

ECONOMIC DEVELOPMENT CORPORATION OF LEA COUNTY, NEW MEXICO

Strategic Plan: Report 2

Targeted Industries/Businesses-Marketing Plan-
Organizational Analysis
Mike Barnes Group, Inc.

2010

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Preface

The Strategic Plan is the third document in a series of economic development documents presented to the Economic Development Corporation of Lea County, New Mexico. The first document, the Preliminary SWOT was developed from previous interviews and research conducted by the New Mexico Partnership and the Mike Barnes Group during February 2010. The second document, entitled, Report 1-Results of the SWOT Focus Groups, which were conducted during June 21-25, 2010. The Strategic Plan will incorporate the findings of those earlier documents and research, coupled with the recommendations of the Consultant Team. The Consultant Team has executive level economic development experience that totals more than sixty years. Both members of the Consultant Team possess advanced degrees. In addition, the MBG has an extensive database derived from both community economic development work and site selection/incentive negotiation projects.

The Strategic Plan will identify potential targeted industries and businesses for the EDCLC. In addition, it will provide a Marketing Plan that can easily be implemented. Finally, the Strategic Plan will provide an organizational analysis of the EDCLC. The MBG appreciates the hard work and dedication of all those persons identified in Report 1 in helping this project come to fruition. MBG acknowledges the specific effort of the staff of the EDCLC in providing logistics, establishing appointments, answering numerous inquiries, and the hospitality throughout this project.

The Consultant Team of the Mike Barnes Group included the firm's President/CEO, Michael Barnes, from Blanco, Texas and Senior Associate, Jack Allston of JBA and Associates from Rio Rancho, New Mexico. Similarly, we appreciate the assistance from New Mexico Junior College Workforce Training Center in supplying the Consultant Team with an Input/Output Model of the targeted industries/businesses.

To suggest that the EDCLC has been anything but successful in its economic development endeavors would be inaccurate. The goal of this process is to further enhance the ability of Lea County to be competitive in the global marketplace. It has been estimated that at least 10,000 organizations such as the EDCLC compete with one another for the obviously limited economic development projects. This speaks volumes in terms of the recent success of the EDCLC!

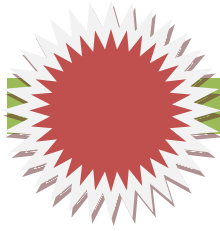
Introduction

Lea County, New Mexico possesses major attributes in terms of economic development competitiveness. As is the case with most areas, there are barriers to its being more competitive. The Strategy the Consultant Team is recommending recognizes this situation. Of significant importance is the “market orientation” of the MBG approach. Rather than a theoretical document, the Strategy puts into place proven economic development practices.

In identifying targets, MBG recognized the importance and contribution of Lea County’s existing industry. Likewise, the targets were developed with a keen recognition of Lea County’s workforce—existing and potential. The Consultant Team was cognizant of recent success in the nuclear energy and the continued emphasis upon “alternative energy” in identifying targets that took advantage of those successes and attributes. Simultaneously, a push to help diversify the economy and enhance the future opportunities for residents was made with identified targets that offered subtle modifications to the existing industrial base and the accompanying workforce. This diversification effort utilized the recognized theme of EnergyPlex, given its prominence in the existing marketing effort.

Developing a Marketing Plan or Strategy requires knowledge of the community’s assets, which Lea County recognizes. The Marketing Plan also must be sensitive to amount of available/potential funds for the effort. This Marketing Plan is offered as a means to expand or contract, subject to availability of existing funds, while providing a forum for Lea County to be showcased to prospective industry and business. Having identified targets also is a valuable asset when establishing a marketing plan. Any marketing strategy must be given time. Too many economic development organizations shift their focus and strategy prematurely. Economic development is rarely instantaneous. Typically, the process takes a matter of months, or in many cases, years. Evaluation of the marketing plan should be ongoing and modifications reflective of the marketplace made.

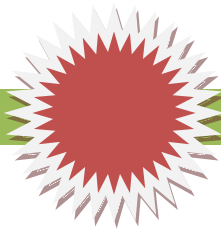
Perhaps the easiest component of this three phased report is that of Organizational Analysis. Candidly, the EDCLC appears to be well organized, funded, and staffed. This contributes significantly to the successful economic development effort. There will be some observations/recommendations suggesting perhaps other approaches and identifying minor modifications to enhance the organization. On balance, Lea County should be very proud of the accomplishments of its economic development organization and staff.



