Vermont's Economic Future: Building A Strong, Sustainable Local Economy[1]

Vermont's economy is built upon three basic ingredients: its natural resource base, its environment, and its communities. The businesses that make Vermont's economy run are here predominantly because of history or Vermont's natural assets and beauty (a manufacturing base that evolved from water-powered mills; specialty foods and dairy businesses that grew out of an agricultural base; businesses either founded or moved to Vermont because of a love of Vermont's natural beauty and environment; a travel and tourism industry that flourishes because of Vermont's working landscape, its mountains and fast streams, its seasons and welcoming communities).

Our thesis is that to build a sustainable, high value economy, Vermont must take a new approach, an approach that considers global competitive dynamics and thinks realistically about Vermont's assets as a supplier to and participant in the global economy. Vermont can be an essential home to high-value businesses with competitive advantage in their sectors. By determining through strategic and analytic processes which business sectors or sub-sectors are most valuable to Vermont, we can build a thriving state economy while protecting – and in fact enhancing – what we cherish about our State.

Our objective is to create a sustainable competitive advantage for Vermont in those industrial sub-sectors that make sense for our state. We can easily eliminate many industries from consideration. For example, although we cannot ignore businesses already committed to Vermont, it is unreasonable for Vermont to strive to be a global leader in any industry that is highly price competitive and labor intensive. Obviously those businesses have either gone or will eventually go to low-labor cost countries. It is simply a fact that any business or industry that has low margins or high factor costs (e.g. electricity, labor, bricks and mortar, materials, etc), will eventually be sighted in those parts of the world where those costs are cheapest or they will not survive.

We can also eliminate striving to compete for any new businesses that rely on tax incentives or other government incentives to decide where to site their companies. Negotiating these deals is a fool's errand for communities because the incentive packages are easily replicated. For example, if Vermont offers a tax credit, New York or Pennsylvania will soon more than match it. Further, there is much anecdotal evidence

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[1] *This Summary of a broader approach to building Vermont's economic environment was prepared by David M. Rocchio and Craig M. DeLuca, founding partners of The Arno Group, LLC, a Vermont business dedicated to finding fresh solutions to their clients most complex problems. The article originally appeared in Vermont Business Magazine.*

showing that businesses pursue tax credits and publicly subsidized capital whether or not the public money truly influences growth or location decisions.

Given these dynamics, what can Vermont do? The only way to ensure the long-term economic viability of a region is to create an environment that is difficult for competitors to replicate and which is built upon the core strengths of the region. There are three parts to our analysis. First, we emphasize the importance of building communities, encouraging education and culture, and developing a work force second to none for very specific industry sectors or sub-sectors. Second, we discuss what measures to use to determine which sectors make the most sense given Vermont's strengths. Third, we identify tools that other states or regions have used to choose the appropriate types of sectors to pursue as a base for a strong economic future.

Our Greatest Assets, Our Communities, Are Key To A Successful Growth Strategy

Richard Florida, Carnegie Mellon professor and author of the book, *The Rise of the Creative Class*, provides a clue for a strategy that Vermont could pursue. In his book he quotes Hewlett-Packard CEO Carly Fiorina speaking to the nation' governors: "Keep your tax incentives and highway interchanges; we will go where the skilled people are" (pg.6). Florida goes on to describe communities that work tenaciously to create an environment where skilled and creative people can thrive.

The approach we advocate exploits the concepts depicted in Professor Florida's research and their importance to building a sustainable high-value economy. This approach focuses on building communities, encouraging education and culture, and developing a work force second to none for very specific industry sectors (Vermont is too small and has too many structural disadvantages to be a world-class region for multiple industries. The approach targets particular business sectors to encourage them to move or grow in Vermont by attracting the type of people they need to be successful in their sector.

Again from Florida's book: "Carnegie Mellon spins off great ideas that move to Boston where the talent is. Companies flee to the talent, not vice versa, they look for deep pools of skilled people."

