



St. Croix County Business Services
Survey: Fall 2005

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Survey Research Center Report 2006/1

January, 2006

Students working for the Survey Research Center were instrumental in the completion of this study. Lindsey Thompson, Kristi Sirinek, Adrienne Adolphson, Bethany Barnett, Rachel Ehlert, Corrie Ford, Ashley Frye, Mandy Speerstra, and Danielle Rogers managed the mailing process and data entry phases of this project. Danielle calculated the initial descriptive statistics. Ashley and Mandy drafted the Executive Summary. Their hard work and dedication are gratefully acknowledged.

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Executive Summary

In October of 2005, larger businesses in St Croix County, Wisconsin received surveys that requested their input on business services practices. The key findings of the survey include:

- The sample was largely composed of businesses that have been in operation for a long time. The average firm in this sample has 79 employees, three fourths of the sample said they are independent rather than being a branch, franchise, or subsidiary. More than three-quarters of the businesses providing data have sales in excess of \$1 million per year.
- Some services are characterized by relatively long-term and stable relationships between the firm and its provider (accounting, travel services, legal services).
- Firms' choices in some markets are driven primarily by the cost of the service (waste disposal, travel services, business insurance). Other business service markets are driven more by specialized expertise that is required.
- Virtually all firms surveyed used business insurance and waste disposal services. Strong majorities of the firms utilized accounting, legal services, and advertising/marketing. One-third or fewer of the firms purchased travel services, architectural/engineering services, or the services of management consultants.
- The least common business service to be purchased locally is management consulting. The only other two services for which a majority of the services comes from non-local providers are architects/engineers and business insurance. Nearly half of the accounting and legal services are purchased from non-local providers.
- Local providers account for two-thirds or more of travel, advertising/marketing, and waste disposal services for St Croix County businesses.
- Relatively few businesses said that they have a low level of satisfaction with their current service providers. In fact, with one exception 3 percent or fewer rated their satisfaction with their current service provider as low.
- The one exception was eight percent of the respondents rating their satisfaction with their current provider of marketing/advertising services as low. All eight percent reported using either in-house or local providers.
- The trend for annual expenditures for all the services seems to be evenly split between up and flat, with a slight emphasis on up.
- A slight majority of the sample have not changed their services for more than 5 years, making them pretty well settled with their service providers.
- A "Market Desirability Index" composed of the percentage of firms using a service, the percentage of firms purchasing the service from outside St. Croix County, a firm's dissatisfaction with their current provider, how recently the firm changed providers of a given service, the amount spent on the service, and the direction of change of expenditures was created.
- Based on the Market Desirability Index, business insurance and marketing/advertising appears to be the most attractive markets for an aggressive campaign to increase the proportion of these services provided by local firms.

The authors are planning two follow-up research efforts to this study. A small phone survey will be conducted to gather additional details about the specific types of business insurance coverage that local firms are purchasing. In addition, the authors will conduct a focus group to explore the sources of discontent with marketing/advertising services.

Survey Overview

From 1969 to 2001, employment in the service sector (personal and business combined) in St Croix grew 1.6 times more than the total employment growth of the county.¹ Further, Woods and Poole Economics project the services sector in St. Croix County to grow by 75 percent over the 2001-2025 time period, compared to a projected total county employment increase of only 42 percent.²

Because it is seen as an important sector for the future of the County, the St Croix County Economic Development Committee felt that more information about this dynamic portion of the County's economy was needed. In response, Jim Janke, the St. Croix County Community, Natural Resource, and Economic Development Educator with the University of Wisconsin Extension Service wrote a grant to fund a survey focusing on the business services market in the County.

The Economic Development Committee and Mr. Janke worked with the Survey Research Center at the University of Wisconsin at River Falls, which is a joint effort with UW-Extension, to craft a survey. The focus of the survey was to understand demand for business services by larger firms in St. Croix County. Firms included in the sample had at least 10 employees or \$500,000 in annual sales. The goal of the survey was to determine:

- which business services these firms used
- where they acquired them (in house, locally, Minnesota, etc.)
- their level of satisfaction with their current provider
- how long they had used their current provider
- average annual expenditures for the service
- the trend (up, down, flat) of their annual expenditures
- the most important factor considered (price, reputation, expertise, etc.) in choosing a provider

Ultimately, we hoped to identify particular business services that seem to offer the brightest prospects for existing local service providers to expand their business or for new local service providers to enter the market.

This report summarizes the results of our survey.

¹ Page 5-7 James Janke and Steven Deller, "The Structure of the St. Croix County Economy: A Study for Economic Opportunity," unpublished report, Department of Agricultural and Applied Economics, www.aae.wisc.edu/pubs/misc/, University of Wisconsin-Madison, November 22, 2004.

