

# **Targeting Growth Opportunities For Florence County, 2006**



**REDRL Research Report 08-2006-01**

*by*

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**Executive Summary**

**I. Why Target Industries?**

Industry targeting is the process of focusing industrial development programs and efforts at specific industries or clusters of related industries. An industry targeting program identifies industries for which the region offers a competitive advantage in terms of labor skills and availability, location, and availability of private and public services. A targeted approach enables community leaders to focus their recruitment, retention and expansion, and small business development programs rather than attempting to provide assistance for many different industry types. This tailoring of industrialization initiatives provides three advantages for the community:

- targeting permits clearer identification of specific industry requirements and needs,
- targeting enables the community to provide (for a given budget expenditure) fewer but more highly valued programs, and
- targeting reduces the amount of financial incentives (e.g., tax rebates or labor training programs) needed to encourage the industry to locate in the region.

## **II. Florence County's Industrial Targeting Goals**

Florence County's industrial targeting project has two principal objectives:

- Identify manufacturing industries that have high potential for locating in the county.
- Identify manufacturing industries that provide attractive economic development impacts in terms of future job growth, wages paid, and contributions to the local tax base.

The targeting program for Florence County focuses on identifying growing manufacturing “clusters” in Florence County and the surrounding counties. An industry cluster is a geographically bounded collection of similar and/or related businesses that as a group create advantages for member firms and the local economy. The targeting of potential new members for existing area clusters provides the following advantages.

- The presence of an industry cluster in the area is evidence that the location is attractive to these types of manufacturers.
- The multiplier effects associated with attracting new firms to a cluster generally are greater than those resulting from noncluster firms.
- Members of industry clusters have stronger employment growth over time than firms that are not in clusters.
- Industry clusters have greater potential for new firm spin-offs than groupings of unrelated firms.

## **III. Identifying Growing Industry Clusters in the Regional Economy**

Industry clusters in the Florence region were targeted at the four-digit North American Industrial Classification (NAICS) level. Clusters with desirable characteristics are those that have a significant presence in the county, provide promising employment

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\* The SIC classification was replaced by the NAICS system in 2001.

generation potentials, and consider the county a relatively competitive location for on. To identify industry clusters with the desired characteristics, four screening criteria were used:

1. Six or more industry establishments were present in the region in 2004.
2. Regional industry employment was greater than 500 in 2004.
3. Industry employment in the region increased at a rate similar to or greater than the national average for that industry
4. The region was highly “specialized” in the industry compared to the nation as a whole in 2004 (Location Quotient for the industry exceeds 1.50).

The industry cluster screening methodology for the regional economy identified 19 industry clusters with good prospects for employment growth in the area.

“Developed” clusters are industries that met all four of the selection criteria while “emerging” clusters generally did not meet the criteria for number of establishments or employment.

\* Developed Clusters: Florence and Surrounding Counties

- Fabric Mills (NAICS 3122)
- Textile Furnishing Mills (NAICS 3141)
- Textile and Fabric Finishing (NAICS 3133)
- Fiber, Yarn, and Thread Mills (NAICS 3131)
- Resin, Synthetic Rubber, Synthetic Filaments (NAICS 3252)
- Plastics Product Manufacturing (NAICS 3261)
- Other Wood Products Manufacturing (NAICS 3219)
- Converted Paper Products Manufacturing (NAICS 3222)
- Other Fabricated Metal Product Manufacturing (NAICS 3329)
- Architectural and Structural Metals Manufacturing (NAICS 3323)
- General Purpose Machinery Manufacturing (NAICS 3339)
- Motor Vehicle Parts Manufacturing (NAICS 3363)
- Household and Institutional Furniture and Kitchen Cabinet Manufacturing (NAICS 3371)

\* Emerging Clusters: Florence and Surrounding Counties

- Veneer, Plywood, and Engineered Wood Products (NAICS 3212)
- Boiler, Tank, and Shipping Container Mfg. (NAICS 3324)
- Ventilation, Heating, AC, and Refrigeration Equip. (NAICS 3334)
- Metalworking Machinery Manufacturing (NAICS 3335)
- Household Appliance Manufacturing (NAICS 3352)
- Ship and Boat Building (NAICS 3363)

#### **IV. Characteristics of Targeted Industry Clusters**

The 19 industry clusters selected for the region are good prospects for industrial recruitment since the area provides a competitive advantage for these manufacturers. However, all 19 clusters are not equally attractive prospects based on the expected economic impacts on Florence County. Insights into the potential county-level impacts associated with successfully recruiting an additional establishment are provided by comparing four characteristics of the cluster’s establishments.

