

MAINE BUSINESS INSIDE OUT

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Issue One

Understanding Maine's Business Climate

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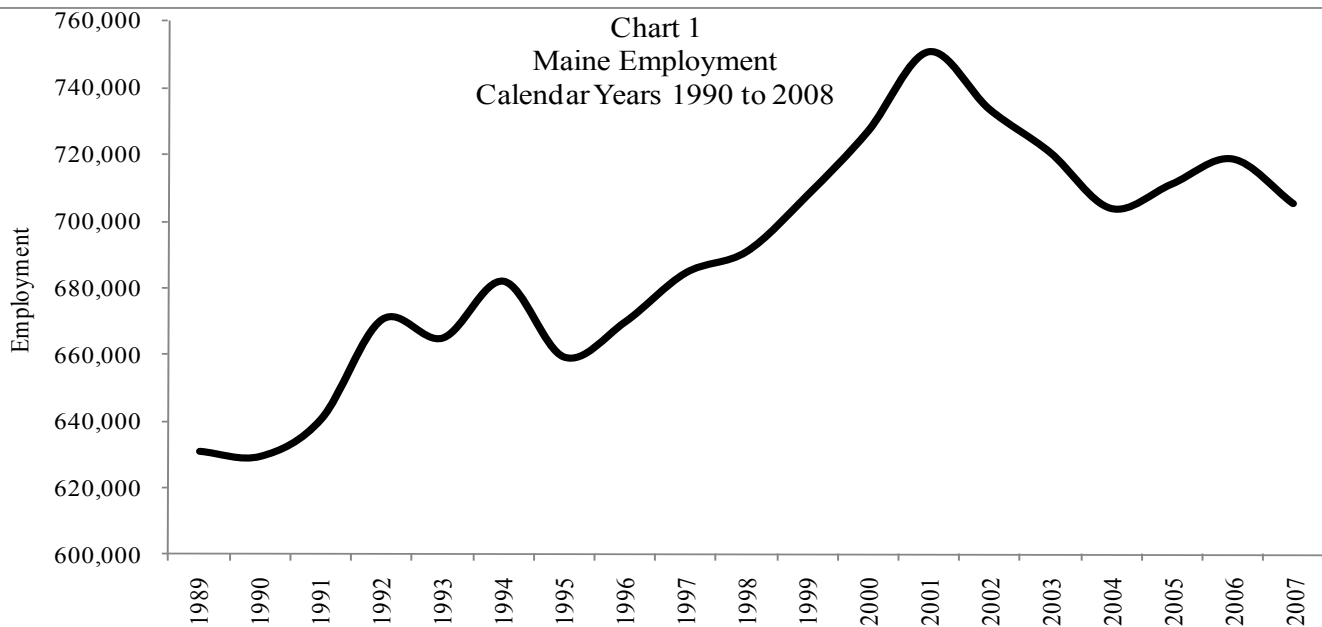
By J. Scott Moody

What is Maine's business climate? That is an age-old question that is usually answered with one anecdote or another. Depending on one's vantage point, Maine's business climate could be too hot, too cold or just about right. Unfortunately, creating public policy using anecdotes often leads to a "shotgun" approach to legislation where a lot of tiny problems get addressed but no one is ever able to put together a view of the bigger picture. A large part of the problem has been a lack of detailed empirical data on Maine's businesses. Until now.

This study is the first of many studies that will use a powerful new database of Maine's businesses called the National Establishment Time-Series (NETS) Database.^[1] NETS is based on the far-reaching Duns & Bradstreet Marketing Information file that has nationally tracked more than 36.5 million establishments between 1989 and 2007. The file tracks businesses via an assigned DUNS number which is the business equivalent of a personal Social Security number. As such, the NETS database is the most comprehensive establishment-level "business census" available.

Maine's state level file contains data for 161,351 commercial, not-for-profit and government establishments between 1989 and 2007. As of 2007, approximately half of those establishments (84,326) still exist with the remainder having either closed, moved out-of-state, or consolidated. These Maine establishments, in 2007, employed 702,028 people and had sales of \$66 billion.^[2] ^[3]

Chart 1 shows the history of Maine's employment from 1989 to 2007. Between 1989 and 2001, employment grew by 21 percent to 747,741 and in 2001 from 616,359 in 1989. However, employment peaked in 2001 and has been on a downward trajectory since. Between 2001 and 2007, employment fell by six percent to 702,028. The timing of this drop in employment is particularly disturbing since during this time-span the rest of the country was enjoying employment growth. Future studies will pinpoint the source of this employment decline in order to facilitate the creation of effective public policy solutions.