² Page 28, *ibid.*

Survey Data Collection Methods

In mid-October 2005, the Survey Research Center (SRC) at the University of Wisconsin at River Falls implemented a survey of business services practices at larger businesses in St. Croix County. The SRC sent surveys to 450 businesses in the county. Ten days after the first mailing, a postcard reminder was sent to businesses that had not yet returned their questionnaire. Approximately two weeks after we sent the postcard, a second questionnaire was sent to non-respondents. The response to this survey was very good, with 214 (48 percent) of the businesses completing and returning their questionnaires.

Given a total population of 450, the results in this report should be accurate to within plus or minus 4.86 percent with 95 percent confidence.

Most surveys have to be concerned with “non-response bias.” Non-response bias refers to a situation in which people who don’t return a questionnaire have opinions that are systematically different from the opinions of those who return their surveys. For example, suppose most non-respondents purchase their accounting services locally, whereas most of those who returned their questionnaire purchase them outside the area. In this case, non-response bias would exist and the survey results would understate the use of local accounting services.

The SRC, using a standard statistical procedure described in Appendix C, tested for and found very little evidence of non-response bias. Only 4 of 64 variables tested had statistically significant differences between the first and second mailings. We conclude that the sample drawn should accurately reflect the views of the entire population.

Summary of Findings

Characteristics of Firms in the Sample

As indicated in Table 1, the average firm in this sample has 79 employees, 54 of whom are full-time, and 21 work half time or less. The average firm also has 21 contract employees. The largest firm in the sample set said they employ in excess of 2,000 workers, the smallest has a single full-time employee and a couple of contract workers.

	Ave	< 10	10 - 25	26 - 50	51 - 75	76 - 100	100+
Employees	79	33	73	47	22	8	28
Full-Time Employees	54	85	51	32	15	4	22
Half-Time or Less Emp	21	136	32	20	3	3	6
Contract Workers	21	178	15	1	-	-	1
			Branch, Franchise, Subsidiary				
Number of businesses	147		59				
(Percent)	71%		29%				
		6 - 10 years	11 - 20 years	20+ years			
Length Business Operations	< 5 years	22	23	52	115		
(Percent)	10%	11%	25%	54%			
	< \$0.5 million	\$0.5 to \$0.99 million	\$1 to 4.9 million	\$5 to \$9.9 million	\$10.0+ million		
Ave Annual Sales (3 years)	16	33	85	21	50		
(Percent)	8%	16%	41%	10%	24%		
	Inc	Flat	Dec				
Annual Sales Are	145	47	13				
(Percent)	71%	23%	6%				

Nearly 3 of every 4 businesses in the sample said they are independent rather than being a branch, franchise or subsidiary. The sample is largely composed of businesses that have been in

operation for a long time. Over half the sample has been in business for more than 20 years. More than three-quarters of the businesses providing data have sales in excess of \$1 million per year. Further, more than 7 out of 10 report that sales have generally been increasing.

Summary of Business Services Use by Larger Firms in St. Croix County

The purpose of this survey is to better understand the practices of larger firms in St. Croix County when it comes to purchasing business services. The survey instrument, which is included as Appendix A to this report, asked about 9 businesses services: management consulting, architectural/engineering services, business insurance, accounting, legal services, travel services, advertising/marketing, waste disposal, and other. One reason for studying this market is to identify services that might be provided by local suppliers.

We asked firms to tell us if they use a given service, where they acquire the service, how satisfied they are with their current provider of the service, when they last changed their provider of the service, their average annual expenditures for the service, if these expenditures are trending up or down, and what the most important factor they consider when selecting a business service provider. A limited number of additional comments were provided by respondents and these are summarized in Appendix B.

We hypothesize that if a firm is more likely to be willing to consider a new service provider if they have an average or low level satisfaction with their current provider, if they have changed providers not less than one or more than 5 years ago (if less than 1, the firm may feel that they are still in the “test-drive” stage of the relationship and if more than 5 they would seem to be pretty well settled on their service provider), if they are spending a fair amount of money on the service currently, and if those expenditures are rising.

Table 2 summarizes the findings of this survey. The results of Table 2 suggest that there are multiple types of markets represented by the various services:

- Some services (management consultants, architects/engineers, business insurance) are generally purchased from vendors outside the region.
- Some services have relatively low levels of customer satisfaction (advertising/marketing and waste disposal).
- Some services are characterized by relatively long-term and stable relationships between the firm and its provider (accounting, travel services, legal services).
- Firms’ choices in some markets are driven primarily by the cost of the service (waste disposal, travel services, business insurance).
- Other business service markets are driven more by specialized expertise that is required (management consulting, architectural/engineering services, legal services, accounting)
- The reputation of the provider and the provider’s networking abilities are important but substantially less so than the other factors examined (cost and expertise). Interestingly, the two services for which reputation and a personal connection with the service provider are most important are legal and accounting services.

