Volume XV, Number 3 July 1985

CURA reporter

PUBLISHED BY THE UNIVERSITY OF MINNESOTA, CENTER FOR URBAN AND REGIONAL AFFAIRS

New Firms in Minnesota:
Explorations in Economic Change

by Paul D. Reynolds and Steven West

A Twin Cities printing and direct mail firm began in the late 1970s with seventeen employees. First year sales were about one million dollars. Sales doubled every year and reached twenty to thirty million dollars by 1984. The company had expanded to 130 employees.

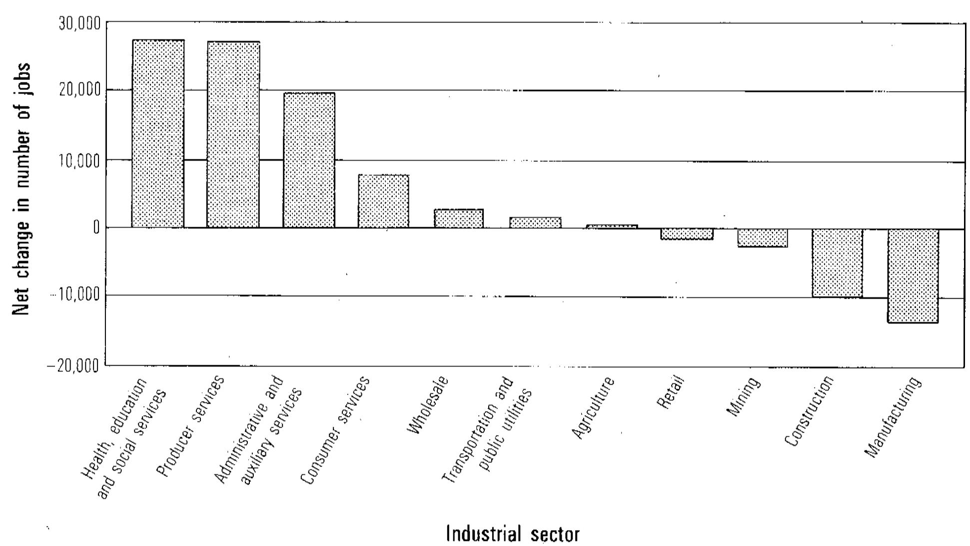
Three years after it opened, the sales of a hardware store in greater Minnesota approached two hundred thousand dollars. Beginning with eight employees, they still had eight employees in 1984.

"I operate a one person business, with my wife as part-time bookkeeper. We sublet, at this time, all manufacturing, shipping, and professional services. Simply, we operate a sales office and deliver top customer service in a service starved industry by interfacing customers and suppliers and placing our office in between, essentially a brokerage." After six years, sales reached two hundred thousand dollars in 1984.

These are three examples from the 551 new firms that were surveyed in the summer of 1984. All are businesses that have succeeded in Minnesota in the 1980s.

The Minnesota economy, like that of the United States, has undergone a number of changes in the recent past. Growth in employment with 58,000 new jobs added between 1978 and 1982, has accompanied a shift in location. Jobs in manufacturing and construction have been lost. But these losses have been more than offset by an increasing number of jobs in health, education, and the social services; in services to businesses; in specialized administrative and auxiliary units of large corporations; and in consumer services (Figure 1). In addition, it is possible that we are witnessing a shift in the organization of economic activity—a shift away from a few very large em-

Figure 1. EMPLOYMENT CHANGES IN MINNESOTA, 1978-82



SOURCE: U. S. Bureau of the Census, *County Business Patterns: 1978* and *1982* (Washington, D.C.: 1980 and 1984)

In This Issue

ployers and toward more work being divided among a larger number of smaller firms.

Such changes, along with the development and application of new technology, are first reflected in new firms. The 7,000 new firms* that annually start up in Minnesota provide a timely perspective on economic change.

To better understand the process and problems associated with the development of new firms, a survey of Minnesota new firms was completed in the summer of 1984. It provides substantial information and more detail than previously available about the process whereby new firms come into existence and the contributions these new firms make to the state's economy. The study especially sought to estimate the extent to which new Minnesota firms provide new jobs, contribute to the gross state product through the production of goods and services, and increase the gross state product through out-of-state exports of goods and services.**

A random sample of Minnesota firms was selected from Dun and Bradstreet's Market Identifier files. Firms were selected that had started in 1979 or 1982. They were chosen so as to represent all industrial sectors. Excluded from the list were nonprofits, government units, subsidiaries, and firms listed as headquarters. Phone calls were used to screen the list and identify autonomous, ongoing firms that were less than six years old. An executive involved in both the start up and the current management of these companies was offered a questionnaire by mail three times. For those who failed to respond, a phone interview was offered. The final response rate was 76 percent—a sample of 551 firms.

Types of New Firms

Two-thirds of all new firms are in services, retail, and construction industries. However, a more accurate and useful description of major changes in employment is provided when services are subdivided into the particular types of services offered. Producer services are services offered to businesses; banks, insurance, and real estate firms are included in producer services. Consumer services are those provided to individuals. And distributive services are services used to maintain specialized systems (such as wholesale distributors, utilities, refuse collectors, and bus companies). The sample of successful new firms encompassed seven industrial categories that were represented as follows:

Number of Firms	Industrial Category	Percent of Sample
102	Producer Services	19%
24*	Consumer Services	41
23	Distributive Services	22
85*	Retail	15
109	Construction**	20
105	Manufacturing	19
3	Agriculture	1
551	TOTAL	100%

*These numbers represent only one-third of new firms started in 1979 and 1984 in these categories.
**One mining firm is included in the construction industry.

Why Minnesota?

Almost all the executives surveyed, 90 percent, had not even considered starting the new firm outside of Minnesota. When asked why, the overwhelming response was "I live here!" This is consistent with most research on entrepreneurs; they start firms where they are established.

On the other hand, about two out of every five firms were considering an out-of-state move or expansion. Taxes were mentioned as a major reason for moving out-of-state. The major reason for considering an out-of-state expansion was the business potential it offered.

Where in Minnesota?

Two of every three new firms surveyed began in the Twin Cities area. The Twin Cities firms tended to have twice the annual sales and about 20 percent more employees than those in greater Minnesota. About four of five "high tech" new firms were located in the Twin Cities area. Within greater Minnesota, the northern third of the state was the least popular area for new starts, while the middle and southern thirds were equally popular. New firms in greater Minnesota were more heavily concentrated in retail businesses and distributive services than were new firms in the Twin Cities area. Over 80 percent of the new firms in producer services were initiated in the Twin Cities area.

The Process of Getting Started

Starting a new firm is marked by several events: by the major participants devoting substantial time and energy to the new firm, by the first sales of the firm, and by the first major financial support (bank loan or equity investment, for example). These events form the boundaries of a startup period or window. Although half of new firms surveyed experienced all three events within five months, the average window is twelve months long. It is shortest for new retail firms, averaging six months, and it is about a year for all other industries.

Before formal financing is obtained, the typical new firm requires about $76,000. Most of this comes from personal savings ($33,000) and salaries foregone ($11,000), with help from relatives and friends ($7,000) and supplier credit ($4,000) playing some role as well. The remainder is usually obtained through a bank loan. The pre-start financing required varies substantially by industry. The largest requirement ($124,000) is for distributive services, where much of the investment is needed for inventory by wholesale firms. Pre-start requirements in manufacturing are the next largest ($84,000). Consumer services ($25,000) and agriculture ($18,000) require the smallest pre-start financing. This perhaps reflects the low costs of starting an automobile or appliance repair shop or of starting a landscaping service.