Targeted Industries and Businesses

Selecting target industries for Lea County is a multi-step process. In Report 1, Results of the SWOT Focus Groups of Lea County, we identified the county's strengths and weaknesses as a location for business growth. From this, we employ a "site selection" methodology that seeks to answer the following four questions:

- 1. What clusters currently exist locally, and are they growing?** Immediate and obvious candidates for targets are those that are experiencing growth within the community or surrounding communities. Industries that have a large presence but lack growth suggest that the county is losing its competitiveness in this industry. While the industry may be a candidate to target for a retention effort, a long-term decline calls for a close look at transitional opportunities into new industries that create jobs (e.g. textile workers transitioning into food processing).
- 2. Are existing or emerging local clusters in industries that are growing nationally or undergoing geographic dislocation?** For those local clusters that have potential, are they growing nationally as well? While some industries are experiencing high growth rates, most U.S. industries are modest or stagnant in their growth. However, the dislocation of industries from one part of the country to another has been a longstanding opportunity for recruitment. Many industries undergo restructuring in order to be more competitive or simply suffer a high rate of startup and failure.
- 3. Are there local assets that give specific industries a competitive edge?** Communities are as unique as people. Each one has strengths that companies can leverage to create competitive advantages. These strengths can include such things as workforce skills, tax structure, infrastructure, and market proximity. Likewise, many companies have specific infrastructure and workforce minimum requirements, and understanding whether the region can meet those requirements is crucial. For example, if the region lacks water and wastewater capacity or has overly stringent environmental regulations, then the community could be ruled out for food processing and semiconductor manufacturing. Understanding the needs of target companies is essential to recruiting them.
- 4. Does the industry match community goals?** The most important criterion is often whether or not the industry matches the stated goals of the community. Some communities may want to avoid manufacturing businesses or businesses that don't pay high enough wages. Sometimes lack of available land requires a more precise list of targets. Communities wanting to maintain a small-town appeal, for example, may target homegrown "soft" industries. Others wanting to transition into a more urban, metropolitan setting may focus more on larger office users.



Targeted Industries and Businesses

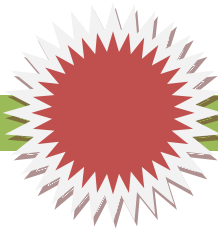
“Site selection” is a broad term that describes a company’s process of selecting a city for a new office or the relocation of existing divisions. This process involves executives from several divisions within the company (such as Executive, Human Resources, Facilities Planning, and sometimes Marketing) and often involves a consultant or real estate broker. Site selection is not a scientific process, but does involve a system of measurements and calculations, many of which are subjective to the company.

Traditionally, the growth of economies has been described in terms of a region’s “basic” or “primary” industries. These industries typically export their goods or services outside the region, thereby supporting local industries such as retail, housing construction, and personal services through its payroll and local purchases. Primary industries reflect an injection of outside money into the community and have a high economic impact; according to various economic impact analyses, a typical primary business may create two additional jobs in the local economy for every one job at its facility. For this reason, communities across the country compete to recruit or retain these high-impact, primary businesses.

Manufacturing is a good example of a primary industry, as most customers would be found throughout the U.S. or even internationally. With the manufacturing industry in decline and the increasingly global nature of business today, many more industries are increasingly “primary” in their make-up: distribution centers may serve a multi-state region; back office operations can serve a company’s global network of employees; and custom software companies can build Internet applications that serve businesses anywhere in the world. Federal installations such as army bases or federal research labs are clear examples of how government can be classified as a primary industry. High wage jobs are usually found at national or global companies that are enjoying growth.

While businesses are more global in nature today, rapid gains in technology, telecommunications, and markets continue to alter the location requirements of many companies. Often the speed of business drives corporate location decisions. Research conducted by the Industrial Asset Management Council suggests that the competition for top talent is now viewed to be the most important component of a successful company. Today’s business environment requires that businesses continue to upgrade their technological capabilities while expanding the skills of the available workforce. Innovation and change are now basic requirements for success.

In the following pages, we will identify potential targets, based upon those criteria outlined above and the results of the findings in the previous two reports. These targets will be identified by the NAICS codes, many at the six digit level. North American Industry Classification System or NAICS codes were developed as a standard for use by the federal statistical agencies in categorizing business and industry, *according to the NAICS Association*.

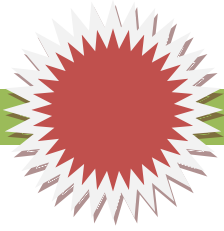


Targeted Industries and Businesses

As indicated previously, targets are subject to “fit” within a community. The Consultant Team recognizes Energy as a major cluster in Lea County. Similarly, Alternative Energy is receiving considerable attention in Southeastern New Mexico. Review of the workforce, existing clusters, the branding of the EnergyPlex in place, a concentrated effort was made to identify those industry clusters that utilized the existing foundation while drawing upon new technologies and expanding industries nationally and internationally. It is with those parameters in place that the following “energy-related” targets are offered:

Targeted Industries and Businesses for Lea County, New Mexico (Primary)