Table 2: Summary of Business Services Use by Larger Firms in St. Croix County

	Count	% Used	% Non in-house + Non-local	% Ave or Low Sat	% Changed Providers 1 - 5 yrs	% Spending \$5,000+/yr	% Inc Expend	% Chose Cost	% Chose Spec Expertise	% Chose Reputation	% Chose Know Person	% Chose Other
Management Consultants	209	22%	75%	45%	56%	63%	46%	0%	69%	19%	7%	5%
Architect/Engineering	207	32%	63%	45%	32%	74%	41%	6%	60%	21%	11%	2%
Business Insurance	211	99%	59%	45%	44%	88%	64%	40%	29%	12%	17%	3%
Accounting	214	83%	47%	24%	28%	63%	51%	5%	54%	25%	12%	4%
Legal Services	211	79%	43%	39%	31%	44%	32%	0%	56%	24%	17%	2%
Travel Services	210	30%	33%	47%	27%	67%	47%	42%	19%	13%	15%	10%
Advertising/Marketing	213	69%	29%	64%	41%	73%	51%	30%	39%	13%	8%	10%
Waste Disposal	210	92%	21%	58%	43%	36%	47%	63%	10%	18%	6%	4%
Other (1)	10	80%	86%	50%	63%	100%	63%	13%	75%	13%	0%	0%

1. Other includes copy services, security, food services, tax preparation, information technology services, equipment maintenance, and temporary employment services)

Virtually all firms surveyed used business insurance and waste disposal services. Strong majorities of the firms utilized accounting, legal services, and advertising/marketing. One-third or fewer of the firms purchased travel services, architectural/engineering services, or the services of management consultants.

Because we are interested in the potential of increasing the demand for locally produced business services, we have calculated the percentage of a service that is currently be provided by someone outside the local area. The market share of local providers of business services varies greatly by type of service. The least common business service to be purchased locally is management consulting (75 percent comes from outside the local area). The only other two services for which a majority of the services comes from non-local providers are architects/engineers (63 percent non-local suppliers) and business insurance (59 percent non-local suppliers). Nearly half of the accounting and legal services are purchased from non-local providers. At the other end of the spectrum, local providers account for two-thirds or more of travel, advertising/marketing, and waste disposal services for St. Croix County businesses.

Relatively few businesses said that they have a low level of satisfaction with their current service providers. In fact, with one exception 3 percent or fewer rated their satisfaction with their current service provider as low. The one exception is, perhaps, a good news-mostly bad news story. Eight percent of the respondents rated their satisfaction with their current provider of marketing/advertising services as low. The good news is that this might suggest a market opening. The bad news is that this is a service for which there is already fairly heavy local service provider penetration. The worse news is that all 8 percent of those who rated their level of satisfaction as low, report using either in-house (4 percent) or local providers (4 percent) for this service. The even worse news is that the lowest average level of satisfaction with current advertising/marketing services is with providers in the local area (82 percent were rated average or low) or elsewhere in Wisconsin (73 percent were rated average or low).

Strategic Direction

To help identify business service markets that are, perhaps, most promising, the SRC created the Market Desirability Index. We are suggesting that a market is potentially more desirable if:

- A higher percentage of St. Croix County firms are using a given service. A higher percentage simply means that the market for the service is larger.
- A higher percentage of a given service is not being provided in-house or from firms in the area. This means that the local market share is low and gains in this measure of market share would represent net improvements in the local economy as opposed to the neutral effect of a shift from one local provider to another.
- A higher percentage of firms rate their satisfaction with their current provider as average or low. We hypothesize that such firms are going to be more open to considering a change in their provider of the given business service.
- A higher percentage of firms that have changed providers in the past 1 to 5 years. As noted above, we hypothesize that such firms are also more likely to be open to considering a change in providers.
- A higher percentage of firms that are spending at least \$5,000 per year for the service. The higher the expenditure, the more scrutiny is the firm likely going to give to the given service since it becomes a more important part of their overall cost structure. Such scrutiny may make it more likely that a firm will be willing to consider a change in providers. Further, from the local providers' perspective, these somewhat larger accounts would be expected to be more attractive.
- A higher percentage of firms whose expenditures on a given service are increasing. A pie that is growing in size is assumed to be more attractive.

