

B3

R E P O R T



Arizona Association for
Economic Development

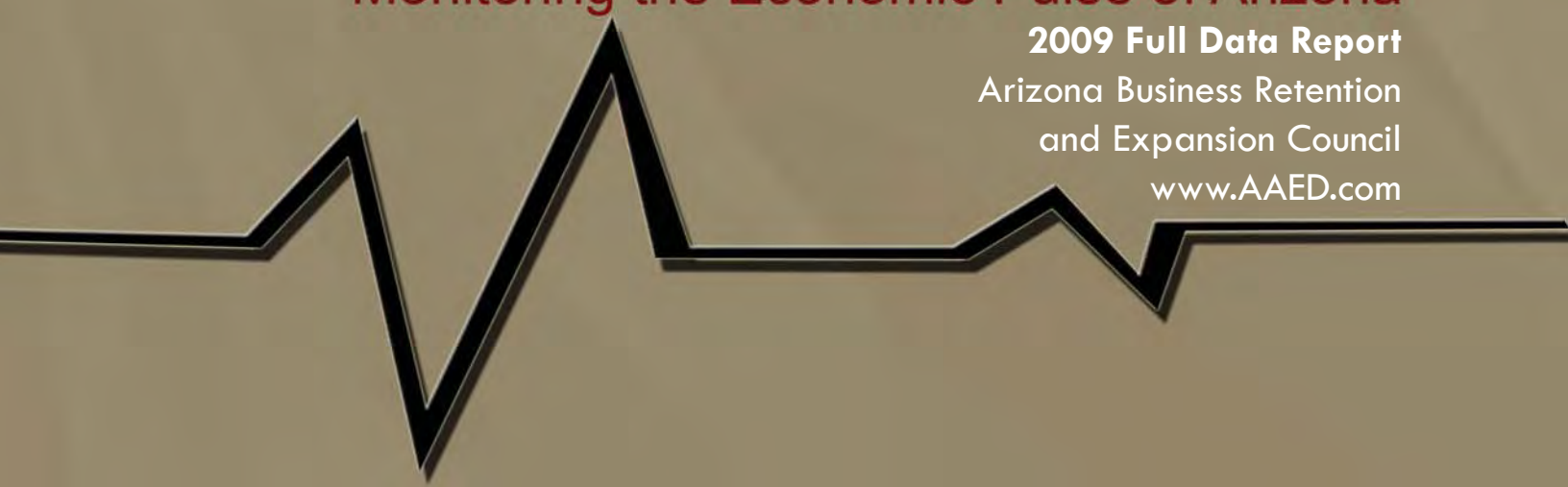
Monitoring the Economic Pulse of Arizona

2009 Full Data Report

Arizona Business Retention

and Expansion Council

www.AAED.com



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INTRODUCTION

Business Retention and Expansion (BRE) activities are a core component of economic development programs throughout the country. They focus on assisting existing companies to keep core businesses and the jobs they represent from relocating outside the community, help them survive economic difficulties, and aid with expansions that add new jobs to the economic base. It has been said that successful state and local BRE programs will lead the way to economic recovery.

The importance of existing businesses to a local economy's portfolio, while often overlooked, is impressive. According to Eric P. Canada, a leading authority on existing business strategies and business retention, "the average community will derive 76% of their new jobs and capital investment from existing business. Business attraction will contribute 15%, and entrepreneurship will deliver the balance of the new jobs and capital investment, about 9%. In a rural area, the contribution of existing businesses is likely to be 86 - 90% because both business attraction and entrepreneurship will contribute less."¹

One key component of BRE programs is the capture of information via periodic surveys and interviews of corporate leaders. These surveys typically assess industrial, physical, locational, financial, technological, and workforce situations

of existing individual companies. They also provide a method for identifying at-risk companies with early warning or "red flag" indicators so that specific action can be taken to overcome layoffs, shutdowns, and relocations. Effective BRE programs provide an up-to-date picture of the local economy by collecting data on competitive strengths and weaknesses of the local area as a business location and the relative strength of the local economy.

However, BRE programs are not simply data-collection activities. Critical components of retention and expansion efforts include relationship-building with business executives and identification and implementation of methods in which to aid in their survival and success.

Community BRE programs typically involve public and private partnerships between business leadership, community leadership, volunteers, and economic development agencies. They identify areas of interest and concern that can influence public policy to improve the

local business climate relative to labor markets, regulatory issues, access to capital, and speculative building or industrial park development. This is critical as the relocation or closing of base industry impacts Arizona's communities by eliminating jobs, reducing the local tax base, lowering surrounding

The importance of existing businesses to a local economy's portfolio, while often overlooked, is impressive.

property values, contributing to blight or decline, and lowering the community's image.

Analysis of BRE surveys and interviews allow economic development practitioners to develop strategic plans with realistic and actionable objectives, leverage strengths to capitalize on best opportunities available to the community, and address weaknesses that could pose major threats to the community's ability to retain/expand the existing employment base. The resulting plans can refocus and reenergize the community's economic development goals and objectives, thereby strengthening the general economy.

BRE efforts could not be more important than under the current economic climate. During the booming housing economy, new companies were recruited and attracted to communities to support the influx of new residents moving to Arizona. According to the Arizona Department of Commerce, in the past four fiscal years (2005-2008) 168 new target industry businesses known or assisted by them located or expanded in Arizona, bringing in \$3.27 billion in capital investment and nearly 35,000 jobs. Since the housing market has slowed down, so has the new investment. In 2009, only 15 new company location or expansions have been announced resulting in an anticipated \$1.29 billion capital investment and 1,889 jobs. Actual investment figures are larger due to additional efforts statewide independent of ADOC involvement, however, the trend is clear. A focus on helping our existing businesses grow and preventing them from relocating is critical to our economic stability.

With these basics in mind and through the leadership of the Arizona Association for Economic Development (AAED), Arizona Public Service (APS), Arizona Department of Commerce (ADOC), and Arizona Business Retention/Expansion Council (ABREC), 25 communities from across the State

of Arizona interviewed companies representing the industrial/manufacturing sectors in a spirit of collaboration and single-minded purpose to create this consolidated report. Throughout this document,

the report will be referred to as the "B3" analysis or report, referencing Arizona Public Service's Building Bridges to Businesses program. It is anticipated that the data collected can help formulate public policy to encourage the growth of a sustainable economic environment in Arizona. This first statewide

effort sets the stage for future collaboration over vast range of issues that affect our common communities. Participation in the statewide business retention and expansion interviews included economic development professionals and businesses from Camp Verde, Chino Valley, Cornville, Cottonwood, Flagstaff, Gilbert, Glendale, Goodyear, Maricopa, Mesa, Page, Peoria, Phoenix, Prescott, Prescott Valley, San Luis, Scottsdale, Sedona, Show Low, Snowflake, Surprise, Taylor, Williams, Yucca and Yuma.

Data in this report was gathered through conducting interviews with local business leaders using survey instruments, methodology, and interview record keeping on the Synchronist® Business Retention Tool. Synchronist is web based proprietary software, the use of which, by sub-license agreement, was granted to Arizona Public Service.

*¹Based on research by Blane, Canada Ltd., **Eric P. Canada** is the leading authority on existing business strategies and business retention. His extensive body of work has changed the way economic development organizations manage their relationships with the companies in their economic portfolio. Mr. Canada is a partner in Blane, Canada, Ltd.*

BRE efforts could not be more important than under the current economic climate.

METHODOLOGY

State analysis of the Building Bridges to Business (B3) data set was accomplished by using the SPSS (Statistical Package for Social Sciences) to perform basic analysis of the 518 unique cases in the dataset. The purpose of the analysis is to provide an overall snapshot of the B3 data for the state. No individual companies are identified in the analysis to provide anonymity. The state is the overall framework for analysis and it is the purpose of this specific analysis to produce a single point in time (snapshot) of businesses that participated in the B3 data collection process. The report will cover five specific topic areas that are relevant to business

development in Arizona. The sections are: General business descriptions; Growth indicators; Business changes; Business climate; and Workforce issues. The analysis will address the status of businesses in the state with respect to available information that is drawn from the surveys. Analysis is complete to the extent that data is complete in the available data set. The analysis will comprise both tables, narrative and charts as appropriate. All analysis in this document is based solely on the B3 data supplied by Arizona Public Service Company, which was collected and entered into the e-Synchronist system by communities around Arizona in 2007 and 2008.



EXECUTIVE SUMMARY

The data included and analyzed in this report represents a snapshot in time of the status, makeup, and perceptions of the business community identified through interviews conducted in 2007 and 2008. A total of 581 different data sets were collected by representatives in 25 different communities across the state, using a common survey tool. Data sets analyzed in this report were broken into groups including general business descriptions, growth indicators, business changes, business climate, and workforce. Each of these groups represents an area of insight that should be considered in terms of possible “red-flag” indicators for at-risk companies or industry sectors, or for potential expansion opportunities – in either case, companies that may be in need of some type of assistance.

General Business Descriptions

Advanced manufacturing, building and construction, retail distribution operations, consumer goods producers, and industrial goods account for approximately half of the sectors sampled. The average age of the companies interviewed was 26 years old, with a median of 14. Almost one-fourth (22.7%) of all companies in the



analysis are only one year old, whereas, one fourth of all businesses (25.3%) are between 21 and 50 years old. The average company in the B3 analysis has been in the community 19 years. This may indicate that not all businesses started in Arizona but that they located in the state fairly soon after formation.