NAICS Code	Description of Activity
332420	Metal Heavy Tank (Heavy Gauge) Manufacturing (Includes: oil and petroleum storage tanks, nuclear waste casks, liquid oxygen tanks, etc.)
332710	Machine Shops (etc.) Engaged in machining metal parts, using machine tools, lathes
332811	Metal Heat Treating Annealing, tempering, brazing, metals and metal products)
334514	Totalizing Fluid Meter, Device Manufacturing (process control equipment) (Includes: Counting devices manufacturing, gauges, linear counters manufacturing
333513	Machine Tool (Metal Forming Types) Manufacturing (Includes: die-casting machines, metalworking manufacturing, bending, forming machines)



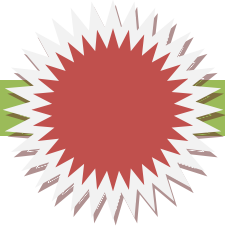
Targeted Industries and Businesses

The above cited targets satisfy many of the criteria desired by Lea County. As evidenced, many have “energy-related” functions. As illustrated in Report 1, *Inc. Magazine reports a growth in Energy Sector of 298% among the Fastest Growing 5000 Firms. (August 2008)* In addition, MBG sought to identify and expand upon the traditional energy and incorporate the alternative energy. Please note that these targets allow for nuclear, the “framing metal racks” for the solar energy components, and considerable application for the wind energy turbines, including the blades and the towers. The metal shops, fabrication, and processing all provide an added component to much of what is occurring in Lea County currently. In addition, workforce training and staffing can easily be accommodated for these NAICS codes.

These industries provide the “primary” or multiplying impact desired in industrial location. Lea County is and has been a leader nationally in the energy field. These targets further enhance that role while drawing upon the strengths possessed by the community. In addition to those targets above, the Consultant Team suggests the following industries/businesses as targets for Lea County:

Targeted Industries and Businesses for Lea County, New Mexico

NAICS Code	Description of Activity
541690	Scientific and Technical Consulting (includes environmental consulting which is 541620) (includes: energy consulting services, nuclear energy consulting services)
334512	Automatic Environmental Control Manufacturing (Includes: Pressure stats manufacturing, steam pressure controls, etc.)
311520	Ice Cream and Frozen Dessert Manufacturing (Includes: yogurt, frozen; ice milk specialties)
562920	Materials Recovery Facilities (Includes: waste recovery facilities)
212391	Potash, Soda, and Borate Mineral Mining



Targeted Industries and Businesses

The consulting services target is logical in terms of identifying those support services to the major industries present. In addition, the consulting services would lend support to the construction of office facilities within Lea County. It might be such that an attempt to aggregate a number of those firms into an office facility would be a logical approach. There are a number of sites within Lea County that could accommodate this type of business. Enlisting the support of a developer to work with the EDCLC might also be a productive approach. It could be that sales support offices for any number of the targets would also be a likely target.

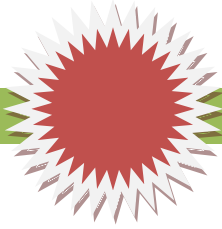
The second target on p.8, “automatic control manufacturing,” gives a nice blend of the technical/manufacturing services. This could add to the “white collar” component of Lea County and be housed in what is typically referred to as “flex space.” Flex space is a combination of office/warehouse or office /industrial space. As Lea County progresses in its nuclear and alternative energy targets, the need for controls in all these facets will grow. Why not begin recruiting these firms now?

The manufacturing of ice cream, frozen yogurts, etc. would be a nice extension of the food processing that is underway currently in the county. The existing building, hosting the former cheese factory, could be used as a lure to gain interest among those types of industries. A workforce that is familiar with this type of manufacturing is likewise present.

Materials recovery facilities are a similar extension of the energy business. Lea County is rapidly becoming widely known as a location that can address the nuclear industry’s needs. Perhaps ongoing handling of wastes from not only nuclear, but other types of waste could be a niche for the future. A review of medical, industrial and domestic wastes might be undertaken to determine the suitability of firms engaged in those activities.

Geological testing could determine the suitability of continued mining of potash, soda and borate. This activity appears to be underway nearby. Perhaps Lea County could benefit from proximity to the current activity and recruit for similar operations. This potential target requires more research but is mentioned as a possible for the county.

Lea County is in a somewhat unique position in terms of four additional categories for recruitment. Two of these targets are somewhat unusual as an economic development target. However, given the unique nature of Lea County *and the significant impact these two categories play for the future of Lea County’s economic development effort, MBG is recommending them as legitimate targets for the EDCLC.*



Targeted Industries and Businesses

The four remaining targets for Lea County to consider are as follows:

- **Regional warehouse/logistics/distribution**—this would not be the 1 million square feet distribution center that must locate on an interstate. Rather, this would be the regional 50,000-100,000 square feet facility that needs to be located in close proximity to perhaps serve 5 locations instead of 25.
- **Regional administrative/headquarter locations**—this is consistent with the recruitment of consulting firms into Lea County. Why not attempt to identify regional office/headquarters for support services to the existing and expanding industry?
- **Retail firms**—although not a “historical economic development” target, in the case of Lea County, we strongly urge it as a target. The continued discussion as to whether retail should be targeted nets little in return. The EDCLC should initially target this activity in its marketing. Considerable discussion in the SWOT Focus Groups and interviews cited retail as a need in Lea County.
- **Housing**—the need for housing, affordable housing, in Lea County is dire. The ability to recruit industry is severely limited by Lea County’s current housing inventory. It is questionable as to whether a large potential employer could expect its employees to reside in Lea County upon location. The idea of housing as a target is not a new one. MBG has experience in working with “Post Hurricane Orange County, Texas” and recommended a strategy to recruit housing developers to the county. Widespread devastation among its housing stock occurred. Lea County needs to recruit housing developers to construct housing at virtually all price points.