- Employment Growth Rate. Establishments in industries with rapid national employment growth are more likely to open new plants and create new jobs than establishments in slow growth or declining industries.
- Average Establishment Size. Industries with large average establishment employment provide greater potential for immediate job generation than industries whose operations require, on average, fewer employees.
- Average Earnings Per Employee. Other establishment characteristics held equal, a manufacturing plant paying high wages will provide greater local economic development impacts than a manufacturing establishment offering primarily low wage jobs.
- Industry Multipliers. The attraction of a new firm to the county may create more jobs and income for the county than those employed directly at the facility. This creation of multiple jobs is called the multiplier process, and results from rounds of local spending stimulated by the new firm and the firm's employees. Establishments with large income multiplier effects are preferred, everything else held constant, to firms that generate little additional income in the county.

Table A summarizes the potential economic impacts of the industry clusters in terms of

regional income multipliers and national averages for employment growth rates, establishment sizes, and earnings per worker.

## **V. Identifying Industries for Import Substitution**

An alternative industry targeting approach is to identify industries that may fill “gaps” in the regional economy, where “gaps” are goods imported by local households and by businesses. The objective of an *import substitution* program is to determine which of the imported manufactured goods might be reasonable candidates for replacement by local production. The replacement of imports with local production reduces leakages of money outside the regional economy, increases the local income and employment multipliers, and provides additional jobs for area residents.

Regional imports of manufactured goods are estimated using the regional economic modeling system IMPLAN (Impact Analysis for PLANning), an input-output model constructed for the regional economy using data for 2001. Four criteria were used to identify industries that are good prospects for import substitution.

- (1) Based on IMPLAN data, industry imports into the seven county region exceed \$10 million per year (refer to Appendix Table F).
- (2) Industry output (sales) exist for regional firms and sales exceed the national average for sales per establishment. The presence of local production indicates that the region is not at a serious disadvantage as a location for plants in that industry. Alternatively, no local production (e.g., wines or roasted coffee) may indicate that the region is not a reasonable location for the activity due to natural resource requirements or other competitive disadvantages.
- (3) Imports are sufficient to support at least two facilities of average size. That is, if the average plant size in terms of sales for industry  $x$  is \$50 million, then area imports must exceed \$100 million to support two or more new plants. Alternatively, total imports divided by average plant size provides an estimate of

Table A. General Rankings of Florence County Clusters for Selected Economic Variables

■ = Top Third   ■ = Middle Third   ■ = Bottom Third

NAICS Code	NAICS Industry Title	US '01-'04 Emp Growth (%)	2004 Mean US Establishment Size	2004 Mean US Avg. Earnings/Worker	Income Multiplier
3363	Motor Vehicle Parts Manufacturing	■	■	■	■
3212	Veneer, Plywood, and Engineered Wood Product Manufacturing	■	■	■	■
3252	Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing	■	■	■	■
3366	Ship and Boat Building	■	■	■	■
3261	Plastics Product Manufacturing	■	■	■	■
3352	Household Appliance Manufacturing	■	■	■	■
3219	Other Wood Product Manufacturing	■	■	■	■
3371	Household and Institutional Furniture and Kitchen Cabinet Manufacturing	■	■	■	■
3324	Boiler, Tank, and Shipping Container Manufacturing	■	■	■	■
3222	Converted Paper Product Manufacturing	■	■	■	■
3329	Other Fabricated Metal Product Manufacturing	■	■	■	■
3334	Ventilation, Heating, Air-Conditioning, and Commercial Refrigeration Equipment Manufacturing	■	■	■	■
3131	Fiber, Yarn, and Thread Mills	■	■	■	■
3323	Architectural and Structural Metals Manufacturing	■	■	■	■
3339	Other General Purpose Machinery Manufacturing	■	■	■	■
3141	Textile Furnishings Mills	■	■	■	■
3335	Metalworking Machinery Manufacturing	■	■	■	■
3133	Textile and Fabric Finishing and Fabric Coating Mills	■	■	■	■
3132	Fabric Mills	■	■	■	■

the number of new local establishments, by industry, the area economy could support based on import substitution. We hypothesize that a region's probability of attracting or starting a new establishment is directly related to the number of establishments required to fill the import gap.

- (4) Textile and apparel manufacturers were excluded because South Carolina already is recognized as a viable location for these firms.

Twenty-two industries met the four criteria for selecting good prospects for import substitution. Twelve of the 22 industries were previously identified as good candidates for industry cluster development. The remaining 10 industries are not developed to the extent necessary to be identified as an industry cluster. However, the recruitment of firms in these import substitution industries still provides favorable local economic development impacts in terms of increased jobs and earnings. A comparison of the national averages for plant size, employment growth, and earnings per worker for the 10 industries is provided in Table B.