Growth Indicators

Growth indicators are important data sets as they can help explain how Arizona businesses have fared and whether in general the State’s industrial employers are growing or shrinking in terms of

market share. In terms of total sales, a majority (55.2%) saw an increase, while a further 28.1 percent remained stable and 13.9 percent decreased. Overall total sales in 2007 and 2008 appeared to be trending upward. The greatest sales increases by sector were found in Advanced Manufacturing (13.3%), Building & Construction (10.1%), Consumer Goods (9.8%), Industrial Goods (8.7%) and Aeronautics and Defense and Retail Related (6.3%) respectively. While market share increased at a slightly slower rate than total sales, as of the survey dates it was still growing at a healthy 52.5 percent. A further 30.1 percent of businesses indicated that their market share was stable while 5.6 percent indicated that it was in decline. What business sectors are showing an increase in their market share? The greatest increase in market share was once again found in Advanced Manufacturing (12.9%), followed by Building and Construction (11.4%), Industrial Goods (9.2%) and Consumer Goods Producers (8.8%). Aeronautics and Defense fell from 4th spot in sales increase to 8th spot in market share increase.

Export sales are vitally important as export industries sell their goods and services outside of their respective communities and the state, increasing local wealth by drawing in outside capital. However, only 29.7 percent of all businesses surveyed indicated that they have export sales. Of those with export sales, half reported a recent

Export sales are vitally important as export industries sell their goods and services outside of their respective communities and the state, increasing local wealth by drawing in outside capital.

increase in these sales types and 46.1 percent indicated that export sales were stable. Businesses that are seeing the greatest increase in their export sales are found in Consumer Goods Producers, Advanced Manufacturing, Industrial Goods, and Aeronautics and Defense sectors. Only 8.8 percent of all businesses indicated that they imported products and/or components.

Investment in research and development (R&D) is a commonly analyzed indicator of business health. As a percentage of sales, slightly more than one-third of Arizona companies surveyed were investing no money on R&D, and 45 percent had at least some R&D costs. The Advanced Manufacturing sector (17.6%) spent the most on R&D, followed by Technology and Information (10.8%) and Industrial Goods (8.1%). Almost half spent between 31 and 50% of

their R&D budget on new product development, and more than a third spent between 31 and 40%. The largest single group (34.8%) spent between 31 and 40% of their R&D budget on improving their production methods. Advanced manufacturing (23.2%) leads all other sectors in businesses that have 50 percent or more of their R&D budgets in new product development, followed by Consumer Goods Production (14.5%).

Business Changes

Tracking business changes within companies can

provide insight as to the structural and operational changes that could affect a company's long-term survival. Of exciting note, a majority (58.1%) of all companies surveyed reported plans to expand in the next three years. Due to the timeframe of these responses and changes in economic conditions over the past 12 months, it will be important to monitor and revisit those companies to determine the status of their expansion plans. Changes in ownership and management may have an effect on a business. A relatively small number of companies, 13.9 percent of those surveyed, have experienced a change or are going to change ownership in the near future, and only 12.1 percent have had a change in top management in the last 18 months, both indicators of stability. However, looming on the horizon was the fact that mergers, acquisitions and divestitures were increasing in the industries of a third of the businesses, specifically in the Consumer Goods Producers (13.5%) and Building and Construction (11.8%) sectors.

Business Climate

Community strengths are factors specific to a local area that and can be used to encourage business growth and expand the tax base. Questions collected open-ended responses, however, when categorized it was found that Location (24.4%) was the most important factor when considering community strengths. The next community strength was that the Business Climate was Positive (12.2%). Just as strengths are important

Just as strengths are important so are weaknesses, and whether real or perceived they can be a drain on a community's ability to retain a business.

so are weaknesses, and whether real or perceived they can be a drain on a community's ability to retain a business. Most frequently mentioned as weaknesses included but were not limited to: the cost of land, the cost of building, poor location vis-à-vis interstate, perceived impacts of a greater interest in environmental politics, taxation and local government. While many of these strengths are specific to local areas rather than directly representative of the state as a whole, this cumulative data still provides a good indicator of overall perceptions.

Barriers to growth can be complex issues to address for business retention and expansion purposes, such as taxation and zoning laws or relatively simple issues such as the lack of recreation facilities in a community. Most frequently reported issues included: lack of available and affordable housing for workers, unfavorable political climate, land and building costs, hostile city governments, health costs and zoning limitations. When asked how local economic development organizations can facilitate business growth, leading responses included transportation and rail enhancement, workforce attraction, business development services, workforce training, and financial assistance.

Workforce Attraction: Most citing workforce attraction issues mentioned that they have trouble with recruitment and/or retention of workers. Besides general problems with recruitment, numerous responders mentioned similar skills

that are lacking in their local areas, such as skilled laborers, medically-focused professionals, bilingual assistants, and engineers.

Business Development Services: These weighted heavily toward training and assistance in marketing, with web design and business planning also mentioned repeatedly. This suggests that markets are changing and many companies are experiencing difficulty staying ahead of these changes.

Business Planning: Another area where assistance was requested, this also hints at awareness of changing markets that will require permanent changes in the way businesses are structured.

Workforce Training: 12 percent of respondents indicated a desire for workforce training assistance through grants and interest-free loans. There were also calls for training for CNC machinists, ADOC job training grants, English as a Second Language training, safety training, computer training, and increasing labor skills.

Finance Assistance: More information was often requested on Enterprise Zones and also an increase in number and size of areas designated. Survey comments demonstrated that there is a lack of awareness of what is available for business assistance. Other finance issues that responders were interested in included accounting help, debt relief, loan refinancing help, tax abatement and incentives, and new credit lines.

Regulation Concerns: Local regulation issues, are areas where organizations see an opportunity for local government to assist in business growth and expansion, focused on taxation (overbearing

property taxes), planning and zoning issues (slow turnaround times by officials) and disappointment with fees that they feel are continuously increased with little justification.



Workforce

Workforce is often a limiting factor in business development and retention. The lack of a skilled workforce has at times resulted in the loss of a business to relocation outside of the local community or even state. Businesses were asked to rate the availability, quality and stability of workers in their area. When evaluating the overall workforce, businesses rated the availability and quality of workforce just above the middle of the scale. This indicates that businesses are ambivalent about the availability and quality of the workforce in the area, rating both aspects neither high nor low.

Almost half (47.5%) of companies indicate that they are having difficulty recruiting for specific skills. The inability to recruit viable candidates can have an impact on the retention of industries or may cause a business to move to a community where the available, trained workforce is. At the

community level, Consumer Goods Producers (12.4%), Building and Construction (10.1%) and Advanced Manufacturing (10.1%) have experienced the greatest recruiting problems. At the industry level, Building and Construction (15.6%), Advanced Manufacturing (14.9%) and Aeronautics and Defense (7.1%) have the greatest challenges. Only slightly more than one-third of employers are increasing employee training. Advanced Manufacturing leads the identified industry sectors in increasing employee training, is closely followed by Building and Construction and Consumer Goods Producers. A surprising 65.7 percent of businesses spend between 21 and 50% of their training budget on proficiency training for their employees and nearly half of businesses with a training budget spend between 21 and 40% on remedial skill training.



Recommendations

As a result of the data collected and trends identified in this report, a number of opportunities for statewide as well as local initiatives have been identified by members of the Arizona Business Retention and Expansion Council (ABREC). Recommendations

made in this report, if implemented, are anticipated to increase the health of Arizona's economy, therefore providing a long-term value proposition for AAED, its member communities, partners, and the greater state of Arizona.

Statewide Initiatives

A basic but often overlooked strategy recommended for the enhancement of economic growth statewide includes a focused effort on removing barriers to growth, and developing tools to aid in the retention of existing businesses. Based on the data gathered in this report, ABREC recommends the following actions:

- Many businesses reported a lack of knowledge of existing assistance programs. The Arizona Department of Commerce (ADOC) should host a training session with economic development practitioners to expand upon the statewide programs available by the first quarter of 2010, and also host a session for businesses in multiple Arizona regions to inform companies about the incentive programs available.
- Businesses requested more information on Enterprise Zones and potentially expanded locations and incentives. This program should be analyzed by the Department of Commerce in partnership with regional economic development policy planning organizations across the state to ensure businesses across the state are receiving benefits from being located in the zones; ensure AZ has the most competitive statewide program by proposing and taking measurable steps for program revisions.

- Almost half of companies indicated that they are having difficulty recruiting for specific skills.

Entities such as the Arizona Workforce Connection and related organizations with similar offerings should strive to assist 25% more local businesses with the recruitment of a skilled workforce. AAED and ADOC should partner to produce a statewide labor force analysis in 2010 with participation and funding from communities across Arizona. Private and public higher education institutions and high schools should target their program offerings to help develop a more skilled workforce, based off the feedback on the deficiencies in the workforce pool.

Suggestions for Local Efforts

Local communities can use this report and the data included to work with their local officials to express the importance of BRE, and create support for development or enhancement of related programming:

- A majority of all companies surveyed reported plans to expand in the next three years. Local representatives must work to assist and encourage expansion within Arizona to prevent relocations out of state upon expansion, and also to determine what percentage of those with plans to expand were able to execute.
- ADOC, AAED, and Arizona Public Service should promote business retention and expansion statewide, presenting to Mayors and Councils in concert with local practitioners about the importance of

a Business Retention and Expansion Program either in individual groups or at events such as the League of Arizona Cities and Towns Annual Conference. This initiative should include obtaining an executed agreement for the creation of such programs from at least 80% of Arizona communities by the end of 2010.

- If not in existence, establish a local BRE program and invest in staff and volunteer training as necessary, specifically on skills related to “red-flag” analysis and business assistance resources.
- Streamline business development services and regulations to create a more business-friendly and proactive climate.