Normally, economic development organizations would elect to target only five businesses/industries. In the case of Lea County, so many of the targets are similarly positioned, having this large number is acceptable, particularly when we look at the Input-Output Model in the attachment. The four targets above are somewhat unique in the approach and should be included as part of the ongoing economic development effort.

The targeting of the office/administrative portion of some of the industries will fit nicely with the other targets, thus making the number of targets manageable. The machine shops and their refinements likewise are in the same overall cluster and are similarly manageable as targets. The Consultant Team was desirous of providing a number of options in the targets, rather than limiting the options. This will not diminish the effectiveness of the marketing, rather enhance its scope.



Marketing Plan and Strategy

Unfortunately, the cliché relative to economic development marketing is analogous to that of other sales/marketing efforts, “Fifty percent of the effort is worthless, but nobody knows which fifty percent.” It is possible to evaluate the relative effectiveness of a marketing campaign through a number of objectively verifiable factors. These factors include the following:

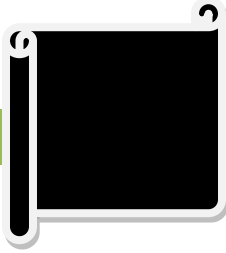
- Are inquiries increasing as a result of the marketing campaign?
- Are site visits increasing as a result of the marketing campaign?
- Is the EDCLC submitting more proposals as a result of the marketing campaign?
- Is Lea County becoming a “finalist in the site selection process” as a result of the marketing campaign?
- Is Lea County locating more firms as a result of the marketing campaign?

There are a number of reasonably cost effective things the EDCLC can do timely to initiate a marketing plan and strategy capitalizing on the EnergyPlex and the recent successes. These require budgetary commitment and the allocation of staff and at times, volunteer resources. There are two primary organizations whose membership consists of corporate real estate representatives and site selection professionals. These organizations offer memberships to economic development groups and many participate as “Associate Members” within these organizations. **MBG urges the EDCLC to join these organizations and attend and participate. These organizations follow:**

- **CoreNet Global**
- **Industrial Asset Management Council**

These organizations typically have semiannual events and offer regional events throughout the year. Both organizations are relatively expensive to join and attend; however, their costs are considerably less than flying throughout the country to meet with these individuals in their private locations. **CoreNet alleges its membership consists of the following:**

- **Members represent sixty percent of Fortune/Global 1000 companies**
- **Our executives manage more than 750 billion square feet of real estate, worth \$1.2 trillion**
- **Individual members typically manage 20 million square feet**
- **We are the only association that caters to a cross section of all industries, including retail, life sciences/pharma, industrial/manufacturing, hi-tech and government.**



Marketing Plan and Strategy

According to CoreNet Global's website, Economic Development memberships are \$750.00 annually. Attendance at the upcoming forum in Phoenix costs between \$995 and \$1295, depending upon date of registration. This does not include hotel, transportation, meals, etc. The forums usually have over 2000 in attendance with considerable opportunity for networking with "targeted firms", particularly if appointments are made in advance. Many state, regional, and local economic development groups sponsor events at these forums or entertain identified attendees as part of a targeted marketing effort. Please keep in mind with attendance numbers at that level and past relationships in existence, it requires considerable planning to make the contacts at these functions. However, successful economic development organizations participate and take advantage of the networking opportunities.

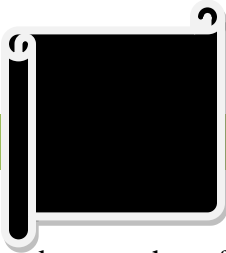
Similarly, the Industrial Asset Management Council, per its website alleges the following relative to its membership:

"The **Industrial Asset Management Council** is the leading association of industrial asset management and corporate real estate executives, their suppliers and service providers, and economic developers. The members of IAMC are a veritable Who's Who of Corporate Real Estate. Their ranks include the senior real estate directors of **3M, Alcoa Inc., Air Products and Chemicals Inc., BASF Corporation, Frito Lay, General Mills, Hewlett Packard, Honda of America Manufacturing, Johnson & Johnson Pharmaceuticals Group, The Linde Group, Inc., Pfizer, The ServiceMaster Company, Weyerhaeuser Company** and **Wyeth** and many other large industrial firms. "

