

Becoming part of the solution...

A success story for rural North Dakota

F. Larry Leistritz and Brenda L. Ekstrom

What does a Philadelphia-based firm with sales of nearly \$800 million want with a remote North Dakota town of only 1,500 population? The answer, people and profit. What started as a philanthropic idea, spawned one hot summer day in 1988 by Hal Rosenbluth, president of Rosenbluth Travel, turned into the key to survival for many rural families and the key to added profits for one of the nation's three largest travel firms.

HISTORY

Rosenbluth Travel (RT) called the North Dakota Department of Agriculture on June 29, 1988, to learn which areas of the state were most severely affected by the drought. After later talking to Economic Development Commission officials who identified three candidate towns, an RT company task force was on the airplane to North Dakota within two days. After visiting the three towns, they decided on Linton, and the townspeople helped them convert a deserted farm machinery building into an office space within four weeks. Jim Weisser, former president of the Linton Industrial Development Corporation, admits that they were lucky in acquiring RT.¹ Weisser believes the availability of a suitable building was the major factor that swung the decision Linton's way, along with access to major highways and a nearby major airport (Bismarck).

Set-up costs to RT were about \$32,500, excluding building lease payments. Most of these expenses were for a heating system and for furniture, carpeting, and paint. The City of Linton contributed about \$1,000 toward the first three month's rent.

THE REASON BEHIND THE MOVE

What prompted Hal Rosenbluth to expand into North Dakota was a combination of a concern for farm families caught in the worst drought since the thirties and a need to cut back on paying overtime for hard-to-find service workers.² He found that the cost of doing business is reasonable in rural North Dakota and that its people possess a strong work ethic.

Leistritz is professor and Ekstrom is research associate, Department of Agricultural Economics, North Dakota State University.

¹Telephone interview, October 12, 1989.

²Personal interview, July 15, 1989.

A recent study by agricultural economists at North Dakota State University reinforced that idea. They found that beginning farmers in North Dakota derived 35 percent of their total farm family income from off-farm employment and that 41 percent were working off the farm at an average wage of \$7.85. Another 14 percent planned to look for work, were willing to commute 20 miles or more, and would accept a wage of \$5.00/hour.³ The study further found that only 4 percent had *not* completed high school and that 67 percent had received formal education beyond high school. In addition, 61 percent of their spouses were also working off the farm at an average wage of \$5.77. The message is clear: rural North Dakota has a skilled workforce ready to work.

STAFF AND FUTURE PLANS

Over 80 people applied for the 20 full-time positions initially available. Rather than affect 20 families, Rosenbluth decided to hire 40 part-time people and thereby benefit twice as many families. The Linton office was initially supervised by personnel from the head office but is now run entirely by local people. Rosenbluth Travel, which was recently named Service Company of the Year by Tom Peters (author of *In Search of Excellence*), is known for developing the work potential of its human resources through periodic training sessions and providing workers with the opportunity to create and to learn new things. For example, the firm transported the entire new staff to a company conference in Washington, D.C., and some workers will return to the East for an eight-week reservations-training program. Rosenbluth has also turned most of those initial part-time jobs into full-time jobs with benefits for those people who wanted to work full-time. Only a few wanted to remain part-time because of conflicting farm work loads.

The Linton office is currently staffed by 34 entry-level data processing operators who update profiles, enter data, perform commission tracking, and work on special projects. No special skills were required to obtain a position, although typing is helpful for some tasks. All operators were trained by the company and are paid \$5.00/hour. The office also has one office coordinator who is paid slightly more.

Rosenbluth has not been disappointed with his venture into the northern Great Plains. He has found there is "virtually no turnover or absenteeism here in North Dakota." He was so pleased by the productivity of the workers that he is expanding the Linton office from data entry to a reservations

³Leistritz, F. Larry, Brenda L. Ekstrom, Janet Wanzek, and Timothy L. Mortensen, *Beginning Farmers in North Dakota*. Agr. Econ. Rpt. No. 249. North Dakota State University, Fargo, 1989.

and telemarketing center using a fiber optics network. Rosenbluth stated in a personal interview that there are no big drawbacks to doing business long distance; all that other companies need in order to do similar kinds of expansion is a strong commitment to do so and an awareness of the potential for expansion into rural areas.

COOPERATION

None of this could have been accomplished without the cooperation of personnel from the state and local levels. Rosenbluth's idea of helping drought-stricken families was turned into reality just one month after contacting the North Dakota Department of Agriculture, the Economic Development Commission, and the target community, Linton. Rosenbluth stated that he would not have done anything differently, if doing it over again. He emphasized that he received good cooperation from the city and state leaders.

The community of Linton is as pleased with RT as an employer as RT is with the Linton area workers. Jim Weisser said that the injection of a \$400,000 payroll into the local economy has started people thinking about other ways to expand their economic base. People are more positive, Weisser stated, and other communities are asking Linton how they, too, can attract businesses.