Arizona Association for Economic Development's Role

AAED has the opportunity to utilize this information in growing its leadership role as “the leading advocate for responsible economic development for all for Arizona,” by creating an outreach program that includes solutions for issues. ABREC recommends the following actions be taken over the next 12-18 months by AAED as a result of this report:

- Encourage the utilization of this data to enhance the efforts of complementary committees in AAED, including but not limited to Workforce, Governmental Affairs, Professional Education, and Rural committees. A deliverable should be the coordination of a strategy for producing

quarterly seminars/workshops on topics of importance to industry sectors as identified in this report.

- Utilize communications tools such as the AAED Website as a portal for business resource information and encourage social media use such as LinkedIn for business sector forums and discussions on issues/ challenges related to local industry.
- AAED should lead in the development of a program aimed at providing business leaders across the state with a method in which to communicate their needs directly to elected officials as they pertain to economic development.
- This report should be reviewed and updated annually comparing year-to-year data to help identify red flags and opportunities to enhance business retention that can be addressed on a statewide level, and expand its future scope to conduct additional research on workforce issues.

DATA SETS

General Business Descriptions

Industry Sectors:

B3 respondents in the sample come from a wide variety of business sectors. Of the businesses with identifiable sectors, advanced manufacturing (11.7%), building and construction (11.1%),

consumer goods producers (11%), retail related operations (10.2%), durable goods producers (7.5%) and industrial goods (7.5%) account for over half of all identified sectors.

Business Sectors	Count	%
Advanced Manufacturing	61	12%
Building and Construction	57	11%
Consumer Goods Producer	57	11%
Retail Related Operations	53	10%
Durable Goods Producer	39	8%
Industrial Goods	39	8%
Technology/Information	27	5%
Aeronautics and Defense	25	5%
Consumer Services	23	4%
Health Care and Pharmaceuticals	21	4%
High End Business Services	19	4%
Agriculture, Forestry, Minerals	16	3%
Energy and Energy Utilities	12	2%
Services	12	2%
Transportation	12	2%
Communications	11	2%
Finance, Insurance & Real Estate	11	2%
Other	9	2%
Utilities	5	1%
Convention/Tourism	3	1%
Financial Services	2	0%
Government	2	0%
Undetermined	2	0%
	518	100%

Type of Facility

Businesses that participated in the B3 survey were asked to identify what type of facility they occupied. Choices in the survey were limited to headquarters, division, office operation, branch plant, distribution/warehouse and manufacturing. Businesses could choose multiple facility types, therefore, the table does not sum to 100 percent. The majority (62.2%) of all businesses were also the headquarters for the company, followed by a further one-fourth (27.5%) of businesses that identified themselves as office operations. Manufacturing centers also accounted for a further 25.5% of the sample.

Fourteen percent of headquarters were also office operations while 8 percent of all office operations are also distribution/warehouse centers.

Location:

Where are the companies in the B3 analysis headquartered? We know from the analysis that 62.2 percent of the sample indicated that they were the headquarters for the business. Nearly a third (25.5%) of the sample also indicated that their facility was primarily a manufacturing facility, potentially implying that they were not headquartered in the state. The data, unfortunately, do not identify where the headquarters of a business is located out of state.

The following table indicates the business sectors of those companies that indicated that they were also headquarters. Building and construction (14%) and advanced manufacturing (13%) along with consumer goods producers (13%) account for a majority of the companies headquartered in the state.

Type of Facility	Count	%
Headquarters	278	39%
Office Operation	123	17%
Manufacturing	114	16%
Division	72	10%
Distribution/Warehouse	65	9%
Branch Plant	56	8%
Total	708	100%

Business Sectors with Headquarters	Count	%
Building and Construction	38	14%
Advanced Manufacturing	35	13%
Consumer Goods Producer	35	13%
Retail Related Operations	24	9%
Durable Goods Producer	19	7%
Consumer Services	17	6%
Industrial Goods	17	6%
Technology/Information	16	6%
Aeronautics and Defense	14	5%
Health Care and Pharmaceuticals	13	5%
High End Business Services	12	4%
Agriculture, Forestry, Minerals	11	4%
Services	9	3%
Transportation	5	2%
Energy and Energy Utilities	4	1%
Communications	3	1%
Finance, Insurance & Real Estate	3	1%
Other	3	1%
Convention/Tourism	0	0%
Total	278	100%

Finally, those companies who manufacture or produce goods and services and are not headquartered in the state account for 22.0 percent of all businesses in the database. The business sectors that these companies represent are found in the table below. The list does not contain those operations that include warehousing/distribution, office operations or branch plants.

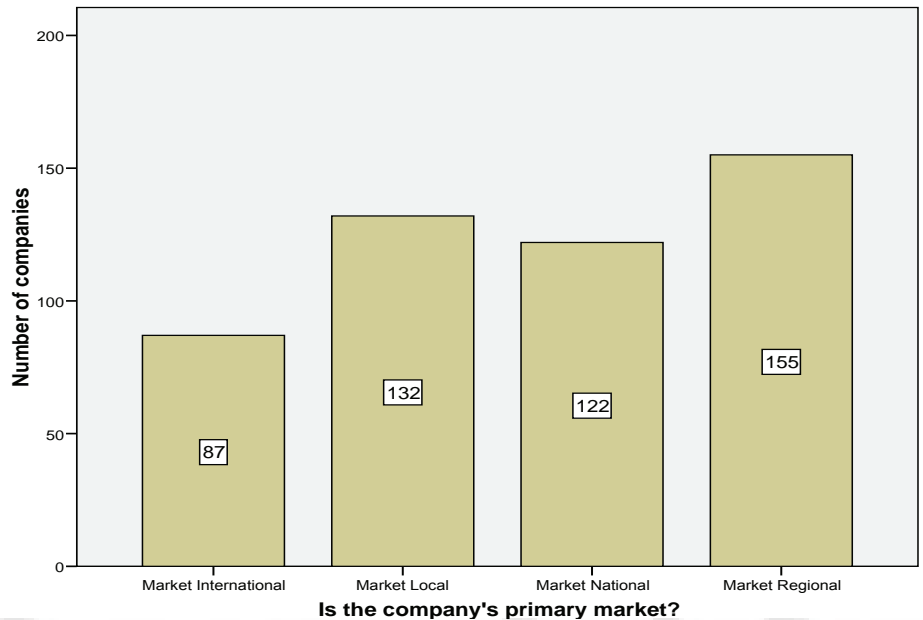
Markets Served:

In answering this question, companies were allowed to choose more than one primary market. Regional markets (32.8%) accounted for the largest single cohort, followed by Local markets (28.0%), National markets (25.8%) and International markets (18.4%).

Businesses tend to market in other arenas beyond their primary sales market. In the table below it is apparent that those businesses primarily serving the local market will to a lesser extent sell in the regional market (9.1%) and in the national market (1.5%) and not at all in the international market. Correspondingly regional markets sell in the local markets (7.7%) and the national market (1.9%) and barely in the international market.

Goods and Services Manufacturers NOT HQ'd in State	Count	%
Industrial Goods	22	19%
Consumer Goods Producer	20	18%
Durable Goods Producer	20	18%
Advanced Manufacturing	17	15%
Building and Construction	11	10%
Aeronautics and Defense	7	6%
Technology/Information	5	4%
Agriculture, Forestry, Minerals	4	4%
Communications	2	2%
Energy and Energy Utilities	2	2%
Health Care and Pharmaceuticals	2	2%
Retail Related Operations	2	2%
Total	114	100%

Company Primary Market Type	Count	%
International	87	18%
Local	132	27%
National	122	25%
Regional	155	31%
Total	496	100%



Age of the Company

The average age of the businesses in the B3 survey is 26 years old, with a median of 14 years. The table and chart below show the company age recoded into ranges. The ranges indicate that almost one-fourth (22.7%) of all companies in the B3 analysis are only 1 year old, whereas, one fourth of all businesses (25.3%) are between 21 and 50 years old.

Age of Company	Percent
1 year or less	23%
2-5years	14%
6-10 years	10%
11-20 years	17%
21-50 years	25%
>50 years	10%

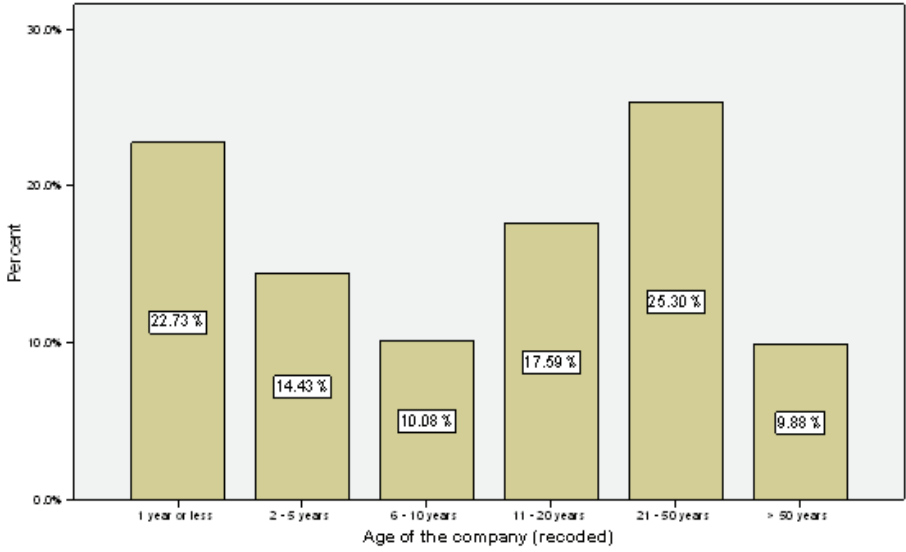
The average company in the B3 analysis has been in the community since 1990, or 19 years. This may indicate that not all businesses started in Arizona but that on average the businesses located fairly soon after they were formed. Similar to the previous table data were recoded to ranges.