The Annual Dues for the Industrial Asset Management Council is \$1495 and attendance at their next forum in Hot Springs, Virginia is between \$1345 and \$1495, contingent upon registration. This likewise does not include transportation, hotel, or meals, etc. The attendance at the IAMC events tend to be smaller in number than the CoreNet Global events enabling economic developers the opportunity to network with "targets" somewhat more readily than at the CoreNet Global functions. Similarly, local, regional, and state economic developers entertain targets at these functions in a variety of fashions. See the IAMC table below for membership information:

States with the Most IAMC Economic Development Members

	State	Member Count
1	Texas	37
2	South Carolina	11
3	California	10
4	Florida	10
5	Ohio	8



Marketing Plan and Strategy

Attendance at these functions enables the economic developer to develop relationships on a face-to-face basis. Likewise, membership in these organizations makes it easier for appointments to be established during future marketing trips and inquiries returned. Nearly all competitive economic development organizations utilize these organizations as one of the tools in their economic development toolbox. In the case of the EDCLC, these organizations can be a critical point of contact for the “service providers” or the site selectors and real estate brokers in attendance that specialize in certain types of projects. The networking opportunities among industry clusters are quite positive.

The EDCLC should look at ways of partnering with “allied groups” in their marketing campaign. For example, the **New Mexico Partnership** frequently conducts marketing trips/calls to site selectors, real estate brokers, and corporate real estate executives throughout the country, and even globally. The EDCLC currently engages in this activity, but it could be expanded. The EDCLC should seek out opportunities to attend those functions with the New Mexico Partnership and “sell New Mexico.” This is consistent with what the Consultant Team recommended in Report 1—“highlight the assets of New Mexico, particularly Southeastern New Mexico, rather than West Texas.” This collective marketing will assist in the long term of building intra-state relationships and could be very helpful politically and economically. Chances are if a Southeastern New Mexico location is sought, Lea County will be the chosen county. Similarly, **joint marketing of Lea and other Southeastern New Mexico counties could bring large dividends in the future.** It builds a coalition that has broad sweeping implications and also enhances Lea County as a featured location, while stretching marketing dollars. The site selection process involves examination of regions, not just locales. Again, Lea County will fare competitively in a comparison of Southeastern New Mexico counties.

One way to assist in the marketing effort and engage EDCLC membership is to have a member or members “sponsor” an event during either a CoreNet or IAMC function, or perhaps a “side event” during a marketing trip. For example, if an EDCLC member has a relationship with a company in Dallas, ask the member or members to invite their contact(s) for a dinner, reception, or event. This is very effective in that it offers a testimonial from an existing Lea County employer as to the benefits of the location and stretches the EDCLC funds further. Companies like to visit other companies in an economic development context. **The existing Lea County business has the added benefit of using the event as a sales call for their product/service while promoting Lea County.**

Regional marketing, that is the recruitment of firms that lie within a three or four hour drive of Lea County, assumedly outside New Mexico, could be done around an event. Perhaps a day at the horse races or a major golf outing. These events are more difficult to host. Many communities do this type of activity around a major golf tournament, Final Four,



Marketing Plan and Strategy

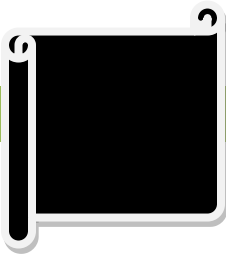
Kentucky Derby, Indy 500, NASCAR, etc. On a regional scale, a day at the track or a nice golf or other event, skeet or trap shooting, etc. may net rewards. The goal is to put Lea County in front of decision makers. The key is to get prospects to Lea County. Once there, the community showcases quite favorably. If the EDCLC could get 5-10 prospects on site for an outing or event, that would be tremendously successful.

The obvious connection to all this marketing activity is the face-to-face relationship with the prospect. Consider the informality and expense of a full page, four color ad in a trade magazine. Recently, a total of 256 advertisements were observed in a certain economic development publication. How effective would a onetime advertisement in such a publication be in contrast to 5-10 prospects on site in Lea County? The costs for this type of advertisement could exceed \$2500.

Consider global marketing with allies. The Energy sector, along with other sectors, is quite global in nature, thus the marketing needs to be of a global nature. Inquire to see if the New Mexico Partnership is conducting a European or Asian marketing trip. If so, see if EDCLC could participate. If not, align with other Southeastern New Mexico counties to similarly conduct such a marketing trip. If unsure about the logistics, there are a number of firms that can establish qualified appointments and ensure logistics. This puts the EDCLC on the global map—a place it needs to be! This is particularly true in the nuclear sectors.