Responses to an inventory of start up problems can be organized into four major categories: locating, selecting, and motivating employees; developing and implementing a strategic plan; assessing markets and the competition and creating a marketing plan; and obtaining financial backing. Those firms that reported the highest levels of sales and of employment universally reported more personnel problems than other firms, regardless of the industry. For all firms, problems with financial backing and marketing were more commonly mentioned as major problems than were problems with personnel and strategic planning. Firms with high levels of sales and employment did not differ from the others in reporting these problems.

Contributions to the State Economy

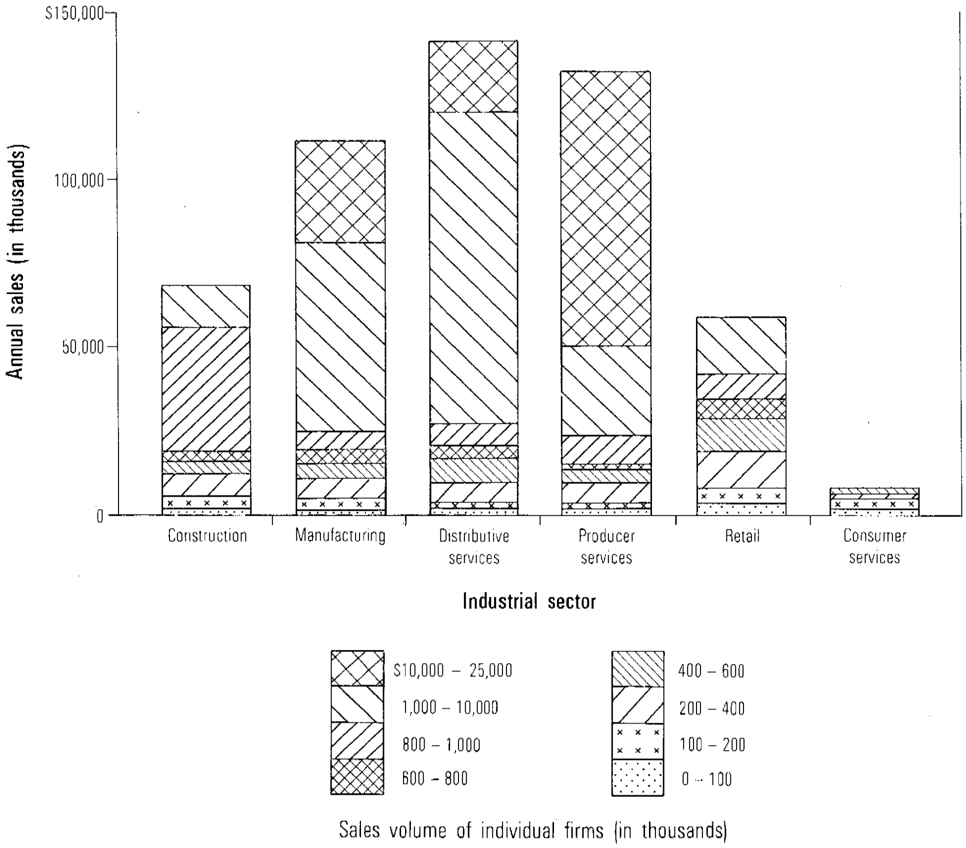
The size of the contribution which these new firms are making to the state varies substantially depending on the industry and the size of the firm. Contributions of the 551 new firms were examined in three areas: sales (how much they contribute to the gross state product), exports (how much they contribute to exports out of state), and jobs (how much new employment they provide).

The pattern of estimated 1984 sales is presented in Figure 2. Even though 40 percent of all new firms are in retail or consumer services, they represent less than 15 percent of the aggregate sales. Major sources of sales come from distributive services (of which 80 percent are wholesale firms), producer services, and manufacturing. Sales for each industrial sector are subdivided to show the proportional size of firms contributing to the total sales figure. The largest firms are clearly responsible for a substantial percentage of the total sales. Firms with 1984 estimated sales in excess of one million dollars are responsible for over three-quarters of the total sales in the three largest industrial sectors.

The effect of differences by industrial sector is more dramatic when domestic exports are examined (Figure 3). Out-of-state exports are almost nonexistent in construction, retail and consumer services. International exports (not shown) are nonexistent for all but the manufacturing sector, where they are almost negligible (only 3 percent of all 1984 sales). Again, domestic exports are

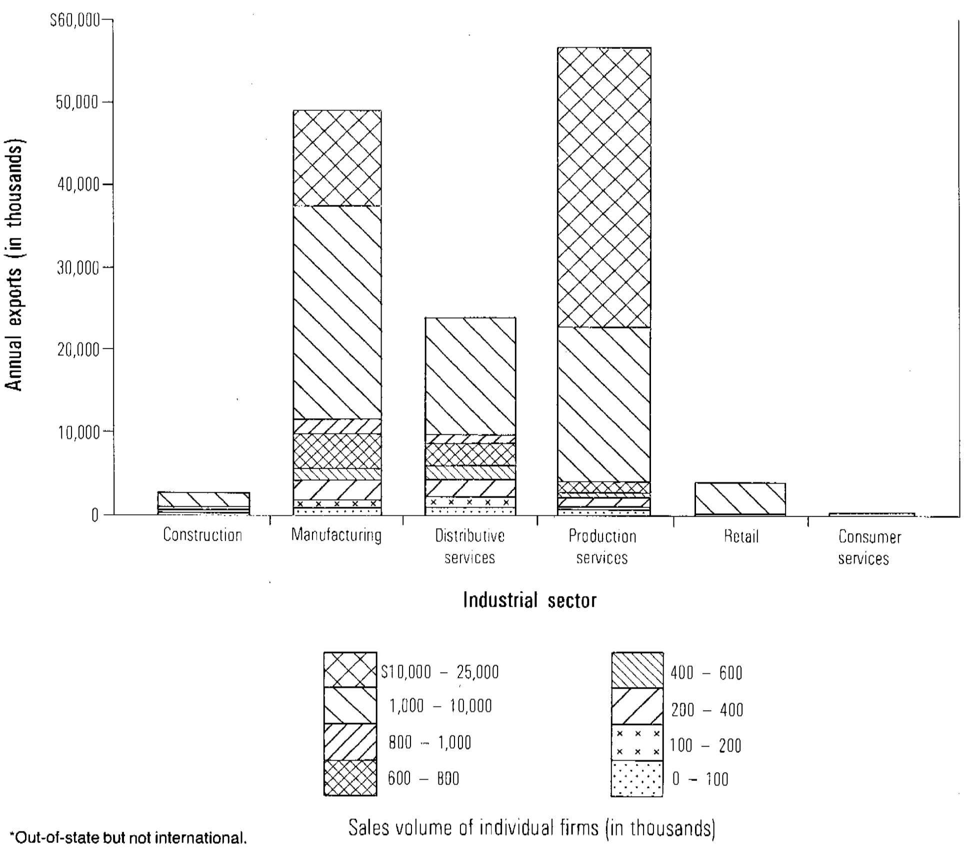
*Tauzell, John. "Survival of Minnesota New Businesses: 1977-1989." *Review of Labor and Economic Conditions.* Minnesota Department of Economic Security, August 1982, 9[2]:10:17.
**A limited number of draft copies of the report on Phase I of this study are available from CURA (612-373-7833).

Figure 2. ESTIMATED 1984 SALES VOLUME OF NEW FIRMS*



*Only one-third of the new firms in retail business and consumer sales were surveyed but results of their responses have been multiplied here to compensate for that difference.

Figure 3. ESTIMATED 1984 SALES VOLUME FOR DOMESTIC* EXPORTS OF NEW FIRMS**



*Out-of-state but not international.
**Only one-third of the new firms in retail business and consumer sales were surveyed but results of their responses have been multiplied here to compensate for that difference.

dominated by the larger firms. Those with exports in excess of one million dollars account for over 80 percent of all domestic exports.