Source: National Establishment Time-Series Database and The Maine Heritage Policy Center.

Maine's Business Establishments

The NETS database is based on business establishments, which means that one company can have numerous establishments. For example, Hannaford is one company that has 53 establishments (as of 2007) throughout Maine, including retail stores and distribution centers.

However, different establishments can occupy the same location. For example, a single location could represent two different activities — such as a company's distribution and retail establishments under the same roof.

Table 1 shows the breakdown of Maine's 161,351 current and former establishments by industry between 1989 and 2007. The largest industry by establishment is Miscellaneous Business Services which are service-oriented businesses that generally cater to a business clientele — such as Portland-based PowerPay, which is a credit card processing company.

The list also has some surprises. Despite Maine's reputation as a tourist destination, everyday industries such as Automotive Repair Shops (3,682) and Beauty Shops (3,001) both outnumber Hotels and Motels (2,089).

Additionally, Table 1 only shows the top 30 industries (of 407 total) in Maine for a reason — the top 30 industries represent more than half of all establishments in Maine. Coincidentally, this pattern holds for other business characteristics to be discussed as well.

Maine's Business Employment

The employment outlook by industry, as shown in Table 2, includes commercial, not-for-profit and government establishments. The industry distribution of employment is very different from establishments.

Interestingly, the state's largest employer does not even show in the top 30 establishments — Elementary and Secondary schools, which employed 39,968 people in 2007. Naturally, schools tend to be much larger than the average beauty shop which is why, despite having far fewer establishments, schools top the employment list.

Overall, total employment in Maine for 2007 was 702,028 people. As with establishments, the top 30 industries (of 407 total) represent more than 50 percent of all employment in Maine.

Maine's Business Sales

Table 3 shows sales by industry which includes commercial, and not-for-profit establishments. Most state government establishments are excluded along with some local government establishments except elementary and secondary schools and utilities such as water and sewer districts.

Industry Group	Number of Establishments	Rank
Miscellaneous Business Services	7,833	1
Eating and Drinking Places	5,410	2
Residential Building Construction	5,184	3
Miscellaneous Shopping Goods Stores	5,149	4
Management and Public Relations	3,886	5
Real Estate Agents and Managers	3,683	6
Automotive Repair Shops	3,682	7
Offices & Clinics of Medical Doctors	3,321	8
Child Day Care Services	3,008	9
Beauty Shops	3,001	10
Religious Organizations	2,792	11
Retail Stores, NEC	2,755	12
Offices of Other Health Practitioners	2,549	13
Grocery Stores	2,448	14
Trucking & Courier Services, Ex. Air	2,336	15
Real Estate Operators and Lessors	2,312	16
Individual and Family Services	2,294	17
Misc. Special Trade Contractors	2,235	18
Legal Services	2,223	19
Misc. Amusement, Recreation Services	2,207	20
Plumbing, Heating, Air-Conditioning	2,131	21
Hotels and Motels	2,089	22
Insurance Agents, Brokers, & Service	2,058	23
Miscellaneous Repair Shops	2,015	24
Computer and Data Processing Services	1,943	25
Electrical Work	1,632	26
Elementary and Secondary Schools	1,632	27
Landscape and Horticultural Services	1,571	28
Engineering & Architectural Services	1,495	29
Used Merchandise Stores	1,495	30
Total Establishments of Top 30	86,369	--
Total Establishments in Maine	161,351	--
Top 30 Percent of Total Establishments	53.5%	--
Source: National Establishment Time-Series Database and The Maine Heritage Policy Center		

The industry distribution of sales is much more in sync with employment but not with establishments. For example, hospitals are ranked as number 1 in sales at \$2.5 billion and ranked number 3 in employment at 26,048 people. However, hospitals do not break into the top 30 in the number of establishments.

Overall, total sales in Maine for 2007 were nearly \$66 billion. As with establishments and employment, the top 30 industries (of 407 total) represent more than 50 percent of all sales in Maine.