Summary of Marketing Plan

- 1) Join CoreNet Global and Industrial Asset Management Council and attend their events, regionally and the national forums. Follow up with emails, phone calls, direct mail to those identified targets and those persons met at the events.
- 2) Identify partners and align with them in marketing Lea County, Southeastern New Mexico, and New Mexico. Along with surrounding Southeastern NM counties, visit and network with Congressional delegation in Washington and Department of Energy for future development in nuclear (don't go alone)
- 3) Host events during the marketing trips oriented with Lea County businesses, perhaps sponsoring the events with customers/clients.
- 4) Market within the Region! The EDCLC should identify those firms outside New Mexico within a four hour's drive that are targets and invite them to a function in Lea County. Allow them to relax! Provide lodging, meals, and a nice gift in addition to the "event". Use the dinner as a business presentation—Let your existing companies offer testimonials as to the benefits of a Lea County location informally.

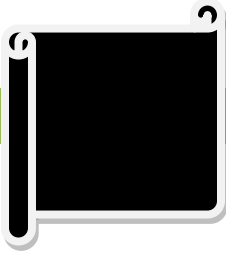


Marketing Plan and Strategy

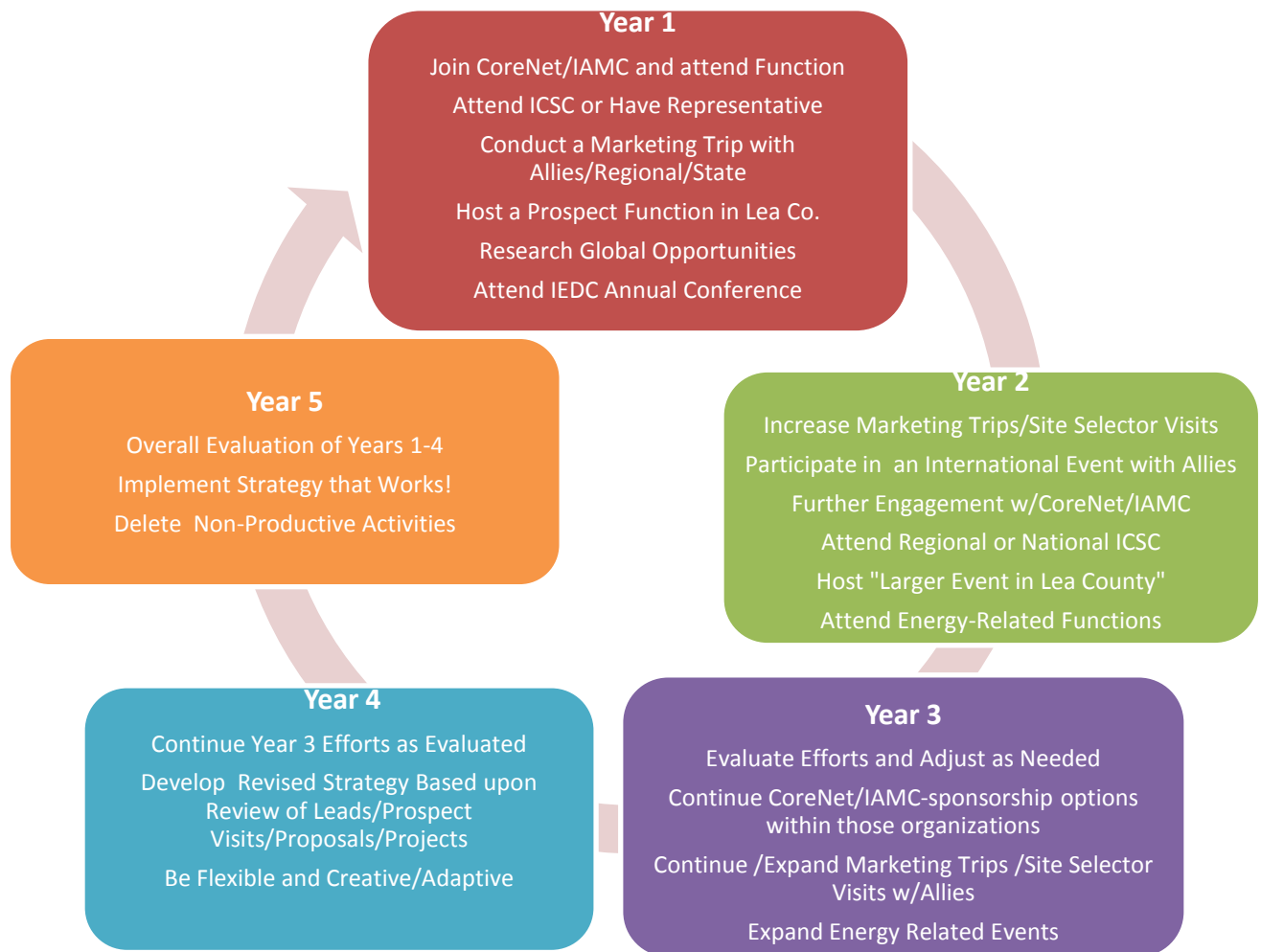
- 5) Go global! Develop an awareness of Lea County globally. Be aware of global interest and technology, such as France, in nuclear energy and technology, and plan (long term) in visiting and understanding technology and development as well as enhancing networks.
- 6) Update and upgrade the website routinely. The internet is where it all begins and sometimes ends. Make it very easy for decision makers to obtain their information.
- 7) Establish a plan with surrounding counties interested in nuclear energy to visit cities (like Saskatoon) that are heavily engaged in nuclear and potash technology. Learn from those communities in identifying the “best practices” to recruit those types of investments.
- 8) Attend an International Council of Shopping Centers event or have a representative present on EDCLC’s behalf.