Finally, what business sectors have been established the longest, and what sectors have been the longest in Arizona? Transportation (55 years) appears to be the oldest industry sector among the businesses followed by Finance Insurance & Real Estate (53 years). Whereas, Energy and Energy Utilities (47 years) are followed by Government (40), Utilities (36 years), and Consumer Goods producers follow at 33 years. When examining the length of time between when the industry sectors were established

and when they located in Arizona, Finance, Insurance & Real Estate, Transportation and Utilities have the greatest difference (delta) possibly indicating that these industry types are more mature in terms of their business cycle. On the other hand, Durable Goods Producers, High End Business Services and Health Care and Pharmaceuticals have the smallest difference between industry establishment and industry location in Arizona possibly indicating that these industries may be earlier in the industry/business lifecycle. It is important to note that these characteristics are only valid for the businesses in the survey and may not reflect the overall industry in Arizona.

Time in Community	Percent
1 year or less	3%
2-5years	17%
6-10 years	22%
11-20 years	25%
21-50 years	27%
>50 years	6%

Business Sectors	Mean Years in Business	Mean Years in Community
Advanced Manufacturing	28	21
Aeronautics and Defense	30	19
Agriculture, Forestry, Minerals	28	21
Building and Construction	23	17
Communications	13	13
Consumer Goods Producer	33	24
Consumer Services	11	12
Durable Goods Producer	25	24
Energy and Energy Utilities	47	26
Finance, Insurance & Real Estate	53	18
Financial Services	20	6
Government	40	14
Health Care and Pharmaceuticals	16	17
High End Business Services	16	14
Industrial Goods	30	20
Other	32	17
Retail Related Operations	24	10
Services	20	20
Technology/Information	16	19
Transportation	55	25
Utilities	36	14
Total	26	18

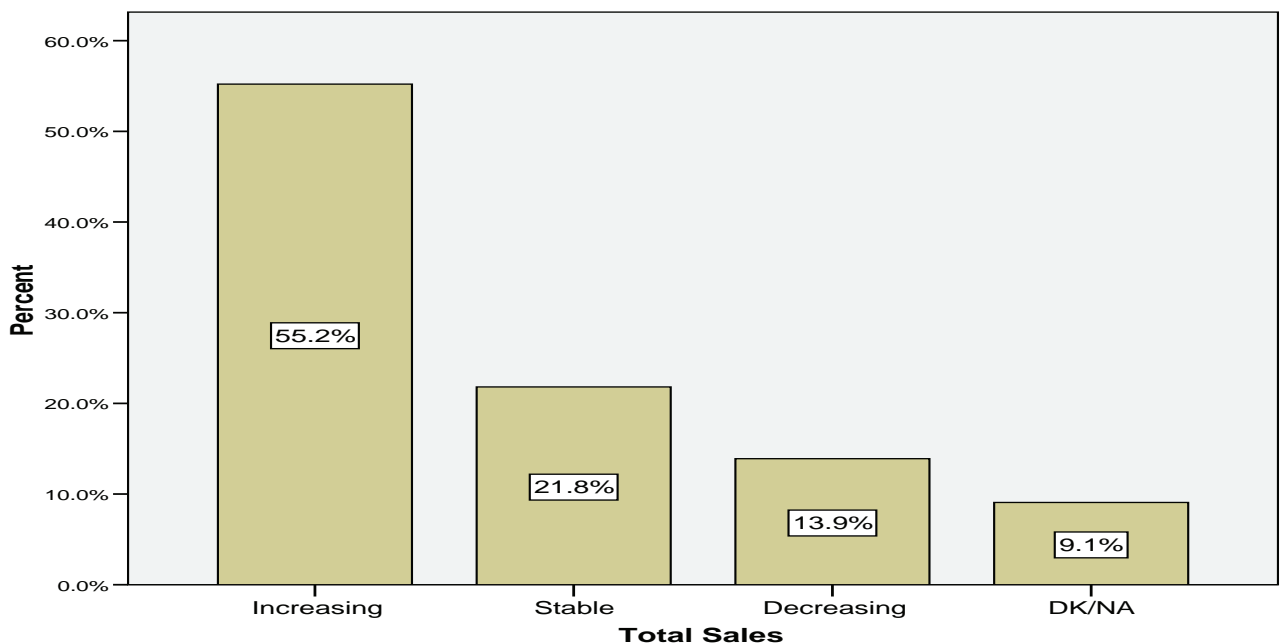


GROWTH INDICATORS

Growth indicators are important data sets as they can help explain how Arizona businesses have fared and whether in general the State's industrial employers are growing or shrinking in terms of market share. In terms of total sales, a majority (55.2%) saw an increase, while a further 28.1 percent remained stable and 13.9 percent decreased. A further 9.1 percent indicated that they did not know or did not answer. Overall total sales appear to be trending up, a positive.

What business sectors are showing increasing sales? In the identified industry sectors, the greatest increase is found in Advanced Manufacturing (13.3%), Consumer Goods (12%), Building & Construction (10.1%), Industrial Goods (8.7%) and Aeronautics and Defense and Retail Related (6.3%) respectively.

Total Sales Trends	Percentage
Increasing	55%
Stable	22%
Decreasing	14%
DNK/NA	9%



Market Share increases/ decreases:

How is the market share of Arizona companies' key products behaving? While market share is increasing at a slightly slower rate than total sales, it is still growing at a healthy 52.5 percent. A further 30.1 percent of businesses indicated that their market share was stable while 5.6 percent indicated that their market share was declining.

Market Share	Count	%
Increasing	272	53%
Stable	156	30%
Decreasing	29	6%
DK/NA	61	12%
Total	518	100%

What business sectors are showing an increase in their market share? In the identified industry sectors, once again the greatest increase in market share is found in Advanced Manufacturing (12.9%), followed by Building and Construction (11.4%), Consumer Goods Producers (11%) and Industrial Goods (9.2%). Note that Aeronautics and Defense fell from 4th spot in sales increase to 9th spot in market share increase.

Exports:

Export sales are vitally important as export industries sell their goods and services outside of their respective communities and the state. Only 29.7 percent of all businesses in the B3 Survey indicate that they have export sales. Of those businesses (29.7%) with export sales, half (50.0%) saw an increase in export sales, while a further 46.1 percent indicated that export sales were stable. Only 3.9 percent indicated that export sales were

decreasing. This indicates a somewhat healthy state for businesses with exports.

Are Export Sales as a percentage of total sales:		
Trend	Count	%
Increasing	77	50%
Stable	71	46%
Decreasing	6	4%
Total	154	100%

If companies had exports, they were asked to indicate what percentage of their sales came from exports. Of those firms with export sales, 44 businesses or 8.5 percent of all businesses had export sales between 1 and 20 percent. A further 2.1 percent of businesses had export sales between 21 and 40 percent.

If exporting, approximately what % of sales comes from exports?		
Range	Count	%
1-20%	44	8%
21-40%	11	2%
41-60%	4	1%
61-80%	1	0%
81-100%	1	0%
No Exports	457	88%
Total	518	100%

Businesses that are seeing the greatest increase in their export sales are found in the following sectors: Consumer Goods Producers; Advanced Manufacturing; Industrial Goods; Aeronautics and Defense lead companies with exports.

Business Sectors where total sales are increasing	Count	%
Advanced Manufacturing	38	13%
Consumer Goods Producer	34	12%
Building and Construction	29	10%
Industrial Goods	25	9%
Durable Goods Producer	19	7%
Aeronautics and Defense	18	6%
Retail Related Operations	18	6%
Health Care and Pharmaceuticals	17	6%
Technology/Information	15	5%
Agriculture, Forestry, Minerals	11	4%
Consumer Services	11	4%
High End Business Services	11	4%
Finance, Insurance & Real Estate	8	3%
Communications	7	2%
Energy and Energy Utilities	7	2%
Services	6	2%
Other	4	1%
Transportation	4	1%
Financial Services	2	1%
Utilities	2	1%
Total	286	100%

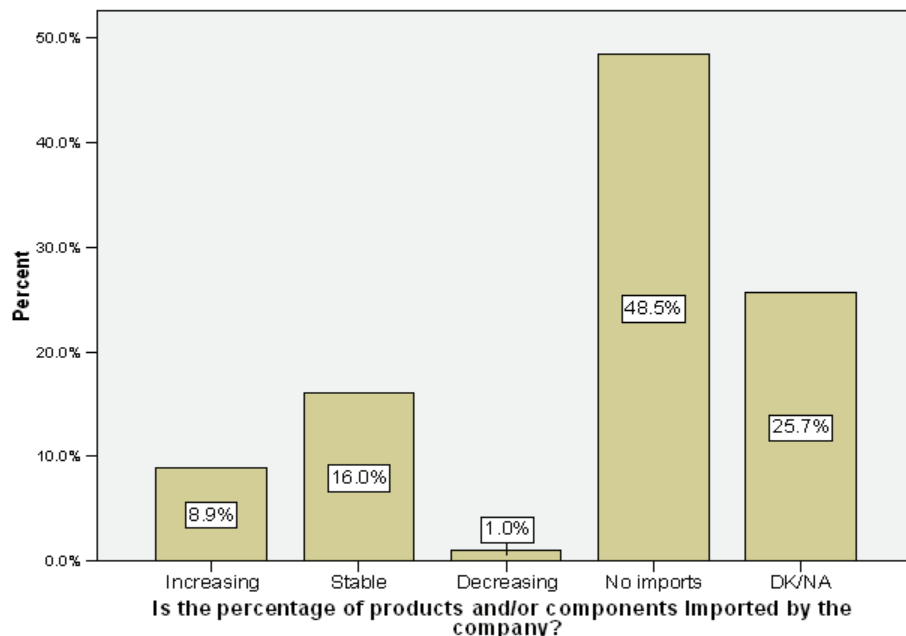
Business Sectors where market share is Increasing	Count	%
Advanced Manufacturing	35	13%
Building and Construction	31	11%
Consumer Goods Producer	30	11%
Industrial Goods	25	9%
Durable Goods Producer	24	9%
Retail Related Operations	19	7%
Health Care and Pharmaceuticals	14	5%
Technology/Information	14	5%
Aeronautics and Defense	13	5%
Agriculture, Forestry, Minerals	10	4%
Communications	9	3%
Transportation	8	3%
Consumer Services	7	3%
Energy and Energy Utilities	7	3%
Finance, Insurance & Real Estate	7	3%
High End Business Services	7	3%
Services	5	2%
Other	3	1%
Financial Services	2	1%
Utilities	2	1%
Total	272	100%