By the summer of 1984, 7,000 jobs had been provided by the new firms in this sample. The largest single source of new jobs was the retail sector (Figure 4). All but two of these jobs were taken by Minnesota citizens. Almost three-fourths of the new jobs were managerial, professional, or required technical skills, but again there was substantial variation depending on the industrial sector. The largest percentage of unskilled work was provided by new retail firms.

The relationship between a high sales volume and a high employment rate is somewhat modest (a correlation of 0.46). Part of the reason is found by comparing Figures 2 and 4. High sales in distributive services are not associated with high employment; high employment occurs in the new retail firms where sales are relatively low. While the larger firms—those with more employees—are responsible for a major share of the new jobs, they do not dominate sales or domestic exports volume.

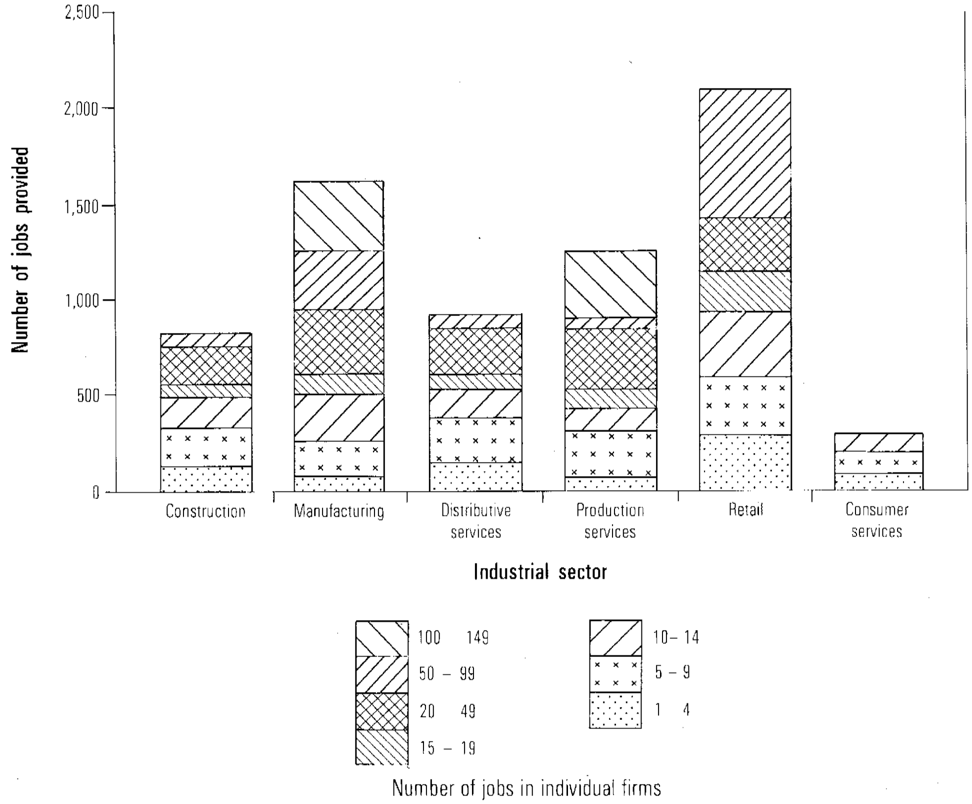
What About High Tech?

High tech firms were found only in three industrial sectors: manufacturing, distributive services, and producer services. High tech firms in manufacturing (about 5 percent of all manufacturing firms) tended to have twice the sales and four times the number of employees that traditional firms showed. The high tech firms in distributive services (10 percent) were comparable to other new distributive service firms in sales and number of employees. And the high tech firms in producer services (10 percent) were about half the size and had half the sales of other new producer service firms.

Firms were designated high tech if they were involved in: a) the manufacture of new or innovative products in computers, medical devices, or pharmaceuticals; b) the sale or servicing of computers or data processing equipment software; or c) the application of computer technology in the field of engineering, design, or business services.

The contributions of high tech firms are important, but they do not dominate the contributions of new firms as a whole. Their largest contribution, when compared with the other firms, is in domestic exports from distributive service firms. The jobs provided by new high tech firms tend to be similar to jobs provided by all new firms. However, high tech firms in manufacturing have fewer managerial and professional positions than traditional manufacturing firms; these firms tend to be involved in production. High tech firms in producer services tend to have more managerial and professional positions than traditional producer services firms; these firms tend to emphasize consulting and services related to technical, computer, and data processing concerns.

Figure 4. NUMBER OF JOBS PROVIDED BY NEW FIRMS* AS OF SUMMER 1984



*Only one-third of the new firms in retail business and consumer sales were surveyed but results of their responses have been multiplied here to compensate for that difference.

initial year. Low start, high growth firms overtake high start, low growth firms in the second year.

The relative contributions of high growth firms are substantial. The 31 percent of all high growth firms (both high start and low start) account for 80 percent of all sales, 90 percent of all domestic exports, and over half of all the jobs.

Predicting High Performance Firms

A number of factors were associated with high performance firms. There is, for example, considerable variation by industry (Figure 6). The distribution of low performance firms—those with modest initial sales and low growth rates—varies substantially from one industrial sector to the next. Although low performance firms are the most common type of new firm in all industries, they dominate the consumer services industry, representing 95 percent of all new firms. In contrast, high growth firms (whether they are high or low start) are much more prevalent in distributive services (45 percent), manufacturing (38 percent), and producer services (33 percent) than in the other industrial sectors.

Accurately predicting which firms will have a high potential seems possible. Approximately half the variation in current performance (for 1984) can be accounted for if one knows the volume of sales in the start-

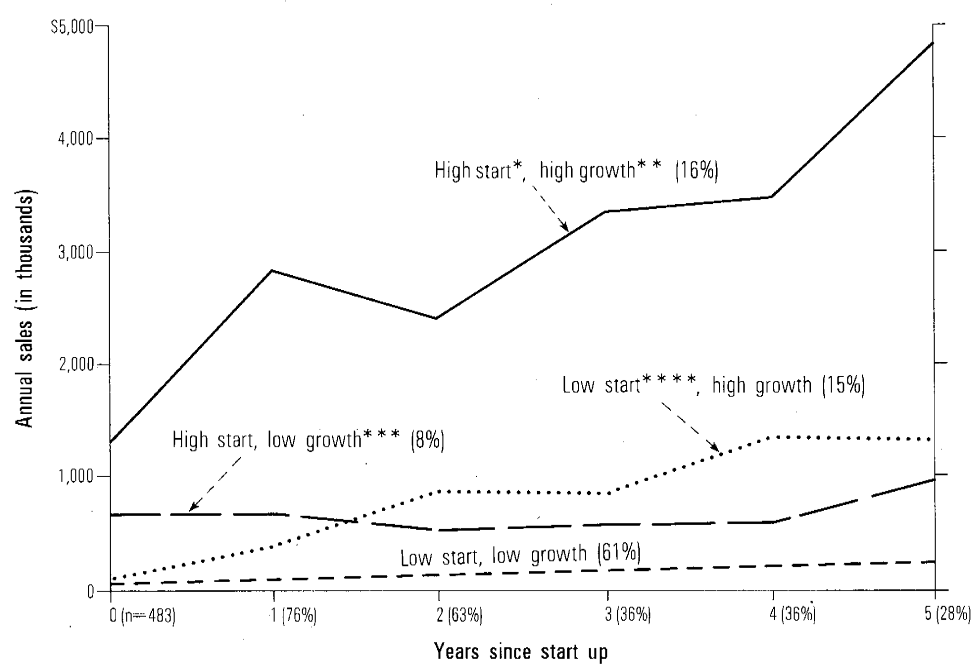
Patterns of Growth

It is clear that the more successful firms—those with high levels of sales, large exports, and high employment in 1984—are providing substantial contributions to the Minnesota economy. Variations in developmental patterns were explored by examining first year sales and sales growth in detail. Firms with initial sales in excess of $250,000 were classified as high start up firms; all other were considered low start up firms. Those firms with average annual sales growth greater than $100,000 were considered high growth; all others, low growth.