Give the Plan Adequate Time!!!

- ❖ Join CoreNet Global and IAMC in 2010/Attend at least one function each in 2010. Increase participation in future to include more events as budget allows.
- ❖ Attend as many marketing trips as affordable in 2010 with allies. Provide them Lea County’s targets in establishing appointments and expand the activities in 2011-2013.
- ❖ Plan an event in Lea County and identify invitees for the latter part of 2010; remember 5-10 onsite is a success. Evaluate the event and develop another for 2011 and beyond.
- ❖ Become involved and receive education with the International Economic Development Council (IEDC) and its affiliates, and be able to network with others inside the organization.
- ❖ Simultaneously, commence an Internal Marketing Campaign with the External Marketing Campaign. Draw from the EnergyPlex brand for internal usage. Use public service spots, newsletters, newspaper columns to keep the activities of the EDCLC in front of the general public. Ongoing support for the economic development program is invaluable in terms of the program’s sustainability.
- ❖ Utilize this approach, with modifications as needed, for at least 2-3 years. It will require at least that amount of time to evaluate its effectiveness.



Marketing Plan and Strategy



This Strategy assumes the website is continuously updated and upgraded. Ongoing staff training and continued IEDC involvement, if desired, will be an annual activity throughout this five year period. Annual Board of Directors Workshops should occur to keep policymakers engaged with the ongoing mission of the EDCLC. Assuming the trend is the continued outsourcing of projects to site selectors and real estate brokers, the EDCLC must constantly update and integrate its contacts. This will be easier as face-to-face activities occur. These will be known persons the EDCLC and vice versa. This will enhance the competitiveness of the EDCLC.



Organizational Analysis

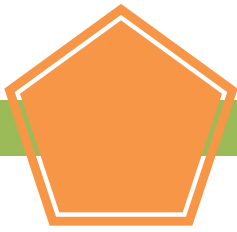
The Economic Development Corporation of Lea County, under its bylaws is allowed to have between 6-14 certificate members. The organization currently has 14 certificate members. There is a vacancy at the Associate Member spot. These are the only voting members of the organization. Each of the five communities within Lea County also have a member, however, they are not voting members of the organization. Board members are elected from within the paid membership. This framework appears to be a very well functioning framework. The ability for the respective communities to have representation at the board enhances communication among and between the respective communities, the county, and the Economic Development Corporation.

The Board of Directors was uniformly given high reviews in the SWOT Focus Groups and in the individual interviews. The composition of the board appears to have key leaders and engaged citizens acting in the best interest of Lea County's economic development effort. The board appears to provide a forum for countywide issues to be similarly discussed. One observation is that there appears to be no voting member that resides outside of Hobbs on the board. Special consideration may be needed to "broaden that tent" in future elections. Thus far, the board seems to work very well together. The Consultant Team would offer that suggestion as a means to avoid potential issues that might arise.

The EDCLC has recently completed an innovative approach in addressing economic development with Lovington. In essence, a shared staff works with the EDCLC in their offices and in the offices in Lovington. This model may prove as a guideline for other communities that seek to grow their "independent" economic development organization. The real key is to not splinter economic development within Lea County. Rather, as recommended in p. 15, regional as opposed to more provincial will net better results in the long term.

The EDCLC has a very capable staff, as observed throughout the SWOT Focus Group process. The staff of six enjoys leadership by an individual possessing a doctorate. This is very rare in economic development. Although the executive leadership is well qualified, it is somewhat new in the executive position. Given that, there may be a tendency for the board to subtly engage in those activities that are staff or implementation, rather than policy. Every safeguard needs to be in place to avoid that potential practice. Successful economic development organizations have very strong leaders at the staff level. There is a cliché in this business that rings very true, "We have an executive, now execute!"

The board appears to perform its role "outside the boardroom" quite well. Staff cannot and should not be expected to interact negatively with elected and appointed officials. In some cases there needs to be an intervention from the EDCLC with governmental officials. This must be done at the board level. In our research, this appears to be the case in Lea County. Again, the role of staff is to make the policymakers aware of the problem. Political problems are best resolved by policymakers, not the implementers!



Organizational Analysis

Reports from those entities that interact with the staff of the EDCLC reinforce the capability and competence of the staff. The Consultant Team is advised that the staff compile outstanding proposals and reports. The work product viewed by the MBG developed by the EDCLC has similarly been outstanding. The delineation of work roles by staff seem to be well thought, drawing upon the relative expertise and strengths of the support staff. It appears as though the collective staff could easily have transferable skills and are perceived as “cross-trained.” Staff appears to be well versed in nearly all facets of economic development.