Imports:

Imports are also very important to businesses in the state. Increases in imported materials and/or components required for the production process can have an adverse effect on prices of goods sold and production levels. Only 8.8 percent of all businesses in the B3 Survey indicated that they imported products and/or components. Of those companies importing products or components, 8.9 percent indicated that their imports were increasing, while a further 16.0 percent indicated that their imports were remaining stable and a minority of 1 percent actually saw a decrease in imports.

Is the percentage of products and/or components imported by the company?	
Increasing	9%
Stable	16%
Decreasing	1%
No imports	49%
DK/NA	26%

Business Sectors where Company Export Sales are Increasing	Count	%
Consumer Goods Producer	16	21%
Advanced Manufacturing	14	18%
Industrial Goods	11	14%
Aeronautics and Defense	8	10%
Durable Goods Producer	5	6%
Transportation	4	5%
Building and Construction	3	4%
Retail Related Operations	3	4%
Technology/Information	3	4%
Agriculture, Forestry, Minerals	2	3%
Services	2	3%
Energy and Energy Utilities	1	1%
Financial Services	1	1%
Health Care and Pharmaceuticals	1	1%
High End Business Services	1	1%
Other	1	1%
Utilities	1	1%
Total	77	100%



Companies that saw the greatest increases in imports of products and/or components are concentrated in the following business sectors: Advanced Manufacturing (26.1%), Industrial Goods (19.6%), Consumer Goods Producers (15.2%). Other industry sectors that saw slightly lower increases in imports were Building & Construction (8.7%) and Durable Goods Producers (6.5%). It should be noted, however, that twice as many companies with imports (16.0%) indicated that their imports were stable possibly indicating less pressure on the economy through the fluctuations of import costs.

Business Sectors where Company's Imports are Increasing	Count	%
Advanced Manufacturing	12	26%
Industrial Goods	9	20%
Consumer Goods Producer	7	15%
Building and Construction	4	9%
Durable Goods Producer	3	7%
Other	2	4%
Technology/Information	2	4%
Undetermined	2	4%
Aeronautics and Defense	1	2%
Agriculture, Forestry, Minerals	1	2%
Communications	1	2%
Energy and Energy Utilities	1	2%
Retail Related Operations	1	2%
Total	46	100%

Investment in Research & Development (R&D)

Are Arizona companies making investments in research and development (R&D)? As a percentage of sales, slightly more than one-third of companies (34.2%) invest no money on R&D. Only 233 or 45 percent of all businesses in the sample indicated that they had R&D costs. When asked to allocate their R&D costs as a percentage of sales, companies reporting an investment in R&D were almost split evenly between the allocation categories. One-third (33.9%) spend less than 3% of their sales on R&D, while a further 34.3 percent spend between 3-6% on R&D. Finally, 31.8 percent spend more than 6 percent of their sales on R&D.

As a percent of sales, how much does the company spend on R&D?		
Range	Count	% of Total
<3%	79	34%
3-6%	80	34%
>6%	74	32%
Total	233	100%

The Advanced Manufacturing sector (17.6%) spends the most on R&D, followed by Consumer Goods Producers (12%) and Technology and Information (10.8%).

Business Sectors where companies spend over 6% of sales on R&D	Count	%
Advanced Manufacturing	13	18%
Consumer Goods Producer	9	12%
Technology/Information	8	11%
Aeronautics and Defense	6	8%
Industrial Goods	6	8%
Durable Goods Producer	5	7%
Health Care and Pharmaceuticals	5	7%
Energy and Energy Utilities	4	5%
High End Business Services	4	5%
Building and Construction	3	4%
Retail Related Operations	3	4%
Services	3	4%
Transportation	2	3%
Agriculture, Forestry, Minerals	1	1%
Consumer Services	1	1%
Utilities	1	1%
Total	74	100%

Almost half (44.5%) of businesses spend between 31 and 50% of their R&D budget on new product development, while a further 13 percent spend between 91 and 100% of their R&D budget on new product development.

New Product Development - % of R&D Budget		
Range	Count	%
<10%	19	12%
11-20%	8	5%
21-30%	11	7%
31-40%	46	30%
41-50%	22	14%
51-60%	6	4%
61-70%	6	4%
71-80%	11	7%
81-90%	4	3%
91-100%	20	13%
Total	153	100%

More than one third (34.9%) of businesses spend between 31 and 40% of their R&D budget on improvement of existing products, while a further 16.4 percent spend between 41 and 50% of their R&D budget on existing product improvements.

Product Improvement(s) - % of R&D Budget		
Range	Count	%
<10%	27	18%
11-20%	13	9%
21-30%	19	13%
31-40%	51	35%
41-50%	24	16%
51-60%	3	2%
61-70%	1	1%
71-80%	1	1%
81-90%	0	0%
91-100%	7	5%
Total	146	100%

The largest single group (34.8%) spent between 31 and 40% of their R&D budget on improving their production methods. A further 14.1 percent spent between 41 and 50% on production improvements.

Production Improvement(s) - % of R&D Budget		
Range	Count	%
<10%	18	13%
11-20%	13	10%
21-30%	13	10%
31-40%	47	35%
41-50%	19	14%
51-60%	1	1%
61-70%	2	1%
71-80%	7	5%
81-90%	0	0%
91-100%	15	11%
Total	135	100%

Average Budget Percentage Spent on R&D	
New Product Development	36%
Product Improvement	28%
Production Improvements	32%

Business Sectors with over 50% of R&D in New Product Development	Count	%
Advanced Manufacturing	16	23%
Consumer Goods Producer	12	17%
Industrial Goods	7	10%
Technology/Information	7	10%
Aeronautics and Defense	4	6%
Durable Goods Producer	4	6%
Health Care and Pharmaceuticals	4	6%
Building and Construction	3	4%
High End Business Services	3	4%
Undetermined	2	3%
Communications	1	1%
Consumer Services	1	1%
Energy and Energy Utilities	1	1%
Financial Services	1	1%
Other	1	1%
Retail Related Operations	1	1%
Services	1	1%
Total	69	13%

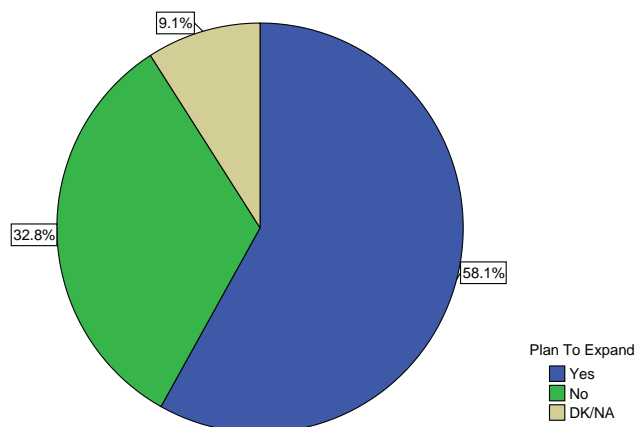
Advanced manufacturing (23.2%) leads all other sectors in businesses that have 50 percent or more of their R&D budgets in new product development. Consumer Goods Production (17%) is the next largest identifiable business sector where more than 50 percent of the R&D budget is spent on new product development.

BUSINESS CHANGES

Expansion:

A majority (58.1%) of all companies surveyed plan to expand in the next three years. One third of companies (32.8%) indicated that they are not likely to expand within the next three years. Unfortunately the data do not show whether the companies plan to expand locally. Follow-up in 2009 and 2010 to identify which of the companies planning for expansion were able to execute those plans would be beneficial data.

Plans for expansion?	
Yes	58.1%
No	32.8%
DK/NA	9.1%



Change In Ownership:

Changes in ownership and management may have an effect on a business. This next section looks at whether there have been changes in ownership or top management in the last 18 months. Changes in management may indicate the relative health of the industry. A relatively small number of companies, 13.9 percent of those surveyed, have experienced a change or are going to change ownership in the near future. Business ownership appears to be relatively stable.

Has the company's ownership changed in the last 18 months?		
Changed	34	7%
Change Pending	38	7%
No	379	73%
DK/NA	67	13%

Similarly, 12.1 percent of businesses in the B3 Survey have experienced changes in their company's top management in the last 18 months, further indicating the overall stability of the industry.

Has the company's top management changed in the last 18 months?		
Changed	63	12%
Change Pending	0	0%
No	379	73%
DK/NA	76	15%

Mergers, acquisitions and divestitures are also an indicator of ownership change in the industry. Almost one third (32.8%) of businesses in the survey indicate that mergers, acquisitions and divestitures are increasing in their industry. A further one fourth of businesses (26.6%) consider mergers, acquisitions and divestitures to be stable.