The result was four different types of firms: high, high (high startup status and high growth rate)—16 percent of the firms; high, low—8 percent; low, high—15 percent; and low, low—61 percent. The differences in 1984 contributions were substantial, the average high start, high growth firm provides twenty-five times the 1984 sales, on the average, as a low start, low growth firm—and it is five months younger. The same pattern is found in considering employment trends. Firms with a high start, high employment growth provide 15 times the number of jobs provided by those with a low start, low employment growth.

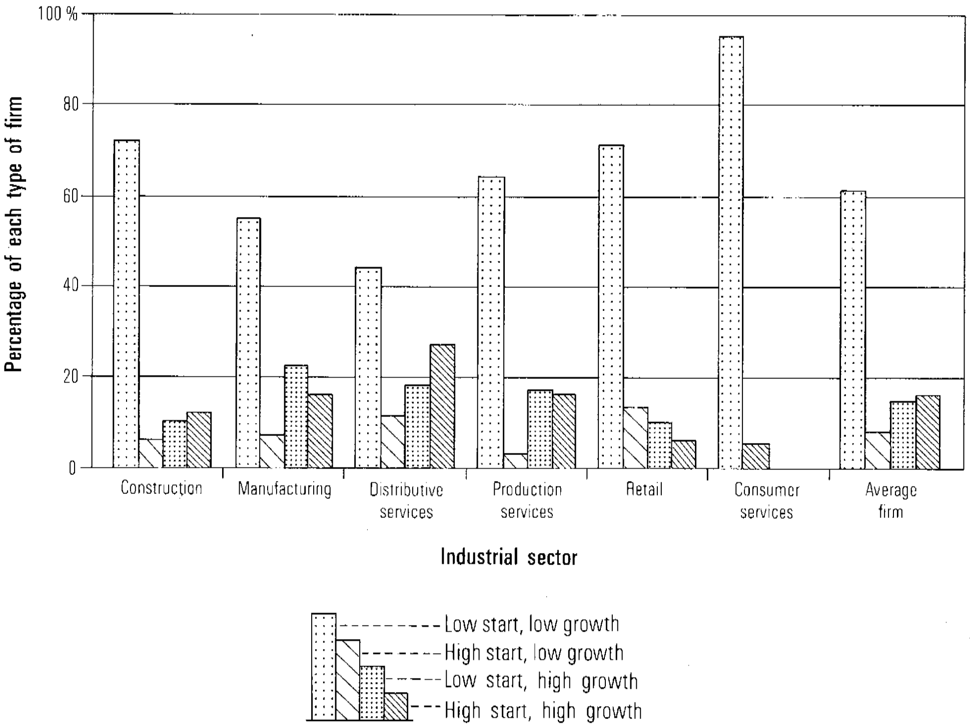
Differences in the sales histories of these four types of firms are striking (Figure 5). The differences are apparent early in the life of the firms and growth rates seem to be more critical than the volume of sales in the

Figure 5. SALES GROWTH OF NEW FIRMS



* Initial sales over $250,000
** Average annual sales growth over $100,000
*** Average annual sales growth under $100,000
**** Initial sales under $250,000

Figure 6. PERFORMANCE VARIATIONS OF NEW FIRMS BY INDUSTRY



ing year, the size of sales growth from the first to the second year, personnel related problems, and the firm's age. The firm's age is the least important of these factors. Predictability is greatest for industries with the largest proportion of low growth firms.*

Policy Implications

- Policies designed to encourage new firms should emphasize a broad range of industries and activities. Most new firms provide traditional goods and services. Even declining industries have a substantial number of new firms.
- Efforts to promote domestic exports should give equal emphasis to new firms in manufacturing, producer services, and selected segments of distributive services.
- Different strategies may be required to promote exports and employment, for they are not necessarily provided by the same firms. While high employment is associated with high sales; high sales are not always related to high employment.
- Efforts to promote international exports should not emphasize new firms; such exports are a very small factor in new manufacturing firm sales and absent in all other industries.
- If resources are provided to assist new firms, they need only be provided for two years after their initial sales. High growth rates are established early in the life of new firms.
- Difficulty in locating qualified employees is a universal start up problem. State and local government may develop programs offering the critical training and experiences needed by new firms.
- Dramatic shifts in school and training programs are not called for. Most new firms hire a broad range of employees, and three of four jobs in new firms required some post-high school training. Continued support of existing programs is needed.
- Efforts to attract new firms to Minnesota are unlikely to be effective. The vast majority of new firms are started by people where they are already well established. Efforts to attract the expansion of established firms to Minnesota, may have an impact.
- Assistance in developing basic strategies for planning, organizing, and managing resources (particularly cash flow) may be of benefit to new firms. It may be difficult to advise the principals involved in new firms on marketing since they are universally confident about the need for the products or services they provide.

*A first year follow up study—to be completed in the summer of 1985—will allow for an analysis of factors related to firm survival.

Paul Reynolds is a professor of sociology at the University of Minnesota. He has been on leave during the 1984-85 school year at the Wharton School, University of Pennsylvania, in Philadelphia. Steven West is a doctoral candidate in sociology at the University. In addition to working with Reynolds on this project, he worked on an earlier CURA project with the Urban Coalition of Minneapolis, analyzing the dynamics of the day labor market in Minneapolis.

The project reported here is sponsored by CURA with additional support from McKnight Foundation research funds provided by the University of Minnesota's School of Management, the University of Minnesota Computer Center, and the Wharton Computer Center of the University of Pennsylvania.

Figures prepared by the Cartography Lab of the University of Minnesota's Department of Geography.

Northeast Minneapolis:
Have Jobs Declined?

by William J. Craig

With the announced departure of Northrup King from Northeast Minneapolis, citizens said "enough" and approached the University's Center for Urban and Regional Affairs to document what they saw as a long term trend in the departure of jobs from Northeast Minneapolis and the impact that this has had on the community.

CURA went to three data sources to document what has been happening in Northeast Minneapolis. The first was the Minneapolis Community Development Agency which tracks business migrations to and from Minneapolis. The second was the U.S. Bureau of the Census which queries citizens about themselves and their homes every ten years. The third source was the Minnesota Department of Employment Security which uses payroll records of Minnesota firms to count employees by location and by industry.

These data were collected and are summarized here. Because no information is available on the place of work for residents of Northeast Minneapolis before the 1980 census, no attempt is made to directly relate the data on company migrations with data on the changes in the community. This analysis is left to those more familiar with the individual firms and commuting patterns of Northeast Minneapolis.

Company Migration

Northeast Minneapolis appears to have gained companies and jobs in the last decade if one uses data available from the Minneapolis Community Development Agency (MCDA). In two reports the MCDA shows a loss of seventeen firms and 1,226 jobs through outmigration from 1972 through 1983 (Table 1). Countering this, however, has been the addition of twenty-two new firms with at least 2,346 employees since 1977 (Table 2). Using only this data, it would appear that Northeast Minneapolis has gained nearly two jobs for every one lost in the past decade. Furthermore, a great majority of the firms that did migrate out of Northeast Minneapolis, did not move far and are still within easy commuting distance for residents of that part of the city.