\* Import Substitution Prospects: Not in Cluster

- Printing and Related Support Activities (NAICS 3231)
- Motor Vehicle Body and Trailer Manufacturing (NAICS 3362)
- Bakeries and Tortillas Manufacturing (NAICS 3118)
- Coating, Engraving, and Heat Treating Activities (NAICS 3332)
- Office Furniture and Fixtures (NAICS 3372)
- Electrical Equipment Manufacturing (NAICS 3353)
- Beverage Manufacturing (NAICS 3121)
- Fruit and Vegetable Preserving and Specialty Food Manufacturing (NAICS 3114)
- Other Transportation Equipment (NAICS 3369)
- Communications Equipment Manufacturing (NAICS 3342)

Table B. General Rankings of Industries Selected for Import Substitution

■ = Top Third    ■ = Middle Third    ■ = Bottom Third

NAICS Code	NAICS Name	US Employment 2001-2004 Growth (Percent)	2004 US Earnings per Worker (\$)	2004 US Average Establishment Size
3362	Motor Vehicle Body and Trailer Manufacturing	■	■	■
3369	Other Transportation Equipment Manufacturing	■	■	■
3342	Communications Equipment Manufacturing	■	■	■
3121	Beverage Manufacturing	■	■	■
3114	Fruit and Vegetable Preserving and Specialty Food Manufacturing	■	■	■
3353	Electrical Equipment Manufacturing	■	■	■
3372	Office Furniture (including Fixtures) Manufacturing	■	■	■
3231	Printing and Related Support Activities	■	■	■
3118	Bakeries and Tortilla Manufacturing	■	■	■
3328	Coating, Engraving, Heat Treating, and Allied Activities	■	■	■

## **VI. Prospective Companies for Targeting**

The identification of the “best” companies to recruit in the selected targeted industries is very problematic, as indicated by the recent collapse of some of Wall Street’s “favorite” firms such as Lucent, Enron, and WorldCom. However, the names and addresses of prospective recruits may be identified using input from Florence County officials regarding their recruitment focus and the Harris InfoSource Database of establishment-level data. First, Florence County officials indicated that they wanted to focus their recruitment activities on six of the identified industry clusters and six states (California, Illinois, Michigan, New Jersey, Ohio, and Pennsylvania).

### Target Industries

3212: Veneer, Plywood, and Engineered Wood Products Manufacturing

3222: Converted Paper Products Manufacturing

3252: Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing

3362: Motor Vehicle Body and Trailer Manufacturing

3363: Motor Vehicle Parts Manufacturing

3366: Ship and Boat Building

Two sets of screening criteria were used depending on whether the target was a branch of a multi-plant firm or a single location establishment. The screening criteria for the two establishment types are as follows.

### Multi-Plant Firm

1. A branch plant of the firm was present in the Southeast in 2005. Southeast was defined as AL, GA, KY, MS, NC, SC, TN, and VA. This criterion indicates that the firms consider the Southeast a viable location.
2. The branch plant in the Southeast had 100 or more employees and positive

employment growth 2002-2005.

3. Headquarters for the branch plant is located in one of the six target states.
4. Company employment (all branch sites) exceeded 1000 in 2005.

#### Single Location Firm

1. The firm is located in one of the six target states.
2. Firm employment is greater than or equal to 200.
3. The firm experienced positive employment growth from 2002-2005.

The selected screening approach identified 65 multi-plant firm prospects and 129 single location firm prospects. Information sheets on each prospective firm (Harris InfoSource Database) will be provided to Florence County in a separate file.

### **VIII. Marketing Florence County**

The marketing strategy for Florence County will vary by target industry and by whether the industry is a prospect for an industry cluster or import substitution. For members of an industry cluster, the county will want to promote the advantages of proximity to the cluster. These advantages include:

- Existence of an industry cluster in the region is evidence that Florence County is a good location for that industry.
- Presence of a cluster in the region ensures that the skilled and trained labor required by that industry are available.
- Specialized input and service providers locate near clusters, thus reducing the cost of acquiring these inputs.
- The cluster provides the opportunity for the exchange of information among firms regarding new markets, technologies, and production methods.
- Industry clusters encourage the development of financial markets familiar with the industry's product markets and production processes.

For the import substitution targets, the county should focus promotional materials on the size and growth of the local market for specific goods and services. In addition, the county should promote the development of locally-owned businesses in the import substitution industries. Promotional efforts include:

- Entrepreneurial and small business development programs for new firms in import substituting industries (e.g., incubators, financing, labor training, technology transfer, and marketing).
- “Buy Local” programs that encourage regional businesses to use regional suppliers when possible.
- Business retention and expansion (BR & E) programs focused on expanding the local markets of existing manufacturers.

In conclusion, a balanced industrial development program provides resources for industrial recruitment, small business development, and the retention and expansion of local firms. A community or county will have different competitive advantages for the three components of industrial development. That is, a good target for industry recruiting is not necessarily a good industry for small business development. The industries identified in this study enable the county to focus specific programs at the appropriate prospects. A targeted effort enhances the employment generation potential of the county’s economic development programs, an important consideration in times of limited resources.