Is merger, acquisition or divestiture activity in your industry		
Increasing	170	33%
Stable	138	27%
Decreasing	20	4%
DK/NA	190	37%
Total	518	100%

Finally, identified business sectors with the greatest increase in mergers, acquisitions and divestitures are Consumer Goods Producers (16%) and Building and Construction (11.8%).

BUSINESS CLIMATE

The overall business climate of any community is a combination of factors, working in concert to create either a positive or negative business environment.

Does the attitude among executives at corporate headquarters toward the community as a place to do business differ from local management?		
Yes	35	7%
No	280	54%
DK/NA	203	39%
Total	518	100%

What are the community's strengths as a place to do business?

Community strengths encourage the development and nurturing of business, as well as the strengthening of communities through employment and expansion of the tax base. When the open ended responses were categorized it was found that Location (24.4%) was the most important factor when considering community strengths. Other issues comprised the next largest segment. In this category were statements about community locations relative to airports, interstates, rail spurs, climate, low crime and community growth. The next community strength was that the Business Climate was Positive (12.2%). While many of these strengths are specific to local areas rather than directly representative of the state as a whole, this cumulative data still provides a good indicator of overall perceptions.

Community Strengths Characterized	Count	%
Location	78	24%
Other	56	18%
Business Climate	39	12%
Quality of Life	29	9%
Workforce/Labor Attributes	27	8%
Government Services	12	4%
Community Leadership	12	4%
Transportation System	11	3%
Infrastructure	10	3%
Community Services	10	3%
Customer, Supplier Accessibility	7	2%
Low Cost of Doing Business	7	2%
Strong Educational System	6	2%
Business Mix, Services	5	2%
Employee Work Ethic	4	1%
Stable Economy/Community	3	1%
Low Cost of Living	2	1%
High Cost of Doing Business	2	1%
Total	320	100%

What are the community's weaknesses as a place to do business?

Just as strengths are important so are weaknesses, these weaknesses which may be either real or perceived can be a drain on a community's ability to retain a business. "Other" issues (24.2%) were considered to be the greatest weakness, and include, but are not limited to: the cost of land, the cost of building, poor location vis-à-vis interstate, perceived impacts of a greater interest in environmental politics, taxation and local government. The next single largest community weakness was identified as the High Cost of Doing Business (10.5%) and a Negative Business Climate (7.7%). Again, while weaknesses reported are specific to local areas rather than directly representative of the state as a whole, this cumulative data still provides a good indicator of overall perceptions.



Are there any barriers to growth in this community?

Barriers to growth can be complex, such as taxation and zoning laws or relatively simple such as the lack of recreation facilities for the community. Nonetheless, these barriers can inhibit the growth of businesses in the community. When the open ended responses were categorized it was found that Other issues (24.2%) were considered to be the greatest barrier. Upon further analysis the Other issues identified by businesses include, but are not

Community Weaknesses Characterized	Count	%
Other	60	24%
High Cost of Doing Business	26	10%
Government Services	23	9%
Business Climate	19	8%
Lack of Skilled Labor	15	6%
Labor - Other	14	6%
Community Leadership	12	5%
Infrastructure	10	4%
Lack of Unskilled Labor	8	3%
Location	7	3%
Community Services	7	3%
Business Mix, Services	7	3%
Quality of Life	6	2%
Strong Educational System	5	2%
Land Availability or Cost	5	2%
Customer, Supplier Accessibility	4	2%
Affordable Housing	4	2%
Residential Encroachment	3	1%
Employee Work Ethic	2	1%
High Cost of Living	2	1%
Transportation System	9	4%
Total	248	100%

limited to: lack of available and affordable housing for workers, unfavorable political climate, land and building costs, hostile city governments, health costs and zoning limitations. Lack of or disruptive Government Services (10.4%) was the next single largest barrier followed by Poor Infrastructure and a Poor Business Climate (9.6%) respectively.

Local Assistance

Open-ended questions dealing with ways locals can facilitate business growth were answered in many different ways. The responses were grouped according to commonalities among them.

Community Barriers to Growth	Count	%
Other	36	27%
Government Services	14	10%
Business Climate	13	10%
Infrastructure	13	10%
High Cost of Doing Business	10	7%
Lack of Skilled Labor	9	7%
Transportation System	8	6%
Land Availability or Cost	7	5%
Community Leadership	6	4%
Building Availability or Cost	4	3%
Labor - Other	3	2%
Lack of Unskilled Labor	3	2%
Customer and Supplier Inadequate	2	1%
Residential Encroachment	2	1%
High Cost of Living	2	1%
Community Services	1	1%
Business Mix, Services	1	1%
Quality of Life	1	1%

The most commonly-cited issue was Transportation – Rail, most of which were from organizations in Phoenix. One hundred seventy one respondents – 20.3% of total – marked this response. The second most common response was Workforce Attraction (15.4%), followed by Business Development Services (10.8%), Other (10.4%), Workforce Training (8.6%), and Financial Assistance (8.5%).

Workforce Attraction

Workforce Attraction is an issue with 15.4% of the organizations. Most of these report that they have trouble with recruitment and/or retention of workers. Besides general problems with recruitment, numerous responders mentioned similar skills that are lacking in their local areas. Skilled laborers were mentioned many times, specifically pipe fitters, electricians, plumbers,

metal sheeting workers, welders, aircraft maintenance workers, and manual laborers. Many times respondents simply mentioned that they unsuccessfully had sought skilled and experienced workers.

Medically-focused professions were also lacking. Specifically mentioned were bilingual medical assistants, medical billers, transcriptionists, specialty MDs, and skilled RNs. Bilingual workers were mentioned in many areas.



A shortage in essential engineers is apparent from the survey responses. Mechanical, civil, and electrical engineers are apparently in short supply; many responders cited a lack of these professionals. Also mentioned were material science engineers and semi-conductor engineers.

Other professions mentioned that should be noted are drivers, technicians, technology workers, management, and web designers. Other, less specific qualities sought were bilingual ability, experience, good driving records, quality, and basic skills.

Business Development Services

Business development services were weighted heavily toward training and assistance in marketing, with web design and business planning also mentioned numerous times. Marketing assistance stood out among the rest, with many organizations seeking help with both identifying and serving potential customers. This suggests

that markets are changing and many companies are experiencing difficulty staying ahead of these changes. As a result of this trend, an opportunity exists to help businesses re-assess their goals and how to go about them.

Also mentioned many times was the need for help in designing websites and in other technological issues. This may reflect the attitude that traditional commerce has changed and companies must approach customers from new, more appropriate angles. It also shows awareness of the shift to web-based commerce and advertising among some businesses that have thus far resisted an online presence.

Business planning was also mentioned repeatedly as an area in which organizations needed help. As with marketing, this also hints at awareness of changing markets. Companies are becoming aware of permanent changes in the market that will require permanent changes in the way businesses are structured.

Workforce Training

Workforce training would benefit many of these companies. The 73 respondents mentioning workforce training focused on funding including grants and interest-free loans. There were also calls for training for CNC machinists, ADOC job training grants, English as a Second Language training, safety training, computer training, and increasing labor skills. Another frequent request was simply for information on training opportunities currently available.

Finance Assistance

Financial assistance specifics were most often related to Enterprise Zones and information dissemination. The suggestions dealing with Enterprise Zones most often requested more information on them and suggested the designation of more of them. The information requests covered all areas of financial assistance; it appears that many companies are simply unaware of what is available. Other finance issues that responders

were interested in included accounting help, debt relief, loan refinancing help, tax abatement and incentives, and new credit lines. Many also were interested in new sources of financing in general.

Regulation Concerns

Local regulation issues were mentioned, some of them repeatedly. These are areas where organizations see an opportunity for local government to assist in business growth and expansion.

Taxes were the most commonly mentioned element of local regulation. These comments were heavily weighted toward concerns of overbearing property taxes. The prevailing complaint is that property taxes are too high. For many, these are growing at a much quicker rate than revenues, often taking a damaging cut out of profits. Some organizations claim that taxes have eliminated their profit-making potential altogether.

Planning and zoning issues were also brought up frequently. Complaints of slow turnaround times by officials are prevalent in the responses. The slowness of the system is alleged to be worsened by an increasingly confusing process, non-cooperative government personnel, and increased requirements. Respondents believe that new zoning and permitting requirements are made reactively and with insufficient insight. Some businesses also noted that changes in zoning have opened up residential areas where they did not exist before, and fear that new residents will file complaints against how the businesses operate. They also cite disappointment with fees that are continuously increased with little justification.

Another specific issue with local impact was crime prevention. Numerous organizations see problems with increasing crime. Burglary on or near their property is seen as a major roadblock to improving operations. Somewhat in line with the issue of crime was the mention of insufficient traffic control in some areas, which lead to access problems for businesses.

WORKFORCE



Workforce Quality and Availability

Workforce is often a limiting factor in business development and retention. The lack of a skilled workforce has at times resulted in the loss of a business to a state and often more specifically to a community. Three specific questions were asked to evaluate the quality and availability of the workforce. These three questions asked business to rate the availability, quality and stability of workers in their area on a scale of 1 to 7 where 1 is low and 7 is high. When evaluating the overall workforce businesses rated the availability and quality of workforce just above the middle of the scale with a mean score of (4.1 and 4.2 respectively). This mean score indicates that businesses are ambivalent about the availability and quality of the workforce in the area, rating both aspects neither high nor low. With respect to workforce stability the mean score ranking was 4.5, slightly higher than availability

and quality but still ambivalent as to the ranking of neither high nor low.