It should be noted, however, that MCDA readily admits that it does not have information on all firms. Data on outmigration during the 1980-83 period was provided by only 43 percent of firms known to have moved out of Minneapolis during that period. If that ratio held for Northeast and for firm size, this portion of the city would have lost four more firms and 156 more jobs. Also missing from the job loss column is information about firms that simply went out of business or that constricted and laid-off employees. On the other hand, Table 2 covers the First Ward only; many other jobs may have been added in the Third Ward portion of Northeast Minneapolis.

Long-Term Economic and Demographic Changes

The economic and demographic changes in Northeast can be measured, in part, by studying and comparing data from the 1960, 1970 and 1980 censuses of population. Data in the census is obtained from people where they live, not where they work. The census provides information about the people who lived in Northeast at each of these dates (Table 3).

The population has shrunk drastically, nearly 30 percent, during this period. This is part of a national, indeed worldwide, trend of older urban areas losing population as households become smaller. Comparing the losses in Northeast to the rest of Minneapolis, the decline in population seems less dramatic. Whereas Northeast con-

Table 2. NEW COMPANIES IN MINNEAPOLIS' FIRST WARD,* 1977 - September 1984

Company Name	Number of Employees
Bureau of Engraving, Inc.	1,100
Harmony Engineering, Inc.	70
Koehler, Dramm & Johnson	12
Minnesota Metal Finishing	35
Rex Distributing Co., Inc.	70
Stevens Fabric Co.	80
Northern Cargo	60
Cadillac Plastics & Chemical Co.	6
Mn. Battery & Radiator, Inc.	2
Hilton Hotel - Restaurant	250
S & M Co.	25
White Castle	50
White Brokerage Co.	9
Paccom, Inc.	40
Spectrum (HEN, Inc.)	62
General Dairy PASALC	50
Federal Express	N.A.
Bankers Plus	10
National Cash Register	400
Hiline Co.	15
General Systems	N.A.
Star and Tribune	N.A.
TOTAL (for 19 of 22 firms)	2,346

*All of the First Ward is in Northeast Minneapolis. In addition, Northeast includes about half of the Third Ward.

SOURCE: Memo from Don Risk, Minneapolis Community Development Agency, to Walter Dziedzic, First Ward Alderman, September 4, 1984.

Table 1. COMPANIES LEAVING NORTHEAST MINNEAPOLIS, 1972-1983

	Company Name	Number of Employees	Destination
1972-1979	Twin City Scrap	3	St. Paul
	Bond Tool and Dye	21	Brooklyn Center
	East Side Beverage	52	St. Paul
	Royal Beverage Distributing Co.	3	New Brighton
	Toledo Scale Company	13	Brooklyn Park
	Twin City Tool Company	10	Cambridge
	CEA Carter Day Company	655	Fridley
	Hydraulic Specialty Company	18	Fridley
	Lowy Enterprises	60	New Brighton
	Certainteed Corporation	140	Shakopee
	K-Tel International	50	Minnetonka
	Gazda-Bekin Moving & Storage	13	Fridley
	Independent Millwork	50	Brooklyn Park
	Hiawatha Rubber Company	60	Brooklyn Center
	LaPatrice Beauty Supply	10	Wisconsin
1980-1983	Kuether Distributing Company	26	Fridley
	Quality Wine and Spirits (Old Peoria)	75	Bloomington
	Rollins Oil Company	17	Roseville
	TOTAL (for 18 firms)	1,276	

SOURCE: *Industrial Migration Study, 1972-1979,* (Minneapolis: Minneapolis Community Development Agency, May 1980), and *Industrial Migration Study, 1980-1983* (Minneapolis: Minneapolis Community Development Agency, December 1984).

tained 10.9 percent of the city's population in 1960, by 1980, it contained 10.2 percent. It is losing population relative to the rest of the city, but at a fairly slow rate.

During this period, the median family income in Northeast has more than tripled. This gain is largely due to inflation, however. Again, Northeast needs to be compared to the city as a whole to put this number in perspective. In this light, things have gotten noticeably worse in Northeast as its median family income has dropped from being more than one-third above the city norm to slightly lower than the city norm. Compared to the city as a whole, median family income in Northeast has dropped about 40 percent.

Inflation has also increased the median value of a home in Northeast, keeping pace with the rest of the city. In 1960 the value of a home in Northeast was 93 percent of the standard for the city as a whole. It was the same percentage two decades later.

Largely because of the population decline, the absolute number of jobs held by residents of Northeast has fallen over time but the number of jobs per resident has grown. Indeed, the percentage of the population having a job has increased over time from 40.6 percent to 49.8 percent. While this percentage is slightly below the city percentage, the rate of growth in jobs per resident has exceeded that of the city as a whole.

One measure of stability in a neighborhood is the number of owner occupied homes. After a significant loss of such homes during the 1960s, the number of owner occupied homes has increased during the 1970s. In fact, the percentage of the city's owner occupied homes which are in Northeast has grown slightly over the two decades from 11.6 percent in 1960 to 11.9 percent in 1980.

Long-Term Changes in Employment Patterns

The structure of employment of residents of Northeast has also changed over time. Again the information is from the Census of Population for the years 1960, 1970 and 1980. The census contains information by both "occupation" and "industry." Occupation is an indicator of the type of job a person does while industry is an indicator of the type of company providing the job. For example a secretary (occupation) could work in a doctor's office or in a manufacturing plant (industries).

Looking first at the occupational structure of the residents of Northeast (Table 4), there has been a noticeable drop in the number of blue collar workers. This decline has been consistent throughout the two decades. Blue collar workers have only partly been replaced by white collar, pink collar, and service workers. White collar growth has been the strongest, going up 45 percent in two decades, but even this growth has been unable to compensate for the net loss of over 3,000 blue collar workers. The city as a whole has also lost blue collar workers but at a somewhat slower rate.

Turning to industry (Table 5) we see a similar pattern where there are now 2,651 fewer people employed in manufacturing industries than there were two decades ago. Employment in the manufacturing in-

Table 3. ECONOMIC AND DEMOGRAPHIC CHANGES, 1960-1980

	1960	1970	1980	Percent Change 1960-1980
Population				
Northeast	52,691	46,289	37,912	−28.0
Minneapolis	482,872	434,400	370,951	−23.2
NE percent of Mpls.	10.9	10.7	10.2	−.7
Median Family Income				
Northeast	$ 6,340	$ 10,031	$ 19,452	206.8
Minneapolis	4,598	9,960	19,737	329.3
NE percent of Mpls.	137.8	100.7	98.5	−39.3
Employed Persons				
Northeast	21,384	20,771	18,895	−11.6
Minneapolis	212,144	196,325	190,727	−10.1
NE percent of Mpls.	10.1	10.6	9.9	−.2
Percent of Population Employed				
Northeast	40.6	44.9	49.8	9.2
Minneapolis	43.9	45.2	51.4	7.5
Owner Occupied Homes				
Northeast	10,130	9,388	9,448	−6.7
Minneapolis	87,412	79,653	79,655	−8.9
NE percent of Mpls.	11.6	11.8	11.9	.3
Median Value Home				
Northeast	$ 12,700	$ 17,000	$ 49,000	285.8
Minneapolis	13,700	17,900	52,600	283.9
NE percent of Mpls.	92.7	95.0	93.2	.5

SOURCE: U. S. Bureau of the Census, *Census of Population,* (Washington D. C.: 1960, 1970, 1980).