Food-for-Thought: Grocery Stores as Economic Development?

In the never-ending quest for “economic development,” it seems public policy is always jumping from one fad to another. A recent example of this is the “smart growth” movement which is symbolized in Maine by the report “Charting Maine’s Future” written by the Brookings Institute and published by Growsmart Maine.^[4]

In the end, many economic development strategies are based on the premise that the government can and should pick winners and losers. Yet, most of the industries that have come to dominate Maine’s economy were not cherry-picked by the government.

A prime example of this unplanned growth is illustrated by the industry of Grocery Stores (retail) and the closely related industry of Groceries and Related Products (mostly distribution). As shown in Charts 2 and 3, in 2007, these two industries employed 27,461 people and had sales of \$3.9 billion. Many Mainers work hard and earn a good living in these two industries.

At the end of the day, no person, or even committee of people, is responsible for delivering the organic celery you just bought at Hannaford, Shaws or your local store. Instead, it took a multitude of companies and people to move that organic celery to its ultimate destination. As the organic celery changes hands from farmer to processor to distributor and, finally, to the retailer, most of the companies involved have no idea where that product will ultimately end up.^[5]

This is the sort of undiscovered nugget that will lead to a deeper understanding of Maine’s business climate through the use of the NETS database. Although the Grocery industry, to the best of my knowledge, has never been part of an economic development fad, it is a foundational part of Maine’s economy providing good jobs and pay to thousands of Mainers.

Conclusion

This study is the first of many studies that will explore the nature of Maine’s business climate utilizing the powerful new NETS database. A glance at Maine’s economy via the top 30

Table 2
Maine Employment by Industry
Calendar Year 2007

Industry Group	Employment	Rank
Elementary and Secondary Schools	39,968	1
Eating and Drinking Places	35,858	2
Hospitals	26,048	3
Grocery Stores	21,611	4
Nursing and Personal Care Facilities	15,937	5
Offices & Clinics of Medical Doctors	15,226	6
Miscellaneous Business Services	14,733	7
Individual and Family Services	12,828	8
Hotels and Motels	12,341	9
Colleges and Universities	11,606	10
Public Order and Safety	10,980	11
Management and Public Relations	9,982	12
Executive Offices	9,735	13
Ship and Boat Building and Repairing	8,581	14
Department Stores	8,249	15
Misc. Amusement, Recreation Services	7,724	16
Men's & Boys' Clothing Stores	7,677	17
Real Estate Agents and Managers	7,626	18
Miscellaneous Shopping Goods Stores	7,360	19
Residential Building Construction	7,143	20
Trucking & Courier Services, Ex. Air	7,094	21
Paper Mills	7,050	22
New and Used Car Dealers	6,137	23
Lumber and Other Building Materials	6,096	24
Legal Services	5,898	25
Groceries and Related Products	5,850	26
Regulation, Admin. of Transportation	5,814	27
Health and Allied Services, NEC	5,807	28
Misc. Special Trade Contractors	5,447	29
Real Estate Operators and Lessors	5,419	30
Total Employment of Top 30	351,825	--
Total Employment in Maine	702,028	--
Top 30 Percent of Total Employment	50.1%	--
Source: National Establishment Time-Series Database and The Maine Heritage Policy Center		

industries as sorted by establishments, employment and sales shows that Maine's economy is very diverse.

On the one hand, there are Automotive Repair Shops and Beauty Shops that rank highly in terms of the number of establishments but disappear altogether on employment and sales.

On the other hand, there are Hospitals which fail to show up in the number of establishments but top the list in employment and sales.

Future publications of the Maine Business InsideOut series will continue discussing various trends impacting Maine's business community, driven by data derived from the NETS database.