Mean Score Ratings for Workforce	
Availability	4.2
Quality	4.1
Stability	4.5
Total	518

Workforce Recruitment

Are companies in the B3 Survey finding it difficult to recruit qualified employee positions or skills? Almost half (47.5%) of companies indicate that they are having difficulty recruiting for specific skills. When examining the open ended data it is found that a majority of the comments deal with specific skilled employees i.e. machinists, computer numerical control (CNC) operators, skilled CDL drivers for hazardous material hauling, instrument technicians, welders, riggers, crane operators etc. These specialized employees may or may not be available in the workforce in the community.

If specialized positions are difficult to fill are the number of these positions increasing or decreasing? Apparently a majority (63.5%) of the businesses in the B3 Survey indicate that the number of unfilled positions is stable or decreasing (13.5%). Only a relatively small percentage of businesses (7.5%) indicate that the number of unfilled positions is increasing.

The identified business sectors seeing an increasing number of unfilled positions are dominated by Industrial Goods, Advanced Manufacturing, and Building & Construction, respectively.

Change in Make-up of Workforce

In the view of the industrial business community, is the make-up of the Arizona workforce changing? A majority (59.1%) of businesses in the survey indicate yes.

Recruitment Problems

Are recruitment problems in the industry limited to the community where the business is located or is the problem industry wide? The inability to recruit viable candidates can have an impact on the retention of industries or may cause a business to move to a community where the available, trained workforce is. Businesses in the survey appear to see the community (42.1%) as the limiting factor in recruitment for workforce. However, a smaller but still significant number of businesses see the industry (27.2%) as the limiting factor for recruiting.

What industries have recruiting problems at the community level and what industries experience recruiting issues at the industry level? At the community level Consumer Goods Producers (14.2%), Building and Construction (10.1%) and Advanced manufacturing (10.1%) experience the greatest recruiting problems. At the industry level, Building and Construction (15.6%), Advanced manufacturing (14.9%) and Aeronautics and Defense (7.1%) have greatest problems recruiting at the industry level.

Are primary recruitment problems limited to:		
Reason	Count	%
Community	218	42%
Industry	141	27%
DK/NA	159	31%
Total	518	100%

Company Investment in Workforce Training

Finally, *if companies are having a problem keeping and recruiting employees are they doing anything about training potential employees?*

Surprisingly, only slightly more than one-third of employers are increasing (35.9%) employee training. A further one third of businesses (36.7%) are stable in their employee training. A significant number of businesses (11.2%) do not do employee training.

Is company investment in employee training:		
Increasing	186	36%
Stable	190	37%
Decreasing	5	1%
None	58	11%
DK/NA	79	15%
Total	518	100%

Just which industry sectors are increasing their investment in employee training? Consumer Goods Producers leads the identified industry sectors in increasing employee training, closely followed by Advanced Manufacturing and Building and Construction.

Finally, what is the demand for training by industries who have indicated an increasing investment in employee training? The larger the business and the more diversified the employees the larger the potential number of employees that will need training. Increased training is in greater demand for production level employees than it is for management.



Investment in Training

If companies are investing in employee training, how do they divide up their training budget between new job skills training, proficiency training and remedial skills training? The level to which the training budget is allocated between these three tasks will provide evidence as to the workforce needs in the industry, company and state. Less than one third (29.2%) of businesses spend 41 to 50% of their training budget on new job skills training.

New job skills training - % of training budget		
Range	Count	%
<10%	9	6%
11-20%	14	10%
21-30%	6	4%
31-40%	24	17%
41-50%	43	30%
51-60%	9	6%
61-70%	4	3%
71-80%	11	8%
81-90%	4	3%
91-100%	20	14%
Total	144	100%

A surprising 65.7 percent of businesses spend between 21 and 50% of their training budget on proficiency training for their employees.

Proficiency training - % of training budget		
Range	Count	%
<10%	5	4%
11-20%	8	7%
21-30%	20	18%
31-40%	26	23%
41-50%	29	25%
51-60%	1	1%
61-70%	4	4%
71-80%	6	5%
81-90%	3	3%
91-100%	12	11%
Total	114	100%

Finally, almost half (48.6%) of businesses with a training budget spend between 21 and 40% of their budget on remedial skill training.

Remedial Skills training - % of training budget		
Range	Count	%
<10%	18	25%
11-20%	7	10%
21-30%	14	19%
31-40%	21	29%
41-50%	3	4%
61-70%	2	3%
71-80%	4	6%
81-90%	1	1%
91-100%	2	3%
Total	72	100%

ADDITIONAL OBSERVATIONS

The business data in this survey, presuming a random sample, indicate that the industry is reasonably diversified. Based upon the business types in the B3 survey sample the industrial base appears to be somewhat diversified with Advanced Manufacturing, Consumer Goods Producers, Industrial Goods and Aeronautics and Defense well represented. As noted previously, Service Industries are lacking from the B3 survey and Technology/Informational Health Care & Pharmaceuticals are not well represented based upon their importance to the state economy. Government, even though not a goods producing sector is still very important to the state economy specifically from an employment perspective.

As to the question of the status of the Arizona economy based on the analysis of the B3 survey data, there are some positive indicators. A majority of businesses indicate that they were seeing their market leadshare increase, and that they were planning to expand in the next three years. A majority of the businesses in the survey were the headquartered in Arizona, while a minority served as warehousing/distribution centers. Most companies in the survey serve regional and local markets while a smaller number serve national and international markets as well. No companies serve all markets. On average businesses in the B3 survey have been in their respective communities for at least 19 years and a small number have been in their respective communities for more than 50 years. A majority of businesses indicate that their sales volumes and market share area rising or at

Business Sectors	Count	%
Advanced Manufacturing	61	12%
Building and Construction	57	11%
Consumer Goods Producer	57	11%
Retail Related Operations	53	10%
Durable Goods Producer	39	8%
Industrial Goods	39	8%
Technology/Information	27	5%
Aeronautics and Defense	25	5%
Consumer Services	23	4%
Health Care and Pharmaceuticals	21	4%
High End Business Services	19	4%
Agriculture, Forestry, Minerals	16	3%
Energy and Energy Utilities	12	2%
Services	12	2%
Transportation	12	2%
Communications	11	2%
Finance, Insurance & Real Estate	11	2%
Other	9	2%
Utilities	5	1%
Convention/Tourism	3	1%
Financial Services	2	0%
Government	2	0%
Undetermined	2	0%
Total	518	100%

least stable, led by the Advanced Manufacturing, Consumer Goods Production and Building and Construction sectors.

A small number of businesses in the survey have export sales, and a majority of those companies indicate that their exports sales are increasing. Exporting industries are led by Consumer Goods Producers, Advanced Manufacturing and Industrial Goods. A similarly small number of companies use imported products and/or components in their business operations. A majority of producers requiring imports note, however, that their imports remain stable while a much smaller number of companies indicate that



their imports are increasing.

One third of businesses in the B3 survey did not invest in Research and Development, of those who did almost one third of these businesses invested more than 6 percent of sales in Research and Development. Advanced Manufacturing, Technology/Information and Industrial Goods producers lead the business sectors that spent more than 6 percent of sales on Research and Development. Those companies with Research and Development Budgets spent an average of 47 percent on new product development, 33 percent on product improvement and 41 percent on

production improvements. Investment in R&D is a good indicator of growth, and a lack thereof can be a warning of stagnated and at-risk businesses, especially if they also report a loss in market share.

Location, a positive business climate and the positive quality of life are seen by businesses as the major strengths of doing business in their respective communities.

Location, a positive business climate and the positive quality of life are seen by businesses as the major strengths of doing business in their respective communities. The high cost of doing business, government and a negative business climate are seen as weaknesses to doing business in Arizona communities. Barriers to business growth in the community are government, poor infrastructure and a negative business climate.

Workforce issues along with the availability, quality and stability of workers in Arizona are issues that will need to be addressed in the future. Businesses are at the best sanguine about the Arizona workforce, slightly less than half of all businesses in the survey are experiencing problems recruiting for specific skills and positions. A majority of businesses acknowledge that the make-up of their workforce is changing, and they identify the lack of workforce to be a community rather than an industry wide issue. Despite the fact that businesses in the survey were unhappy about the workforce available in their communities, slightly more than one third are increasing their employee training, while a small but significant number of businesses do no employee training whatsoever. Inadequate workforce and a lack of resources to assist in providing the necessary training could force relocations of current businesses.

RECOMMENDATIONS

As a result of the data collected and trends identified in this report, a number of opportunities for statewide as well as local initiatives have been identified by members of the Arizona Business Retention and Expansion Council (ABREC). Recommendations made in this report, if implemented, are anticipated to increase the health of Arizona's economy, therefore providing a long-term value proposition for the Arizona Association for Economic Development (AAED), its member communities, partners, and the greater state of Arizona.

Statewide Initiatives

A basic but often overlooked strategy recommended for the enhancement of economic growth statewide includes a focused effort on removing barriers to growth, and developing tools to aid in the retention of existing businesses. Based on the data gathered in this report, ABREC recommends the following actions:

- Many businesses reported a lack of knowledge of existing assistance programs. Training should be enhanced to ensure that communities across the state are knowledgeable about the current resources available for businesses, and who to contact for that assistance. Topics should include resources such as financing assistance and program assistance to promote export growth. The Arizona Department of Commerce (ADOC) should host a training session with economic development practitioners to expand upon the statewide

programs available by the first quarter of 2010, and also host a session for businesses in multiple Arizona regions to inform companies about the incentive programs available.