To create the index, the SRC simply added the percentage values for each of the above six factors and divided the sum by 6. The results of the index are summarized in Table 3. Based on

Table 3: Market Desirability Index

	Market Desirability Index
Business Insurance	66%
Advertising/Marketing Management	55%
Consultants	51%
Waste Disposal	50%
Accounting	49%
Architect/Engineering	48%
Legal Services	45%
Travel Arrangements	42%

this index, business insurance appears to be the most attractive market for an aggressive campaign to increase the proportion of these services provided by local firms. It should be noted, however, that Table 2 indicates that the two most important factors considered by firms when deciding who will provide their business insurance are cost and specialized expertise. This means that local providers of business insurance are going to have to provide local businesses with a competitive price and demonstrate that they have the needed specialized knowledge to service the specific needs of a given client.

The other market that stands out is advertising and marketing. Here the challenge for local providers of these services is quite different. In-house and local providers have the dominant market share for this service already; an estimated 71% that is

roughly equally split between in-house and local providers. Further, as noted, St. Croix County purchasers of these services are not necessarily very satisfied with the quality of their local purchases of marketing and advertising services.

Finally, as noted above, local reputation and a personal connection with the service provider are particularly important in the legal and accounting services areas. Networking is likely to be a very effective marketing strategy for suppliers of these services.

Conclusions

This survey has highlighted the fact that local providers of business services have achieved much higher levels of market share in some areas (advertising/marketing, travel, waste disposal) than in others (management consulting, business insurance, architecture/engineering).

The study has also suggested that the markets for different business services are driven by different factors. Some business service markets (waste disposal and business insurance) are primarily price-driven markets in which the choice of provider is based mostly on the cost of the service offered. The market for other services (management consulting, engineering/architecture, and legal services) are driven much more by specialized expertise.

In all cases, the reputation of the provider and the personal connections made between the provider and client are secondary but very important factors determining from whom business services are purchased.

Business insurance and advertising/marketing appear to be the two business services that offer the best prospects for St Croix County suppliers.

Appendix A –Survey Instrument with Raw Response Data

A. Current Business Service Use

In this section of the questionnaire, we will be asking about your current practices with respect to a number of common business services.

1. Accounting/Bookkeeping Services:	
a. Used in your business: 177 Yes 37 No (<i>go to question 2</i>)	b. If used, where acquired: 38 In-House 37 Locally 24 Elsewhere 37 MN 5 Other in WI
c. Satisfaction with current provider: 27 High 40 Average 1 Low	d. When last changed provider: 8 < 1 year 42 1-5 years 100 5+ years
e. Average expenditures per year: 9 < \$1,000 49 \$1,000 - \$5,000 33 \$5001- \$10,000 65 \$10,000+	f. Trend in expenditures/year: 77 Up 68 Flat 7 Down
g. If you purchase accounting/bookkeeping services, which of the following is most important in your choice (<i>select one</i>): 7 Cost 74 Specialized Expertise 34 Reputation 17 Know Personally 5 Other	
2. Legal Services:	
a. Used in your business 167 Yes 44 No (<i>go to question 2</i>)	b. If used, where acquired 9 In-House 69 Locally 26 Elsewhere 29 MN 4 Other in WI
c. Satisfaction with current provider 99 High 62 Average 2 Low	d. When last changed provider 7 < 1 year 47 1-5 years 99 5+ years
e. Average expenditures per year 35 < \$1,000 52 \$1,000 - \$5,000 31 \$5001- \$10,000 38 10,000+	f. Trend in expenditures/year 50 Up 98 Flat 6 Down
g. If you purchase legal services, which of the following is most important in your choice (<i>select one</i>): 0 Cost 76 Specialized Expertise 33 Reputation 23 Know Personally 3 Other	
3. Business Insurance:	
a. Used in your business 290 Yes 2 No	b. If used, where acquired 2 In-House 78 Locally 53 Elsewhere 42 MN 19 Other in WI
c. Satisfaction with current provider 112 High 90 Average 3 Low	d. When last changed provider 14 < 1 year 85 1-5 years 93 5+ years
e. Average expenditures per year 1 < \$1,000 23 \$1,000 - \$5,000 33 \$5001- \$10,000 137 \$10,000+	f. Trend in expenditures/year 125 Up 60 Flat 11 Down
g. If you purchase business insurance, which of the following is most important in your choice (<i>select one</i>): 70 Cost 51 Specialized Expertise 21 Reputation 30 Know Personally 5 Other	

B. Your firm

In this section we will be asking for some information about your firm. These data will be used for statistical analysis only. Specific responses will not be associated in anyway with your firm.