Vermont is not going to compete with Boston for skilled people across the board, but we may be able to build a world-class pool of talent in a few very targeted disciplines. Vermont must answer four key questions:

1. What kind of skilled work force do we want to create?
2. What kind of businesses will fit with this workforce?
3. How do we build and/or attract this workforce?
4. How can we measure the economic value added through this different approach to building our economy?

Florida's research gives some direction on the third question: "Creative people don't just cluster where jobs are, they cluster in places that are centers of creativity and where they like to live. These places, successful places, are multidimensional and diverse. It's more the creative climate than the business climate."

We can and must focus resources to make Vermont more attractive to certain sectors by building strong, diverse communities; by exploiting the strengths of secondary, college, and university education in disciplines that contribute resources and intellectual capital to Vermont; by protecting the environment and ensuring safe communities with cultural, neighborhood and recreational opportunities desired by skilled and creative people. Although this is a new approach in Vermont, a *community based* economic development program is not new to many regions, states or countries. The longer we ignore the trend, the further behind we will fall

How To Measure What Type of Core Businesses to Attract, Foster and Grow

For direction into what type of workforce to attract, we can look to the business strategists for help, in particular Harvard professor Michael Porter and his work on competitive strategies. For over thirty years Porter has been the leading thinker on how businesses, regions and nations create sustainable competitive advantage. Porter's research help's us think about what type of workforce to build. First, we need to get our measurements right. As Porter says, "it's not about creating high-paying jobs, it's about creating high-productivity jobs." Productivity measured against one's global competitors is the only way a company can sustain a competitive edge. The same is true with communities. Unless we continue to upgrade our skills and competencies faster than our global competitors, we will ultimately loose ground.

According to Porter, regions must focus on specific industry segments and build commercially valuable skills and technologies for these segments. For Vermont, this means performing a sophisticated analysis on a broad range of industries to determine those segments that will need the type of skilled workers that we can develop and/or attract.

Vermont must keep in mind that other regions are fighting tooth and nail to find their own source of advantage. We will not beat Spartanburg, South Carolina for auto manufacturing; Milan for fashion design; Denmark for furniture design; or Vancouver for distribution. With a rigorous analysis, however, we will find the sector or two in which we can be the global leader. Three caveats:

1. We have to choose very specific sub-sectors. We can't say, "let's be number one in "renewable energy." We have to choose to be number one in a sub-sector of renewables: for example, the design of technologies for generation or distribution or storage. We must be precise in our design, not vague.
2. It may take a decade to build the environment to attract the people, and then an additional decade for a critical mass of business to follow.

3. All regions or states can use this approach – each will identify unique sectors that create a specific competitive advantage for that location.

The first step to this approach is to build the data to carefully target the specific sector to cultivate and grow. There is solid research to support the careful selection of target sectors.

How To Decide 'What We Are' As a Community

To choose the appropriate sub-sectors we could consider the work of Harvard Professor and author Rosabeth Moss Kanter. In her seminal Harvard Business Review article, *Thriving Locally in the Global Economy*, reprinted in the August 2003 HBR, she describes the strategic choices facing any region or state: a regional or state economy can be based on:

1. Thinkers who specialize in concepts. You create new ideas and technologies that command a premium in the global economy. Boston is an example.

2. Makers who are expert in execution. They have superior production skills. Greenville, S.C. is an example.

3. Traders who make connections among markets. Hong Kong is an example.

What we cannot be is all things to all people. A region that has a little bit of this and a little bit of that will be forever losing the battle to regions that know what they want to be and build the competencies to compete in their specialized niche.

Moss Kanter describes the decades long investments made by Greenville/Spartanburg to become a world leader in manufacturing and the hard work required to successfully build a focused economic development strategy:

Developing the Business Case

First we must develop hard data identifying key areas where Vermont might provide a competitive advantage to businesses in one or two niche business sectors. This work can be done in tandem with the second step.

