue)

- Available statistics suggest that the county is doing "about as well as expected."
- Saginaw County offers the same core set of programs available elsewhere.
- The small business environment of Saginaw is hindered by the area's lack of population and income growth.

Findings (continue)

- Most small businesses serve their local market.
  - In Saginaw County, more than 50 percent of small business employing 20 or fewer workers are in retail, health, consumer services, and construction.

Benchmarking Study of the
Small Business Environment in Saginaw County:
Tentative Findings and Conclusions

George A. Erickcek
Brad R. Watts
W.E. Upjohn Institute for Employment Research
October 21, 2003