- Businesses requested more information on Enterprise Zones and potentially expanded locations and incentives. This program should be analyzed by the Department of Commerce in partnership with regional economic development policy planning organizations across the state to 1) ensure businesses across the state are receiving benefits from being located in the zones; 2) ensure AZ has the most competitive statewide program by proposing and taking measurable steps for program revisions.
- Almost half of companies indicated that they are having difficulty recruiting for specific skills. This can have a direct and devastating impact on Arizona through the relocation of companies seeking skilled workers. Entities such as the Governor's Workforce Policy Council, Arizona Workforce Connection and related organizations with similar offerings should strive to assist 25% more local businesses with the recruitment of a skilled workforce. AAED and ADOC should partner to produce a statewide labor force analysis in 2010 with participation and funding from communities across Arizona. Private and public higher education institutions and high schools should target their program

offerings to help develop a more skilled workforce, based off the feedback on the deficiencies in the workforce pool.

Suggestions for Local Efforts

When asked how local governments or economic development organizations can facilitate business growth, leading responses included Transportation and Rail enhancement, workforce attraction, Business Development Services, Workforce Training, and Financial Assistance. Local communities can use this report and the data included to work with their local officials to express the importance of BRE, and create support for development or enhancement of related programming:

- *A majority of all companies surveyed reported plans to expand in the next three years.* Local representatives must work to assist and encourage expansion within Arizona to prevent relocations out of state upon expansion, and also to determine what percentage of those with plans to expand were able to execute.
- ADOC, AAED, and Arizona Public Service should enhance promotion of business retention and expansion assistance statewide, presenting to Mayors and Councils in concert with local practitioners about the importance of a Business Retention and Expansion Program. This should be expanded beyond the Governor’s Regional and Rural Development Conference to either/both individual groups and/or at events such as the League of Arizona Cities and Towns Annual Conference. This initiative should include obtaining an executed agreement for the creation of such programs from at least 80% of Arizona communities by the end of 2010.
- If not in existence, establish a local BRE program and invest in staff and volunteer training as necessary, specifically on skills related to “red-flag” analysis and

business assistance resources in areas such as financing and marketing training (commonly mentioned items).

- Create local promises to the business community, and work to streamline business development services and regulations to create a more business-friendly and proactive climate.
- Consider annual events in communities, like Town Halls or business-to-business expos.

Arizona Association for Economic Development’s Role

AAED has the opportunity to utilize this information in growing its leadership role as “the leading advocate for responsible economic development for all for Arizona,” by creating an outreach program that includes solutions for issues. ABREC recommends the following actions be taken over the next 12-18 months by AAED as a result of this report:

- Encourage the utilization of this data to enhance the efforts of complimentary committees in AAED, including but not limited to Workforce, Governmental Affairs, Professional Education, and Rural committees. A deliverable should be the coordination of a strategy for producing quarterly seminars/workshops on topics of importance to industry sectors as identified in this report such as Loan Programs, Understanding Enterprise Zones & What it Means for your Business, Marketing in a New Age of Social Media, Effective Recruitment Strategies, Crime Prevention, and others.
- Utilize communications tools such as the AAED Website as a portal for business resource information and encourage social media use such as LinkedIn for business sector forums and discussions on issues/challenges related to local industry.
- AAED should lead in the development of

a program aimed at providing business leaders across the state with a method in which to communicate their needs directly to elected officials. This should be done in a focused manner to help develop and influence local and state policy changes as related specifically to economic development.

- ABREC can update this report annually and compare year-to-year data to help identify red flags and opportunities to enhance business retention that can be addressed on a statewide level, and expand its future scope to conduct additional research on workforce issues.

APPENDIX

**Survey tool included on the following pages.

ON-SITE VISIT FORM

To be filled out by the interviewer — Information is confidential

8.24.09

Company Information	
Company Name	
Contact Name	City/State/ZIP
Phone () -	
Contact(s)	
Other Interviewer(s)	Date of Visit (mm/dd/yy)
Organization of Interviewer(s)	

Product/Service	
1. What is your company's greatest achievement in the last five years? _____ _____ _____	
2. Where is the company's primary product/service in its life cycle?	<input type="checkbox"/> Emerging <input type="checkbox"/> Maturing <input type="checkbox"/> Growing <input type="checkbox"/> Declining
3. Has the company introduced new products/services/capabilities during the last five years?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Are new products/services anticipated in the next two years?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5. Is there new technology emerging that will substantially change either your company's primary product or how it is produced?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes, please explain: _____ _____	
6. As a percent of sales, how much does the company spend on R&D?	<input type="checkbox"/> 0% <input type="checkbox"/> 3%–6% <input type="checkbox"/> Under 3% <input type="checkbox"/> Over 6%
7. As a percentage, approximately how is the R&D budget divided among:	New product development _____% Product improvement _____% Production improvements _____%
8. Where is the R&D facility located? _____	

Market				
9. Is the company's primary market:	<input type="checkbox"/> Local	<input type="checkbox"/> Regional	<input type="checkbox"/> National	<input type="checkbox"/> International
10. Are total company sales:	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Decreasing	
11. Is the market share of the company's key product(s) :	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Decreasing	
If changing, please explain: _____ _____				
12. Does the company plan to expand in the next three years:	<input type="checkbox"/> Yes	<input type="checkbox"/> No		
<i>If yes,</i> Estimated dollar investment	\$ _____			
Estimated number of jobs to be created	_____			
Estimated facility size increase	_____ sq. ft.			
Approximate date of expansion	_____			
13. Are export sales as a percentage of total sales:	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Decreasing	<input type="checkbox"/> No exports
Where are your export markets? _____				
14. Is the percentage of products and/or components imported by the company :	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Decreasing	<input type="checkbox"/> No imports
15. Does the company have overseas production :	<input type="checkbox"/> Yes	<input type="checkbox"/> No		
<i>If yes,</i> where is the overseas production located? _____				
Is it a contract production or a company facility:	<input type="checkbox"/> Contract production	<input type="checkbox"/> Company facility		

Industry	
16. Approximately what percentage of U.S. market share do international competitors control for your company's primary product:	<input type="checkbox"/> 0% <input type="checkbox"/> 21%–50% <input type="checkbox"/> Under 20% <input type="checkbox"/> Over 50%
Where are the international competitors located (country or region)? _____	
17. Is overseas production by U.S. competitors :	<input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Decreasing
Please explain: _____ _____	
18. Is merger, acquisition or divestiture activity in your industry:	<input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Decreasing
19. Has the company's ownership changed in the last 18 months, or do you anticipate a change:	<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes, please explain: _____ _____ _____	
20. In your industry, is production:	<input type="checkbox"/> Under capacity <input type="checkbox"/> Balanced <input type="checkbox"/> Over capacity
21. Do you anticipate any federal, state, or local legislation changes that will adversely affect your business in the next five years:	<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes, what changes? _____	
How will they affect the company? _____ _____	
22. Do you anticipate any federal, state, or local legislation changes that will benefit your business in the next five years:	<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes, what changes? _____	
How will they affect the company? _____ _____	

To be filled out by the interviewer — Information is confidential

8.24.09

Management			
23. Has the company's top management changed or is it expected to change in the next 18 months: <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, please explain: _____ _____			
24. Are the projected employment needs for this facility: <input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Decreasing			
25. Will the following projected utility needs for this facility be increasing, stable, or decreasing?			
<u>Type of Utility</u>	Increasing	Stable	Decreasing
Water	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sewer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Electric	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Telecommunications	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26. Are the company's current facilities adequate for anticipated future operations: <input type="checkbox"/> Yes <input type="checkbox"/> No If no, why not? _____ _____			
27. What are the community's strengths as a place to do business? _____ _____			
28. What are the community's weaknesses as a place to do business? _____ _____			
29. Are there any barriers to growth in this community? <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, what? _____ _____			
30. Does the attitude among executives at corporate headquarters toward this community as a place to do business differ from local management: <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, please explain? _____ _____ _____			
31. Are there any reasons the community may not be considered for future expansion? <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, please explain? _____ _____			

To be filled out by the interviewer — Information is confidential

8.24.09

Workforce					
	Low 1	2	3	4	High 5
32. How do you rate the availability of workers in this area:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33. How do you rate the quality of workforce in this area:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
34. How do you rate the stability of workforce in this area:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35. As compared to other company facilities, how would you rate productivity in this facility:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
36. Is the number of unfilled positions:	<input type="checkbox"/> Increasing		<input type="checkbox"/> Stable		<input type="checkbox"/> Decreasing
37. Is the company experiencing recruitment problems with any employee positions or skills:					<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes, what problems, positions, skills? _____ _____					
38. Are primary recruitment problems limited to:	<input type="checkbox"/> Community			<input type="checkbox"/> Industry	
39. Is company investment in employee training:	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Decreasing	<input type="checkbox"/> No company training	
40. If investing in employee training, what percentage of the training budget is for:	New job skills training _____%		Remedial skills training _____%		
Notes: _____ _____ _____					

Marketing Information						
41. Are there suppliers or services that would benefit by being located closer to this facility:	<input type="checkbox"/> Yes	<input type="checkbox"/> No				
<i>If yes, company and location?</i> _____						
42. Are there customers that would benefit by being located closer to this facility:	<input type="checkbox"/> Yes	<input type="checkbox"/> No				
<i>If yes, company and location?</i> _____						
43. Please rate the quality of the following services provided by the community on a scale of 1 to 5.						
	Low 1	2	3	4	High 5	Does Not Apply
Police protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fire protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ambulance paramedic service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Traffic control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Public transportation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sewage treatment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Water quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
School (K–12)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Property tax assessment (fair & equitable)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Community planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regulatory enforcement (fair & equitable)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
City/Village services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
County services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please provide us with additional information on any items that you have rated a 2 or less.						

Do you have any other comments you would like to share? _____						

Thank you for your assistance.

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