



UMASS DONAHUE INSTITUTE



Executive Summary

Pioneer Valley Growth Business Study

Prepared for the Pioneer Valley Growth Business Study Group:

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Massachusetts Small Business Development Center Network
Pioneer Valley Planning Commission
Western Massachusetts Economic Development Council

by
UMass Donahue Institute
Economic and Public Policy Research

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Sponsors



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Purpose and Background:

The Economic and Public Policy Research (EPPR) group at the UMass Donahue Institute was engaged to conduct research in support of the efforts of seven organizations to grow the Western Massachusetts/Pioneer Valley economy by supporting the needs of growth oriented companies. In this study, the sponsors intended to identify not just high growth companies but companies growing at all levels, including those that have a slower sustained growth over time and those that may be slow growing or not currently growing but have potential for growth. The research, including an analysis of data about Pioneer Valley businesses and conducting a survey of these businesses, sought to improve the understanding of the business needs and success factors of sustained growth-oriented companies within the region. The research focused on small to medium-sized businesses in the region with 5 to 500 employees.

The objectives of the sponsors are to use the research findings to support their efforts to:

1. Drive the creation and growth of businesses in the region by developing a supportive financing and business assistance environment and by demonstrating/recognizing the success of existing businesses.
2. Increase and sustain job creation and retention.
3. Enhance the long term expansion and sustainability of the economic base in the region.

To support these objectives, this economic research was designed to help:

1. Identify growth oriented businesses and industry sectors in the Pioneer Valley, understand their characteristics, determine what has contributed to their success, and determine the challenges and constraints to continued growth.
2. Identify businesses that are not growing in order to assist the sponsors to better target businesses and industry sectors with the potential to grow if constraints are addressed.
3. Identify the types of business assistance that would address growth needs (technical assistance, financing options, regulatory, networking, etc.).
4. The intention is that the data gathered from the study will be used to enhance business assistance programs in the region, to best target capital resources to growth oriented businesses, and for economic development benchmarking and planning.

It is important to note that the study period spanned the “Great Recession of 2007-2009.” Not unexpectedly, the growth tier with the largest number of businesses was the “stable” category. One of the most significant conclusions of the study is that the Pioneer Valley region remained relatively resilient even during the greatest global economic crisis in recent history with still lingering impacts. As a result, it was more difficult to identify growing businesses because the global economic environment severely restricted growth potential during the study period. Still, over 550 firms in the region had positive job growth during this challenging economic time period and many more had positive sales growth, providing some evidence of efforts by firms to increase revenue and productivity, maintain competitiveness, and hire new workers more cautiously. The sponsors proceeded with the study knowing these constraints with the intent of setting a baseline understanding from which to conduct further analysis in the future.



The National Establishment Time Series (NETS) database was chosen as the evaluation tool because it offers historical firm-level data on a wide variety of business statistics over a 20 year time period.

Key Findings:

This study of business growth in the Pioneer Valley, with a focus on establishment level data, provides two key areas of understanding. First, the profile of small to medium-sized businesses in the study group sheds light on the mix of establishments by industry, growth in jobs and sales, and location. Second, the completion of 171 detailed business surveys provides a rich set of business feedback on the region's economic conditions in terms of success factors, barriers to growth, and areas for business and financial assistance. Key findings from this study include:

- Small businesses predominate in the Pioneer Valley: 72 percent of firms in the study group have fewer than 20 employees and the majority of the businesses responding to the telephone survey, 53 percent, have 10 employees or less. (Note: Businesses with five employees or under and more than 500 employees as of 2005 were excluded from the survey.) The region's distribution of firms by number of employees is similar to Massachusetts overall, with slightly fewer large firms in the Pioneer Valley.
- The vast majority (80%) of small to medium sized firms in the Pioneer Valley had stable job growth from 2005 to 2010, a time period in which the region saw a 4.8 percent decrease in total establishments and 6 percent decrease in total employment. The large number of firms that experienced stable or positive job growth, along with many more that increased sales revenue, helps demonstrate the resilience of the economy during the Great Recession of 2007 to 2009, and the dynamic nature of small to medium -sized businesses.
- Some subsectors in the region are growing at a faster rate than firms generally are in the region. Several specialized types of construction, financial services, manufacturing and retail establishments in the region all have greater shares of fast growing firms (5-11 percent of total firms in each sector) than the overall study group (4 percent). Additionally, when looking at all growing firms, these sectors have much larger shares of growing firms (10-21 percent) than the study group overall (9 percent).
- Of the fast growing firms, 91% percent were small businesses with 5-99 employees. The two employment tiers with the largest number of fast growing firms were in the 10-19 employment size range at 37%, followed by the 20-49 employment size range with 32% of all fast growing firms.
- Forty percent of businesses surveyed expect to grow their firm's number of employees within the next three years. Forty-nine percent expected to stay the same size, while about two percent expected to decline. In addition, 74 percent of businesses reported expecting their sales to grow in the next three years.
- More sales growth than job growth was experienced during the study period and is projected for the future. The historical data on job and sales growth, along with projections of higher sales growth than job growth, provides evidence of businesses expanding revenue while holding the number of employees constant – signs of productivity increases and more cautious hiring plans. It appears it took moderate to fast sales growth (25-50 percent and higher) before companies tended to hire during the study period.

- Over 75% of surveyed firms report their ability to innovate new products and services is good or excellent (50% good and 29% excellent).
- The primary market for surveyed businesses is Western Massachusetts and the Northeast. Half of all surveyed firms indicated their primary market was local (Western Massachusetts) and 22 percent of firms indicated their primary market was regional (Northeast).
- Sixty-six percent of surveyed businesses thought the Pioneer Valley was a good or excellent location for their business to succeed, with 45 percent of responding businesses indicating good, and another 21 percent indicating it was an excellent location for success.
- The Pioneer Valley's skilled workforce is a key to making or breaking a business: 45 percent of firms (and 54 percent of growing firms) named the availability of a skilled workforce as a major contributor to their success, while 35 percent of firms (and 41 percent of growing firms) cited the lack of availability of skilled workers as a major barrier to success.
- The top five major success factors cited by businesses surveyed were: market demand for products or services, availability of skilled workers, management and leadership capability, access to suppliers and vendors and innovation, product and/or technology improvements. The top three factors for growing firms (54% stating a major factor) were skilled workers, management and leadership, and access to financing.
- The top five major barriers to success cited by businesses surveyed were: the cost of doing business (labor, real estate, taxes, energy, etc.), availability of skilled workers, market demand, permitting/regulations, and cash flow management.
- Permitting/regulations (28 percent) and cash flow (23 percent) are the fourth and fifth greatest barriers to success for all firms. For growing firms, the rank order of these barriers was reversed, cash flow (23 percent) and permitting/regulations (18 percent).
- Cash flow; the need for new equipment, technology, process or efficiency; and obtaining financing are all mid-level barriers to success for all firms, and for all growing firms. These issues provide some evidence of the need for financing assistance by regional firms.
- The top five needs for business assistance among survey respondents were market and customer research, advertising and marketing, social media and website optimization, employee recruitment and training, and operations/strategic planning and management/leadership training.
- Firms that anticipate needing financing in the next three years primarily plan to use it to purchase new equipment or technology, expansion or acquisition, or for working capital. Most firms surveyed who received financing in the past year received bank loans or lines of credit.