THE MOBILITY OF SERVICE FIRMS

Rosenbluth Travel, like so many service firms, is not confined to large urban areas but is free to locate in remote areas that are often brimming with underemployed or unemployed skilled workers. Ann Cole, director of federal affairs for the National Association of Towns and Townships, recently stated that "with computers and telecommunications links, many of America's jobs can be done anywhere. It is beginning to happen. Forward-thinking corporations... are beginning to decentralize, and smaller businesses are relocating to rural areas." She goes on to say that "we must begin by thinking of rural development needs in tandem with telecommunications technology."⁴ Service sector jobs are growing by nearly 1.5 million per year, while manufacturing jobs are dwindling.⁵

ECONOMIC IMPACT ANALYSIS

Input-output analysis was selected as the tool to study the impact of RT on the area economy. Input-output techniques yield detailed estimates of secondary employment and of business volume generated in the various economic sectors as a result of the multiplier effect. The technique specifically takes into account the interdependencies or linkages between various economic sectors.

Expenditures by Rosenbluth Travel in North Dakota were obtained from the company's headquarters for the first nine months of 1989. These expenditures were multiplied by 1.33 to arrive at an estimate of typical annual operating expenses. Because all but five of the employees have been shifted from part-time to full-time during 1989, payroll expenses were based on the assumption that these workers

would remain in their current role. Thus, actual payroll expenses for 1989 will be less than what we assumed they would be in a typical year hereafter.

Total expenditures made by Rosenbluth Travel in North Dakota in 1989 are estimated to be \$374,703. Nearly 90 percent of these expenditures are for wages and salaries. Communications, utilities, and rent make up most of the remaining expenses.

These expenditures will be spent and respent as a result of the multiplier process and will generate higher levels of business activity. Table 1 depicts the results of the input-output analysis based on the above assumptions and estimates. A total of \$1.103 million dollars of business activity is generated as a result of the multiplier effect of dollars spent by Rosenbluth Travel.

As expected, the largest share of this activity went to households in the form of personal income. The second largest share went to the retail trade sector. If total business activity (\$1,103,061) is divided by total local expenditures (\$374,703), and overall multiplier of 2.94 is obtained. This means that for every dollar spent by RT in North Dakota, another \$1.94 is created in the economy. The business activity also results in the employment of an additional seven to 11 people in the area economy.

As a footnote, Rosenbluth estimates the company's cost of operation in Linton is 30 percent less than in the East. Savings are experienced mostly in labor costs and building rental costs. Thus, by opening an office in rural North Dakota, Rosenbluth Travel not only helps a depressed economy but also adds to the business's overall profit.

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Table 1. Business activity generated in the local economy as a result of expenditures by Rosenbluth Travel.

Sector	Business Activity
Ag Livestock	\$ 23,439
Ag Crops	9,372
Nonmetal Mining	2,057
Construction	33,731
Transportation	3,754
Communications and Public Utilities	63,147
Ag Processing and Misc. Manufacturing	14,814
Retail Trade	260,108
Finance, Insurance, and Real Estate	68,565
Business and Personal Service	21,190
Professional and Social Service	33,701
Households (Personal Income)	530,783
Government	38,401
Coal Mining	0
Electric Generation	0
Petroleum Exploration/Extraction	0
Petroleum Refining	0
Total	\$1,103,061
Secondary Employment	7-11

⁴Cole, Ann. "Telecommunications Can Bring Back the Vitality of Rural America." *Governing* (May 1989):90.

⁵"Help Wanted: Jobs Around the Service Sector." Associated Press. *The Forum* (October 9, 1989):A1.

cold fall rains, wind and snow become another stressor to challenge calves health. Once calves are on a moderate to high energy ration, minimal facilities and care during the winter are necessary to keep animals relatively comfortable. Wind protection from trees, windfences and buildings is important but inside housing is not recommended due to moisture condensation and respiratory problems that often develop. Occasional bedding during cold weather is appropriate.

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LESSONS LEARNED

By bolstering a local economy, Rosenbluth has become part of the rural crisis solution. North Dakotans often say that the state's biggest export is its educated children. The state spends millions of dollars to educate a workforce for jobs in more urban states. By encouraging other companies to tap this workforce by expanding into rural areas with not just bare-bones jobs but with jobs plus benefits, states in the Upper Great Plains can work to solve their rural development problems. Successes are contagious; as towns succeed in expanding their economic base, other towns seek to do likewise. A positive way of thinking evolves, and hope for the future begins to replace despair.

When Jim Weisser was asked what one thing needs to be done to help towns like Linton, he responded that "we need a way to get our foot in the door." The word needs to get out to other companies that rural America with telecommunications links can become part of any business anywhere with a skilled, motivated workforce. But getting that word out takes talented people and money. Linton recently lost a chance for another large corporation to locate in their

community. The corporation went to Rapid City, South Dakota, because of the existence of a "point of essence"⁶ and low-interest loans from the state government.

If telecommunications are to become a part of North Dakota's future, the state must invest in upgrading this infrastructure. Noted sociologist Don Dillman and his associates⁷ point out that rural America is slow to adopt new technologies. They warn that "a decade or so from now, rural America could be jeopardized by unconscious neglect." In addition to keeping pace with new technologies, the state must also support viable new and expanding businesses with financial incentives and promote North Dakota to the rest of the world as a good place to do business.

⁶The nearer a company is to a point of presence, the lower their telecommunications costs.

⁷Dillman, Don A., Donald M. Beck, and John C. Allen. "Rural Barriers to Job Creation Remain, Even in Today's Information Age." *Rural Development Perspectives* (February 1989):21-26.