Creating the Connection to Higher Education

Second, we must develop and offer the best education in those subjects to create a workforce integral to our targeted businesses. Some states and provinces provide free education in certain disciplines to build a trained workforce. This approach was taken in the efforts to build Greenville/Spartanburg. They make the commitment to provide the education without requiring that any employer hire the person receiving the education or that the person agree to a accept job or to remain in the community. This is a system built upon confident belief in its mission and its long-term success.

The Case for Cultural Resources

Third, communities must be supported in developing cultural resources, recreational opportunities and neighborhoods that attract and keep the "cultural creatives." Burlington has achieved organically much that a place can achieve to become an attractor community. Think of what Burlington could achieve with a carefully researched, consensus-based strategic approach to its growth.

On most national measurements, Burlington scores in the "top ten" on "best places to live" lists. This success can be capitalized to encourage particular businesses and economic sectors to choose Burlington as their home. For example, recreation businesses such as Burton and financial service businesses such as Dwight Asset Management appear to be natural choices. Burton, and companies like it, have their "R&D lab" in their backyard, and Vermont offers fertile recruiting grounds for certain aspects of these businesses workforces. Companies that provide financial services can build their base anywhere. Dwight Asset Management proves that a successful business in this space can recruit and keep top talent by being based in downtown Burlington.

Of course we can – and should – test these assumptions before making large investments to support attracting people that will fit these sectors. But as examples of what has occurred without a systemic effort, these types of businesses are evidence that this approach to economic development makes sense. And if the data shows that another sector or sub-sector is the appropriate group of businesses to target, we will do well to focus our efforts to attract those businesses.

This approach of building communities with core, attractor amenities and a high quality of life; providing targeted, top-ranked educational opportunities; and focusing efforts to target exactly the right economic sector or sub-sector is not limited to cities the size of Burlington. From Richmond to Brattleboro, St. Johnsbury to Bennington, or Springfield to Vergennes, our communities will find a niche and can invest to build neighborhoods that make each place particularly attractive to key businesses in particular sectors.

Building Popular Support

Fourth, we must create broad community support for these efforts. We must build consensus on an array of goals, such as the type of businesses to attract; what types of housing stock to build; how to design and support schools that meet our economic and cultural needs; how to enhance and protect community and recreational resources that help to build and enhance healthy neighborhoods and towns. If successful, we are funding an economic future based upon high productivity jobs, limited environmental impact and sustainable economic development.

This consensus-based approach to building communities is tried and true. For example, the approach worked in Greenville/Spartanburg and was applied to great effect in Denmark, Bavaria, and Cleveland, Ohio, to name but four economic regions that have used tools and strategies such as the ones identified herein. Quebec is now employing a Porter analysis to its economic development approaches. Unlike a system of tax credits and subsidizing factor costs, a commitment to finding the right economic sector for our state can be sustained even if all of our neighbors take the same model and apply it to their unique set of circumstances. The approach requires vision, commitment, and patience. It can only work following rigorous work to develop the data, to build consensus on an approach to follow and to build the systems necessary to implement the approaches identified. The commitment must be carried out over ten, twenty, thirty years. But it will work.

Without this commitment, Vermont can still encourage many businesses to stay in Vermont for some time, some businesses to move to Vermont, and some entrepreneurs to start businesses in Vermont. Over time, however, the best jobs, the best businesses, and the future of the State will migrate elsewhere.

With this commitment, Vermont can build on its agricultural and mill-town history; its unique blend of small, functioning communities surrounded by working landscapes; its wonderful natural environment and safe, vibrant neighborhoods; its world-class educational systems and existing business infrastructure. Vermont can protect and enhance the qualities that make it a great community and can use them to attract new growth that fits its characteristics.

We have started this dialogue because we are committed to our home and to our children's futures; we are ready and eager to begin the hard work of developing the data necessary to start such an ambitious program, and will dedicate our lives to seeing the vision realized for our children and our children's children.

Contact Information:

David M. Rocchio and Craig M. DeLuca

The Arno Group, LLC
442 Tansy Hill Road
Stowe, VT 05672
(802) 253-7804
www.thearnogroup.com
drocchio@thearnogroup.com
cdeluca@thearnogroup.com