Table 4. CHANGES IN OCCUPATION OF RESIDENTS, 1960-1980

	1960**	1970	1980	Percent Change 1960-1980*
White Collar[1]				
Northeast	2,789	3,158	4,034	44.6
Minneapolis	43,084	45,145	58,638	36.1
NE percent of Mpls.	6.5	7.0	6.9	.4
Pink Collar[2]				
Northeast	5,545	6,008	5,836	5.2
Minneapolis	64,261	61,941	57,914	−9.9
NE percent of Mpls.	8.6	9.7	10.1	1.5
Blue Collar[3]				
Northeast	9,442	8,625	6,227	−34.0
Minneapolis	63,517	59,070	44,150	−30.5
NE percent of Mpls.	14.9	14.6	14.1	−.8
Service[4]				
Northeast	2,424	2,980	2,798	15.4
Minneapolis	26,992	30,169	30,025	11.2
NE percent of Mpls.	9.0	9.9	9.3	.3

*Because of changed definitions for classes of occupations, indicated changes over time may not be precise.
**In 1960 between 5.1 and 5.8 percent of workers did not report an occupation (1,091 in Northeast; 12,335 in Minneapolis).
[1] 1960 and 1970 (professional and technical; managers and adminstrators), 1980 (managers and professional specialty; technicians).
[2] 1960 and 1970 (sales; clerical), 1980 (sales; administrative support).
[3] 1960 and 1970 (craftsmen and foremen; operatives; transport;laborers; farm), 1980 (precision production; operators, fabricators and laborers).
[4] 1960 and 1970 (service; private household), 1980 (service).
SOURCE: U. S. Bureau of the Census, *Census of Population,* (Washington D. C.: 1960, 1970, 1980).

dustry has declined 35 percent (the same as for the city as a whole), while total employment in Northeast has declined only 12 percent.

Short Term Changes in Employment in Northeast

Data are available from the Minnesota Department of Employment Security showing the number of employees working for companies located in Northeast. These data are collected from firms who may be reporting all employees from a central office even though the actual jobs are elsewhere, but this is the only major potential weakness in the data. Major advantages are that the data show information for all firms and that this information can be reported separately by industry (Table 6).

These figures show an absolute decline in the number of jobs in Northeast. During the same period, the city as a whole also lost jobs, but not as quickly as in Northeast.

Separating out employment by industry, we see that of the 3,000 jobs lost from Northeast, only 400 were in non-manufacturing, but these 400 were enough to let Northeast slip in its percentage of these jobs compared to the city as a whole. Nearly 1,000 manufacturing jobs were lost during the same period, yet the city lost manufacturing jobs at a faster rate so that Northeast increased its proportion of these jobs. The largest number of jobs lost, nearly 1,600, were jobs in the government sector.

Table 5. CHANGES IN EMPLOYMENT OF RESIDENTS BY INDUSTRY 1960-1980

	1960	1970	1980	Percent Change 1960-1980
Manufacturing*				
Northeast	7,475	6,025	4,824	−35.5
Minneapolis	51,770	40,327	33,736	−34.8
NE percent of Mpls.	14.4	14.9	14.3	−.1
Wholesale & Retail Trade*				
Northeast	4,434	4,735	4,260	−3.9
Minneapolis	46,586	44,605	41,148	−11.7
NE percent of Mpls.	9.5	10.6	10.4	.9

*Only these two industries are available at tract level for all three censuses.

SOURCE: U. S. Bureau of the Census, *Census of Population,* (Washington D. C.: 1960, 1970, 1980).

Table 6. EMPLOYMENT IN NORTHEAST FIRMS BY INDUSTRY, 1978-1982

	1978	1979	1980	1981	1982
Manufacturing					
Northeast	10,287	10,732	10,981	9,950	9,337
Minneapolis	51,942	49,886	51,227	48,427	45,828
NE percent of Mpls.	19.8	21.5	21.4	20.5	20.4
Non-Manufacturing*					
Northeast	15,333	15,641	16,539	15,600	14,928
Minneapolis	175,077	176,903	179,633	179,359	175,038
NE percent of Mpls.	8.8	8.8	9.2	8.7	8.5
Government					
Northeast	7,515	7,031	6,035	6,141	5,928
Minneapolis	41,524	42,188	41,871	41,891	41,863
NE percent of Mpls.	18.1	16.7	14.4	14.7	14.2
TOTAL EMPLOYMENT					
Northeast	33,135	33,404	33,555	31,691	30,193
Minneapolis	268,543	268,979	272,733	269,677	262,729
NE percent of Mpls.	12.3	12.4	12.3	11.8	11.2

*Combines construction; transportation, communications, and utilities; retail trade; finance, etc.; and services.

SOURCE: Minnesota Department of Employment Security.

In Conclusion

Though no attempt has been made to analyze these data from disparate sources, a summary is offered in conclusion.

- More companies and jobs have been moving into Northeast than have been moving out. Where firms have left the city, most have moved to nearby communities, within commuting distance for Northeast residents.
- Northeast has lost population during the past two decades, but the rate of loss is only slightly faster than that for Minneapolis as a whole. During this same period it has lost employed persons at a slower rate, so that the percentage of the population employed has risen over time.
- Looking at measures of well-being through this period, the result is mixed. The proportion of owner-occupied homes has risen while the value of these homes has remained stable. On the other hand, compared to the city as a whole, the median income of Northeast families has dropped 40 percent.
- Comparing the above statements, one must conclude that the jobs currently held by the residents of Northeast, whether in their neighborhood or elsewhere in the Metropolitan area, do not pay as well as the jobs held two decades earlier.
- During the period 1960-1980 it becomes clear that the largest job loss has been in blue collar jobs and in manufacturing industries. The rates of loss in these areas have also exceeded similar changes for the city of Minneapolis as a whole. Job gains have come in other occupations and industries, but, given the decline in family income during the same period, it appears that these new jobs have not paid as well.
- A more detailed look at changes in employment by industry is available for the years since 1978. During this period, employment in manufacturing in Northeast declined. Largest losses during this period, however, came from a declining number of jobs in the government sector.

William Craig is CURA's assistant director.

Twin Cities' Festival Markets:
The Merchants' Perspective

by Judith A. Martin

Shoppers, curiosity-seekers, loiterers, and loyalists can all be found in local festival markets. They are there for different reasons, in different seasons, and at different times of the day. St. Anthony Main, Riverplace, and Bandana Square would be dreary spots without them. The merchants though are the constant in this daily drama. Their perspective is important for gaining insight into the current condition of festival markets, and for glimpsing something about their future prospects.

The Variety of Merchants

Interviews were conducted last year to learn what merchants and store-owners in local festival market settings think about their situations. Interviews were conducted at St. Anthony Main during the summer, at Riverplace, Bandana Square, and again at St. Anthony Main in the late fall. Where possible, the owners of the establishments were interviewed; in other cases, salesclerks were contacted. All were asked to talk about the physical assets of their particular location, who their clients were and where they come from, and to give their views about the business climate of their particular setting.

Many of the merchants in these settings are vendors of food; most of the rest purvey women's clothing, collectibles (including poster art work, pottery, and knick-knacks), specialized "white goods" (down comforters and the like), and some specialties like books, jewelry, games and tobacco. Most of the merchants strongly emphasize personal services in their businesses—this is especially crucial for the non-food merchants who are more reliant on a regular customer base.

Contributions of Location and Design

One of the assumptions underlying festival markets is that problems resulting from less favorable locations can be offset by marketing techniques. Merchants at St. Anthony Main had divergent views on this subject. One respondent claimed that the central location of St. Anthony was its most important feature, while another thought that amenities (the river, for example) drew customers even though the location itself was inconvenient. The inconvenience of that particular location was underscored by another respondent who claimed "people from the suburbs don't know where the river is." Merchants at Riverplace, just three blocks away, were more consistent: one summed up the feelings of many by stating that Riverplace was well-situated with regard to the entire metropolitan area, but especially with regard to the "pricey downtown crowd and the nearby condo people." Bandana Square merchants responded quite differently, trying to justify their presence in what many think of as an "out-of-the way location." One merchant noted that "people do not just happen to come across Bandana Square in the course of their day," hoping that this implied more serious shopping intentions on the part of those present.

