

Building Business in a Tough Economy

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Some might think now is a tough time to work in business development. The global economic crisis has impacted nearly all businesses and industries, and many good and talented people have found themselves out of work. Every media outlet in the country continues to ask, "Where's the bottom."

Still, while the bottom of the current crisis is hard to gauge, the foundation of the Nation's long-term economic vitality has always been easy to find – especially in the region of northeast Minnesota and northwest Wisconsin. With a solid foundation based on our exceptional workforce, rich natural resources, dynamic transportation network, and outstanding quality of life, this region is brimming with opportunity.

News from the Iron Range has not been very positive lately, with layoffs and extended shut-downs dominating the headlines. Yet there are clear areas of opportunity and many projects continue to move forward. These include construction of the \$1.6 billion Essar Steel plant, the Polymet project, and further construction at Mesabi Nugget and US Steel in Keewatin. The first phase of Minnesota Power's Boswell Energy

project is also progressing steadily and is now nearing completion.

In total, these projects represent nearly a \$2.5 billion investment in the region in the form of private sector spending and jobs – not a stimulus check. The effect that these projects will have on bolstering our region's small businesses is exponential, although the real prize will be in anticipating the next round of economic opportunities that will materialize throughout the Northland.

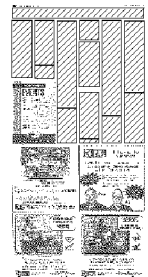
For instance, the Boswell Energy project is an economic engine that has created many temporary and long-term jobs, and which will ultimately create the reliable energy we need to power future growth in the region's economy. However, mounting concerns over global warming could threaten to impose new penalties and taxes that will make significant job growth more difficult to achieve in coal fired facilities. In this challenge lies the opportunity.

Our region's abundant timber resources have the potential to yield new carbon-neutral biomass fuels that could ultimately reduce our dependence on coal, oil and other fossil fuels. These emerging technologies include wood briquettes that have undergone the process of torrefaction, allowing them to replace coal with-

out major retrofits to existing equipment. Through our strong forestry-based industries, and with outstanding regional assets like the UMD Natural Resources Research Institute and Twin Ports Testing, the region of northeast Minnesota and northwest Wisconsin is quickly emerging as a leader in the biomass industry.

The competitive advantages of northeast Minnesota and northwest Wisconsin are also well-aligned with the primary needs of businesses in the wind energy component manufacturing industry, in the development of high-tech data storage and collocation facilities, and more. All told, the Area Partnership for Economic Expansion (APEX) has a healthy deal flow, with 16 solid leads in business expansion and attraction. Each of these prospects stands to bring new jobs to the Northland.

When looking at both the traditional projects that make up the core of our regional economy and the new high-growth industries that may be on the horizon, it is clear that the foundation of a solid workforce, rich natural resources and a dynamic transportation network is what will be needed to make these projects succeed and grow in our region. This foundation has not changed with the recent economic



downturn, so our business development efforts continue to progress steadily.

We are fortunate in that our housing market is in far better shape than in many other parts of the country, with houses in our region selling in an average of about 70-140 days, versus upwards of 270 to 300 days at the national level. Sure, Duluth area home prices have dropped by 10.7% over the past few years, but compare that to the 23% drop at the national level. Our regional banks are also fairly strong and in good capital positions, thanks to their tried-and-true practices for conservative lending. They continue to lend money to credit-worthy borrowers with projects on the table.

That being said, there are still steps that can be taken in these tough economic times to make the environment for business growth in this region even more inviting. Our banks and housing markets may not need a huge bailout, but improvements to core infrastructure and economic hubs like the Port of Duluth-Superior and the Duluth International Airport would certainly have an impact.

At the airport, plans for a new terminal are underway to improve security and create a higher level of service to attract new regional

employers. The project represents a \$67 million capital investment, the majority of which will come from the Federal level. Pending the necessary \$4.7 million in State bonding, this regional asset will continue to support additional job growth well into the future.

Other opportunities to improve transportation include improvements to the Port and to the St. Lawrence Seaway, the establishment of light rail train service between Duluth and the Twin Cities, and the exploration of the potential for intermodal container shipping to come to the Northland. These transportation resources support much of the business in this region and must be targeted for additional investment now and into the future.

Areas where additional support should be focused include improvements to our public schools, colleges, universities, and post-secondary training institutions, most of which continue to grow and perform well despite significant budget cuts. Healthcare providers like St. Luke's and SMDC Health System continue to employ well over 12,000 people in the region, but the current reimbursement systems continue to put stress on these employers, making healthcare reform an essential piece of their

long-term viability.

The current economic recession is going to be deeper and longer than most of us realize.

However, while we clearly have areas where we can improve our own climate for business development, you and I can be thankful we live in a region that has a solid foundation for economic opportunity. We will suffer too, but not to the extent as the rest of the country, as the fundamental economic drivers in our region (such as mining, forest products, transportation, healthcare and education) remain strong.

As a result, APEX is bullish on the Northland.

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**- Rob West,
APEX President & CEO**