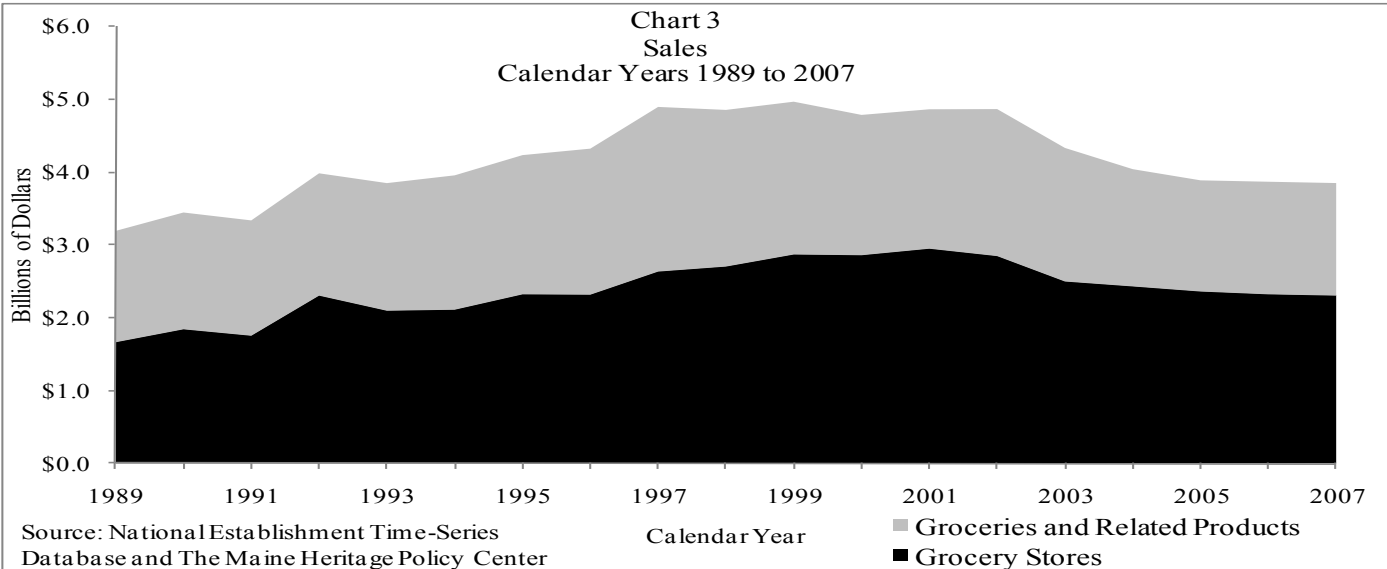
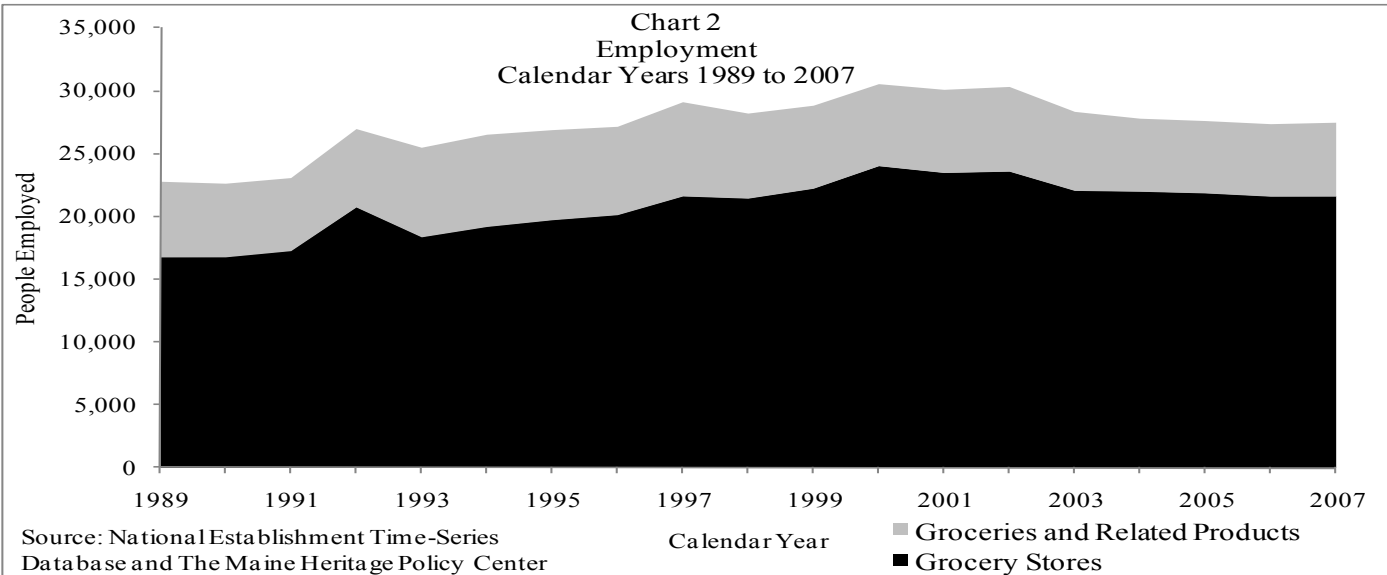
Notes and Sources:

- [1] The firm Walls & Associates performs the conversion of the Dun & Bradstreet Marketing Information file into a time-series database that is useful for economic research purposes. The file is proprietary to Walls & Associates which licenses the database to researchers across the country—including the U.S. Department of Commerce's Census Bureau and the Bureau of Economic Analysis.
- [2] Though this study will use the term "Maine employment," it does not mean that those employed are all Mainers. Since employment is reported on a per establishment basis, there is no information on the residency of the workforce. Therefore, someone living in New Hampshire but working for a Maine establishment would be included in the "Maine employment" number.
- [3] Sales are based on gross amounts and are not netted between industries. For example, if a distributor sells \$1 million worth of goods to a retailer which, in turn, resells those goods for \$1.5 million, the total sales in that year was \$2.5 million (\$1 million plus \$1.5 million). This "gross output" approach is best for understanding total economic activity. This is very different from the "value-added" approach of familiar statistics such as Gross Domestic Product, which would only quantify the \$1.5 million in retail sales. For a primer on the differences, see this article by economist Mark Skousen: <http://www.mskousen.com/old/Books/Articles/0104go.html>
- [4] The Brookings Institute report can be found here: <http://www.brookings.edu/~media/Files/rc/reports/2006/10cities/maine.pdf>
- [5] The classic tale of this unplanned and seemingly miraculous series of events is "I, Pencil" by Leonard Read: <http://www.econlib.org/library/Essays/rdPnc11.html#I,%20Pencil>

Table 3
Maine Sales by Industry
Calendar Year 2007

Industry Group	Sales	Rank
Hospitals	\$2,495,442,844	1
New and Used Car Dealers	\$2,352,751,257	2
Grocery Stores	\$2,310,625,393	3
Elementary and Secondary Schools	\$2,187,959,968	4
Paper Mills	\$1,813,911,900	5
Groceries and Related Products	\$1,547,103,679	6
Offices & Clinics of Medical Doctors	\$1,314,894,368	7
Lumber and Other Building Materials	\$1,241,752,020	8
Department Stores	\$1,205,093,300	9
Colleges and Universities	\$1,144,704,007	10
Eating and Drinking Places	\$1,136,422,805	11
Life Insurance	\$1,112,892,300	12
Electric Services	\$1,079,766,217	13
Commercial Banks	\$1,068,010,976	14
Residential Building Construction	\$1,010,583,382	15
Miscellaneous Business Services	\$1,007,343,137	16
Ship and Boat Building and Repairing	\$947,729,145	17
Nonresidential Building Construction	\$926,090,636	18
Management and Public Relations	\$893,375,538	19
Machinery, Equipment, and Supplies	\$844,572,822	20
Men's & Boys' Clothing Stores	\$768,415,921	21
Petroleum and Petroleum Products	\$683,141,702	22
Insurance Agents, Brokers, & Service	\$667,956,171	23
Trucking & Courier Services, Ex. Air	\$667,703,100	24
Electrical Goods	\$659,175,932	25
Real Estate Agents and Managers	\$614,031,036	26
Fuel Dealers	\$590,066,858	27
Nursing and Personal Care Facilities	\$585,157,311	28
Misc. Special Trade Contractors	\$546,773,437	29
Telephone Communication	\$540,911,056	30
Total Sales of Top 30	33,964,358,218	--
Total Sales in Maine	65,957,938,537	--
Top 30 Percent of Total Employment	51.5%	--

Source: National Establishment Time-Series Database and The Maine Heritage Policy Center



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Path to Prosperity is a special series of publications by The Maine Heritage Policy Center which focus on Maine's overspending and the resulting tax burden that threaten long-term, stable, sustainable prosperity. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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