Most of the merchants had clear and strong ideas about how much the design and layout of the festival market contributed to their economic prospects. Many Riverplace business-people identified "the overwhelming beauty of the building" as the essence of Riverplace. Several shopowners mentioned appreciation of the visibility within the building and the interconnectedness of the complex. But merchants also mentioned the confusion engendered by their surroundings—they felt that customers couldn't tell what had been preserved and what was newly-constructed—though they sensed that people were fascinated by the historic qualities of the place anyway. Several merchants identified Riverplace as a place to "escape from Minnesota" and emphasized its "European" character as the reason for this feeling.

Merchants at St. Anthony Main felt that the restored and historic character of their premises helped their businesses. It encouraged those who initially came only to eat, to wander around. The history found in the place was important, but even more important was the "warm character" of the shops, and the sense of activity that is present. Many explicitly contrasted their operations with the "anonymity" of suburban shopping centers. Significantly, the perceptions of the merchants at St. Anthony were quite consistent with those expressed by shoppers.

Merchants at Bandana Square expressed somewhat different views. Though they too were often motivated to locate their shops by considerations about architecture, design, and in this case, the overall theme of the market, other things weighed heavily for them. Most mentioned the "laid-back and mellow atmosphere" as what attracted them, comparing this favorably with the fast-paced feelings of other locations they had considered. The sense that one got from these people was that they were consciously looking for something different from the merchants at St. Anthony or Riverplace.

Responses to the Management

As of last year, the Bandana Square merchants, though satisfied with their surroundings, were less positive about their economic straits. Most thought that things were not going as well as they might. They said that advertising had not been effective, that the entertainment aspects of the complex had been over-emphasized, and that this had not translated into sales. Most were looking forward to the opening of the SHARE clinic and the arrival of the Children's Museum as events that would bring people into the area.

By contrast, Riverplace businesses were quite content with the management. The aggressive advertising done by the management won high marks from all—it made the project seem a "serious" shopping complex. Though almost all appreciated the fun aspects of the place (jugglers, movies, and such), few saw this as anything more than another kind of promotional effort. Riverplace's promotional effort has generated some conspicuous envy in their St. Anthony Main competitors. As one shopowner said, "They push the place, they push the concept." Some St. Anthony merchants explicitly hoped that they would indirectly benefit from the massive Riverplace ads, since the advertising efforts of their own complex were minimal at best.

Customers

St. Anthony merchants agreed that south Minneapolis, and the southern and western suburbs provided most of their clientele. Customers were thought to be about equally divided between downtown professionals (both the young and the more mature) and University students. The local area was another source of customers that was frequently named—for example, the specific part of downtown across the Third Avenue Bridge or residents of Winslow House. Merchants agreed that the tourist trade was an important component of business. But so was the traffic generated by people "redoing" St. Anthony—"customers coming back with a friend or two, showing the place off."

Riverplace merchants identified their customers as being members of "the downtown crowd" and "moneyed condo people." One shopowner had a surprising response in identifying 85 percent of her customers as Europeans. At Bandana Square, the major source of customers was identified as the Grand Avenue area, where many of the merchants had formerly been located. Some merchants could say more about who was ignoring them than about who was patronizing their establishments; the people in the surrounding area seemed not to know about the complex, and the people in the nearby condos seemed to be shopping elsewhere. This complaint was sometimes related to the need to attract younger families to the Midway area of St. Paul in order to provide the necessary customer base for their goods and services. (It should be noted that there are much larger crowds now patronizing Bandana Square than when these interviews were conducted, so these complaints may well have resolved themselves).

Doing Business in Festival Market Settings

The advantage of locating a business in a local festival market was remarked upon frequently, often with great appreciation. The common theme was that each place is "more than just a shopping center." At Riverplace one merchant explained, "you have to understand that this is what is called festive merchandising," comprising "a family oriented atmosphere, cultural events, art, and just more life to the place." The implicit argument here is that having fun leads to greater spending. This idea is reinforced by arrangements which coordinate shop hours with special activities.

St. Anthony Main's merchants almost always compared their operations (favorably) to those of suburban shopping centers. "The Dales are anonymous, St. Anthony Main is special." People were thought to come to St. Anthony because "it's someplace different" and because "it's a place to go to, there are things to do, you can have a good time here." At the same time, each shop must present itself "as a novelty, since few people come to St. Anthony prepared to buy something." People come to find things that are unattainable elsewhere. Nearly all of the merchants felt that the diversity of uses—the mixture of specialized shops and food purveyors all in one building—was an asset to all of the businesses.

Hopes for the Future

It is clear that festival market merchants were not equally enchanted with their situations. Nearly all were optimistic about their future prospects though this may be unrealistic. As some merchants noted, there are "too many of these places around now to justify the market." But, in typically optimistic terms, everyone assumes that the "other guy" will be the one to fail.

Riverplace merchants, as a group, were the most positive. They were sure that their surroundings would promote continued success. Many applauded the future link-up of Riverplace with St. Anthony Main, coming in the newest construction phase. This was viewed as a benefit for both places—something that would solidify the river's position as an entertainment/marketplace for the entire region.

St. Anthony Main merchants echoed some of the Riverplace comments, especially about the new development which will link the two projects and include several movie theaters. They were sure that this will bring in new customers. As one owner said, "a lot of the people who are coming to the area for Riverplace are realizing St. Anthony Main is just next-door. We get a lot of cross-traffic." Some merchants recognized that they will probably have to settle for a smaller share of the market than they once had, given all of the new competition. One St. Anthony merchant criticized the large number of "weak stores" in the Riverplace complex; and another thought that the "garish" brass and green atmosphere would quickly become dated, "It's very much an eighties look." All of these owners assumed that St. Anthony's natural look, and it's proven formula would hold up better and longer.

Merchants at Bandana Square were also optimistic about their prospects. They hoped that "beefing up" the complex by adding more restaurants would begin to address some of the problems they had identified. "Bandana Square is one of the better things to have ever happened to St. Paul." The things that were already planned for the area—the relocation of the Children's Museum, the new health club, the proposed trolley line to Como Park—would all benefit them in the long run. The standard "more than a shopping center" theme was quite prevalent. In thinking about their future, Bandana Square merchants consistently compared themselves to an earlier, and familiar, St. Paul commercial success. Many referred to Bandana Square as St. Paul's "Main Street" and said they thought of it as needing a neighborhood image, like that of Grand Avenue, to enhance its future prospects.

Conclusion

Festival market merchants, in the Twin Cities and elsewhere, think of themselves as a new breed of entrepreneur. Running a retail establishment is not especially novel or unusual, but doing so in a setting that is oriented to fun and entertainment as much as to commerce is considered both a risk and an adventure by many of those interviewed. Many recognize the risks involved: trying to sell non-necessary goods in a place where most people have come merely to eat or to look around, falling out of favor as newer and fancier marketplaces come onto the scene, and having people simply lose interest in the concept of festival marketing. On the plus side is the fact that most merchants in these settings are directing their efforts toward a portion of the population with high disposable incomes—if the quality of the goods for sale is high enough, or unusual enough, and the entertainment is constantly changing, perhaps people will continue to be drawn.