- 10a. How many employees does your firm have? _____ average = 79
- b. How many full-time employees does your firm have? _____ average = 54
- c. How many employees work half-time or less for your firm? _____ average = 21
- d. How many contract or "1099" workers does your firm have? _____ average = 21
11. Is your business: 147 independent or 59 a branch/franchise/subsidiary
12. How long has this business been in operation?
- 22 0 – 5 years 23 6 – 10 years 52 11 – 20 years 115 20+ years
13. Average annual sales over past three years:
- 16 Less than \$500,000 33 \$500,000 - \$999,999 85 \$1,000,000 - \$4,999,999
- 21 \$5,000,000 - \$9,999,999 50 \$10,000,000+
14. Annual sales for my business are generally: 145 increasing 47 flat 13 decreasing
15. My primary business is in:
- | | |
|---|--|
| <u>7</u> Plastic or Rubber Prod Mfg | <u>11</u> Fabricated Metal Prod Mfg |
| <u>1</u> HVAC or Commercial Refrig Equip Mfg | <u>1</u> Wholesale, durable goods |
| <u>4</u> Wholesale, non-durable goods | <u>10</u> Retail, motor vehicles and parts |
| <u>13</u> Retail, building materials & garden equip | <u>31</u> Retail, food and beverage |
| <u>5</u> Legal services | <u>120</u> Other |

Appendix B – Respondent Comments

Business Survey Comments

#1g If you purchase accounting/bookkeeping services, which of the following is most important in your choice:

- 2 Corporate decision
- 1 Accuracy
- 1 Competence

#2g If you purchase legal services, which is the most important in your choice:

- 2 Corporate decision
- 2 Competence
- 1 Knowledge of industry

#3g If you purchase business insurance, which of the following is most important in your choice:

- 2 Corporate decision
- 1 Local provider
- 1 Coverage
- 1 Knowledge of industry
- 1 Mandatory
- 1 Rental
- 1 All of the listed options

#4g If you purchase architectural/engineering services, which of the following is most important in your choice:

- 1 Reference
- 1 Corporate decision

#5g If you purchase management consulting services, which of the following is most important to your choice:

- 1 Return in investment
- 1 Corporate decision

#6g If you purchase advertising/ marketing services, which of the following is most important in your choice:

- 2 Results
- 2 Return in investments
- 2 Local newspaper
- 1 Comarket

- 1 Corporate decision
- 1 Graphic location
- 1 Local clientele
- 1 Coverage
- 1 Have not found it yet

#7g If you purchase travel arrangement services, which of the following is most important to your choice:

- 2 Corporate decision
- 2 Staff or assistant makes arrangements
- 1 Location
- 1 Convenience
- 1 Mandatory

#8g If you purchase waste disposal services, which of the following is most important in your choice:

- 2 Use providers in the area
- 1 Only one option
- 1 Dependable
- 1 Service

#9 Other Business Service

- 2 Consultants
- 1 Temporary Employee Services
- 1 Equipment Maintenance
- 1 Computer Programming
- 1 Copier services
- 1 Security guard service
- 1 Food service and supply
- 1 Local

#15 My primary business is:

- 42 Miscellaneous
- 15 Healthcare and Medical
- 13 Construction and Remodeling
- 11 Manufacturers
- 10 Transportation
- 10 Retail
- 10 Financial
- 4 Real Estate
- 4 Lodging

Appendix C – Non-Response Bias Test

Most surveys have to be concerned with “non-response bias.” Non-response bias refers to a situation in which people who don’t return a questionnaire have opinions that are systematically different from the opinions of those who return their surveys. For example, suppose most non-respondents purchase their accounting services locally, whereas most of those who returned their questionnaire purchase them outside the area. In this case, non-response bias would exist and the survey results would understate the use of local accounting services.

The standard way to test for non-response bias is to compare the responses of those who return the first mailing of a questionnaire to those who return the second mailing. Those who return the second questionnaire are, in effect, a sample of non-respondents (to the first mailing) and we assume that they are representative of that group.

The SRC tested for statistically significant differences in the way respondents to the first and second mailings answered the 64 variables in the St. Croix Business Services Survey. We found very few statistical differences between the opinions of the first and second mailings. We found that those responding to the first mailing were significantly more likely to purchase advertising services, to be independent businesses, and to have been in business for more than 20 years. The respondents to the second mailing were more likely to report that their expenditures for waste disposal services were increasing. Because there are few statistical differences between the responses of the first and second mailings and no overall pattern of significant differences, the SRC concludes that non-response bias is not a serious concern for this survey.