Economic Development Targeting:

Laying a Sound Foundation for Your Strategy Plan

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It's a rare day when economic developers aren't thinking about ways to facilitate economic growth in their areas. Even successful areas are not guaranteed perpetual economic health – not amidst the forces of globalization, intraregional shifts of industries within the U.S., or the inevitable life cycle exhibited by specific business activities.

Successful economic development targeting is about prospectively spotting where the best opportunities exist to accomplish your area's particular economic development objective. How you think about the process of targeting growth affects your analysis of target industries. Both are pivotal factors in all subsequent economic development efforts to meet your objectives.

Targeting growth along a path

There are five economic conditions in which strategic targeting may be particularly useful. In each type of situation, the nature of the economic performance problem and potential corrective policy actions may differ. These situations are:

- High unemployment and low wages;
- Seasonal fluctuations in employment;
- Isolation and lack of local opportunities;
- Over-dependence on a particular industry or a few large employers; and
- Competition for business locations.

What all successful targeting efforts have in common is that they build upon local assets. Combining an inventory of those assets with an understanding of the area's economic performance and competitive characteristics are the initial analysis steps to formulating an economic development strategy.

Figure 1. Growth Paths for Economic Development

Economic growth or transition for an area can occur along one path, possibly more. The key step in the targeting analysis process is *making an informed decision about the growth orientation that is appropriate for your area.* This process is represented in Figure 1. It basically requires the planner to consider what markets are feasible (or could be feasible) given the diagnosis of local economic conditions. Is it tourism development, possibly retirement destination development, or niche manufacturing? Could the area serve the demand of neighboring counties for additional types of services, or could it be a strategic location in an evolving supply-chain?

These paths are briefly defined as:

- *Trade-center economy* – community grows by serving as the nucleus of goods and services for accessible outlying areas with sparse economic activity and limited market access, due to topography or the transportation network.
- *Agglomeration economy* – commonly known as cluster formation.
- *Learning-based economy* – community leverages its educational institutions, community development organizations and business associations to promote human capital development and foster innovation and entrepreneurial development.
- *Asset-based economy* – community develops from its endowed assets, e.g., natural, scenic, historic, cultural, recreational or climatic resources.
- *Supply-chain economy* – community develops as a functional node (e.g. warehousing, assembly, manufacturing, logistics) in a larger chain of economic activity, typically extending across several states.

In the past three decades, the core analysis procedures have been repackaged under the newer techniques (economic base analysis, SWOT analysis, economic cluster mapping). A recent article published in *Economic Development Journal* discussed how location quotients and shift share techniques – the core of economic base analysis back in the 1970s – are still a critical foundation of the more recently promoted concept of industry cluster analysis.[1]

New considerations in target analysis

Understanding your area's current employment composition, as well as the growth performance of each sector relative to U.S. industry movements, are integral aspects to assessing your economy. Diagnosing the relative competitiveness of your region in the context of specific industries for retention or attraction activities requires bringing more data into the assessment. There is now a strong consensus on the key business location factors, which represent local competitiveness factors for economic developers. Those factors are shown in Table 1.

Table 1. Business Site Location Factors[2]

- Suitability of business parks, land and buildings
- Scale and skills of the labor market/workforce
- Scale and socioeconomic characteristics of the consumer base
- Availability and quality of infrastructure – roads, power, water/sewer, broadband telecom, inter-modal transportation terminals and connections
- Access to markets, as well as to airports, marine ports and intermodal rail terminals
- Business support services and business climate – job training, regulations, business organizations
- Quality of life – including climate, arts and culture, recreation, and school quality
- Cost of doing business – including labor, utilities, infrastructure and taxes

A notable characteristic of this list is that many of the factors relate to availability, quality and scale of local resources, in addition to the cost of living and cost of doing business locally. While early economic models attempted to evaluate business attractiveness based primarily on cost differences, it is now widely recognized by economic developers that availability, quality and scale factors are equally important site location factors. These same factors are important in re-evaluating whether the growth orientation of your area is working.

Therefore, a successful economic development strategy must first determine the nature of the above factors in its own community relative to other competitor communities, and improve non-competitive factors to the extent possible. Once competitive factors have been determined and shortcomings have been improved upon, a marketing campaign can be targeted to inform the relevant business and investment interests about local advantages.

The components of assembling an economic base analysis for your area and for comparison areas – combined with evaluating relative competitiveness attributes and diagnosing which of your area's attributes are obstacles to growth but fixable – may be out of reach for agency staff in smaller jurisdictions. New analysis tools, such as the Local Economic Assessment Package (LEAP), are now available to make the evaluation of these additional considerations possible. Pioneered by the Appalachian Regional Commission, LEAP coordinates many of the otherwise time-consuming techniques in the economic development process to produce a target list of appropriate opportunities for economic growth and business attraction.[3]

The right knowledge

Defining and implementing a successful targeting strategy plan must start from a realistic self-evaluation and decision-making process. The process must first identify a suitable growth orientation (path) for your area and then set priorities that cater to the area's strengths. Knowing your local economic conditions is the first step to solidly articulating what is working well in your area, what could be growing better, and what are the barriers to growth that policy intervention can alleviate. An analysis that assists in answering these questions should build from core techniques that persist in the regional economics field, and evolve to also identify the influence of your area's relative cost factors, market access conditions, and the quality of infrastructure and workforce on business growth prospects. ★★★

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[1] *Heike Mayer, "Cluster Monitor," Economic Development Journal, Fall 2005, p. 45.*

[2] *These same factors are cited in numerous sources on business location decisions, including: (1) Sloagett, Gordon and Mike Woods. "Critical Factors in Attracting New Business and Industry in Oklahoma." Oklahoma Cooperative Extension Service; (2) Kotler, Philip et al. Marketing Places. The Free Press, 1993; (3) Lyne, Jack, "Quality of Life Factors Dominate Many Facility Location Decisions," Site Selection Handbook, August 1988; (4) Finkle, Jeffrey. "Developing Strategies for Economic Stability and Growth", National Council for Urban Economic Development, 1987; and (5) Portland 2002: Strategy for Economic Vitality, Appendix 2-3: "Location Factors," 2002. For quality of life, also see (6) Segedy, James. "How Important is Quality of Life in Location Decisions and Local Economic Development" in R. Bingham and R. Mier (Eds.) Dilemmas of Urban Economic Development, Thousand Oaks, Sage.*

[3] *EDR-LEAP is now available in a web-based version. For more information, see www.edrgroup.com/leap*