As long as the local festival markets are considered tourist attractions they have a built-in market, at least for a portion of the year. The danger, of course, as several of the merchants themselves indicated, is the possibility of market saturation. If there are too many festival markets in the Twin Cities to be supported by available disposable incomes, then some will undoubtedly fail. There are no solid indications yet that this is a likely scenario. But the merchants interviewed were aware of this prospect, and some were quite concerned. It may be that the Twin Cities has already reached the limits of its festival market potential. Time, and the construction of newer markets of this type, will ultimately provide the answer. In the meantime, the merchants in these settings continue to be generally optimistic, and to enjoy doing business in a slightly unconventional location.

Judith Martin is coordinator of Urban Studies in the University's College of Liberal Arts. This article is a continuation of her report on festival markets in the May 1985 *CURA Reporter.* Tom Lussenhop, a recent graduate of the College of Liberal Arts, worked with Martin on this study.

Photo by Judith Weir.

Student Papers in the Public Administration Library

Research papers prepared by masters degree candidates in the Hubert H. Humphrey Institute of Public Affairs are housed in the Public Administration Library after they have been approved by the Institute's faculty. Because many of these papers are of interest to our readers, we periodically list recently acquired papers (Plan B papers as they are called). The Public Administration Library is located in room 365, Blegen Hall, West Bank Campus of the University of Minnesota (612/373-2892). The faculty advisor for each study is indicated at the end of the entry.

Albrecht, Colleen Boyle. A portfolio of work prepared while employed as the housing coordinator for the city of Ames, Iowa. 1984. var. pp. Brandl.

Becker, Steven J. Management support organizations Twin Cities directory: technical assistance for non-profits. 1983. 66 pp. Dewar.

________. Managing organizational change: a training and development seminar. 1983. 39 pp. Bryson.

Boyer, Violet A. Education vouchers. 1983. 31 pp. Brandl.

________. Minneapolis budget process case study: fire department fiscal year 84. 1984. 34 pp. + appendices. Brandl.

Forsberg, Mary E. Legislative budgeting: Minnesota state income tax: seventy-third session. 1983. 44 pp. Jernberg.

________. Policy inputs in state taxation: the role of audit. 1984. 42 pp. + appendix. Nelson.

Howes, Robert Craig. The Minneapolis infrastructure project. 1984. 45 pp. Lukermann.

________. The Saint Paul food resources project and the small farmer. 1984. 27 pp. Dewar.

Kelly, Anne. The Grand Portage Lodge and Conference Center: an economic development case study. 1984. 31 pp. Dewar.

________. A planning case study analyzed according to the contingent project planning model of John Bryson and Andre Delbecq. 1984. 47 pp. Bryson.

Langaas, Odd. Scandinavian administrative law. 283 pp.

Miller, William G. Communication using the geostationary orbit. 1984. 34 pp. Geesaman.

________. Economic theory for the antitrust practitioner: its uses and limitations. 1982. 35 pp. Heller.

Munkberg, Deborah L. Housing in downtown Saint Paul: an assessment. 1984. 48 pp. Lukermann.

________. Regional surface water planning: an analysis of chapter 509. 1984. 36 pp. Bryson.

Murphy, Catherine McCann. East Side Neighborhood Service Inc.: 1982 volunteer program analysis. 1984. 21 pp. Dewar.

________. Information systems support for land management. 1974. 32 pp. + appendices. Einsweiler.

Pepin, Constance. Computer-based education: unfulfilled promises. 1983. 58 pp. Geesaman.

________. Public affairs research at the Citizens League: a portfolio. 1984. var. pp. Jernberg.

Rogness, Daniel. A framework for orderly growth implementation: an example of orderly annexation. 1984. 68 pp. Lukermann.

________. Home ownership assistance efforts: the metropolitan housing fund. 1984. 46 pp. Einsweiler.

Schoenecker, Craig Virgil. The final report of the task force on the future funding of post-secondary education. 1983. 94 pp + appendices. Ammentorp.

________. A portfolio of papers prepared during my employment at the Hennepin County Welfare Department. 1984. 27 pp. + attachments. Jernberg.

Sutter, Joel Allen. Major trends in Minnesota public school spending, 1970 through 1982. 1983. 51 pp. Jernberg.

________. Student proficiency testing: background information and recommendations for Minnesota policy. 1984. 52 pp. Sederberg.

Sveinbjornsson, Finnur. The Mundellian prescription for the simultaneous achievement of internal and external balance and a comparison with stabilization policies in an economy with a flexible exchange rate. 1984. 25 pp. Hoenack.

________. The value-added tax: what is it and should it be introduced in Iceland? 1984. 42 pp. Heller.

Tappert, Tod Neil. Program planning for special client populations in sexually transmitted disease clinics in major metropolitan areas: the homosexual male. 1984. 83 pp. Block.

________. Working with multiple sclerosis: a discussion of employment issues related to MS. 1984. 54 pp. Dewar.

Tornblom, Claudia L. Water project planning and environmental quality. 1984. 30 pp. + appendix. Waelti.

________. Writings on water resources policies and programs. 1984. 49 pp. + appendices. Abrahamson.

Wartchow, Diane. Training and welfare: college programs and AFDC mothers. 1984. 25 pp. + appendices. Dewar.

________. Work and welfare. 1984. 35 pp. + appendices. Brandl.

CURA Publications Order Form

New CURA Publications

- ☐ **Community-Based Economic Development in Minnesota: An Update.** Thomas Lussenhop. 1985. CURA 85-1. 27 pp. Free.
- ☐ **The Hmong in the West: Observations and Reports.** Bruce T. Downing and Douglas P. Olney, eds. CURA/Southeast Asian Refugee Study Project. 1982. Second printing. 1985. CURA 82-1. 401 pp. $7.00* + $1.25 postage.
- ☐ **Minnesota Citizens Attitudes Towards Public Education.** William J. Craig and Shane Pederson. 1985. CURA 85-2. 31 pp. Free.
- ☐ **Minnesota K-12 Education: The Current Debate, the Present Condition.** Thomas R. Peek, Edward L. Duren, Jr., and Lawrence C. Wells. 1985. CURA 85-3. 152 pp. Free.

Other Recent Publications

- ☐ **The Berman, Weiler Study of Minnesota Student Performance: A Critical Review.** Edward L. Duren, Jr. and Thomas R. Peek. 1984. CURA 84-4. 16 pp. Free.
- ☐ **Community-Based Economic Development Organizations in Minnesota.** Jeffrey D. Freeman. 1984. CURA 84-2. 33 pp. Free.
- ☐ **Growing Energy Crops on Minnesota's Wetlands: the Land Use Perspective.** Jeffrey P. Anderson and William J. Craig. 1984. CURA 84-3. Free.
- ☐ **Institutionalizing Organized Citizen Participation: Challenges and Opportunities.** Karen M. Hult. 1984. CURA 84-5. 37 pp. Free.

*Minnesota residents add 6 percent sales tax.

I enclose a check or money order for $________________.

name

address

city state zip code

Send to: CURA
University of Minnesota
1927 South 5th Street
MN 55454

CURA reporter

Volume XV, Number 3 July 1985

The Center for Urban and Regional Affairs was established to help make the University of Minnesota more responsive to the needs of the larger community and to increase the constructive interaction between faculty and students, on the one hand, and those dealing directly with major public problems, on the other hand.

The **CURA REPORTER** is published by CURA to provide information about:

- what CURA projects are doing
- related programs and projects in the University
- related programs in other Minnesota colleges and universities, and
- actions outside the educational establishment which affect our plans and programs.

Comments and contributions are welcome.

Thomas M. Scott, director; Thomas L. Anding, associate director; William J. Craig, assistant director; Judith H. Weir, editor.

CURA
University of Minnesota
1927 S. 5th Street
Minneapolis, MN 55454

ADDRESS CORRECTION REQUESTED