As recommended in p. 15, staff needs additional involvement with IEDC and other economic development groups for not only networking but potential training. Economic development, like most activities, is a very fluid process. Yesterday’s techniques may net little today. Proficiency in technology is very important and staff appears to be quite proficient. As the marketing effort is enhanced, particularly engagement with CoreNet Global and IAMC, consideration should be given to using assistance from entities to help familiarize staff with those processes. Engagement with the New Mexico Partnership or using an outside consultant to make introductions at these events would be recommended. It can be quite difficult to make productive advantage of networking opportunities as a first time attendee. Candidly, it can be somewhat overwhelming.

An activity that should be undertaken (it is placed here rather than in the previous sections because it should be integral to the organization) is an ongoing Business Retention/Expansion (BRE) Program. This can be done rather easily a number of ways. Perhaps the easiest way to initiate such a program would be as follows:

- ✓ Create a Business Retention/Expansion Committee from the Board or the membership. This committee is charged with having an individual available to accompany staff on Business Retention visits with local companies. Perhaps a built-in committee is the Community Representatives among the board, combined with another member or two. This committee works with an identified staff, in identifying county businesses to visit. The respective community member attends when visits with companies fall within the respective communities. Rotate these visits throughout Lea County.
- ✓ Establish a goal of not less than 2 visits per week annually for the BRE program. Visits should not last more than one hour *unless the company invites you to stay longer or tour the facility.*
- ✓ It is recommended that the staff executive visit the higher profile firms in the county. This will also assist in the ongoing assistance to membership.

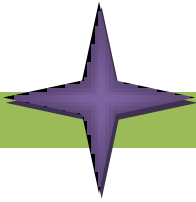


Organizational Analysis

- ✓ Utilize a standard questionnaire (MBG can provide a rough draft, if sought) aimed at identifying how the business is doing, problems, expansion plans, etc. The most important question to ask, “Does your company have vendor relationships with firms that we should attempt to recruit to Lea County?” Tabulate the results for internal usage.

A successful economic development organization, particularly one that is membership driven, should engage in a comprehensive economic development effort. A comprehensive economic development program includes both business attraction and business retention/expansion. It makes very strong organizational business sense to be perceived as an ombudsman for existing business/industry in Lea County. It also provides “community-wide support for the economic development effort.” Allies can be very helpful to economic development organizations, particularly allies that are paying membership fees.

At the staff level, it might be useful to identify the “most effective marketer” for the EDCLC. Obviously, the executive should perform that role. However, there might be occasions when a staff member could be engaged heavily in a marketing role. Many organizations have a Vice President/Marketing or Business Attraction, etc. This person’s role is to promote Lea County at the CoreNet Global/IAMC/ICSC and marketing trip functions. The executive comes in to further enhance the marketing groundwork that has been laid. This approach will free the executive for the important administrative and “community duties” while simultaneously providing the EDCLC with a face to the outside world. With a staff of six persons, these roles could easily be handled.



Conclusion

Lea County enjoys a solid foundation upon which to expand its economic development effort. Its strengths far outweigh its weaknesses. An engaged leadership exists to provide sound policy for the future. Educational opportunities exist at all levels from pre-K through post graduate. Skills development needs enhanced to meet the changing needs of the economy oriented toward the EnergyPlex. Those mechanisms are in place currently.

The framework for economic development for Lea County has been laid through the EDCLC. This county-wide economic development organization has a proven track record of accomplishment. It is well formed and well staffed. It continues to be able to unite the county around a single vision of economic development. Economic development is always stronger and more effective through the collaborative efforts of the partners at the local level.

Lea County should continue its emphasis on youth and developing needed skills for young people. The county has a major asset with New Mexico Junior College. Continued collaboration between the economic development program, the secondary and elementary schools, the junior college and the University is critical for success and development in Lea County.

The Economic Development Corporation of Lea County possesses the assets to engage further with regional and state partners in order to further enhance the economic development effort. As in the case with local partners, regional and state partners provide further opportunities for Lea County's future economic development.

Recognition of the county's assets and opportunities and performing a marketing strategy that capitalizes upon them, while minimizing the weaknesses and threats, will net economic development rewards. The barriers to Lea County, in economic development terms, are manageable, contrasted with a number of its competitors.

This Economic Development Strategic Plan will serve as the formalized vision or "master plan of economic development" in the years to come! The plan provides for a comprehensive, integrated economic development effort consisting of business retention/expansion coupled with business attraction. It provides the "game plan" for marketing both internally and externally. Partnerships with existing communities, New Mexico Junior College, the University of the Southwest, Maddox Foundation, school districts and workforce groups within the county and local civic/business groups will benefit this area tremendously in the future.



New Mexico Junior College

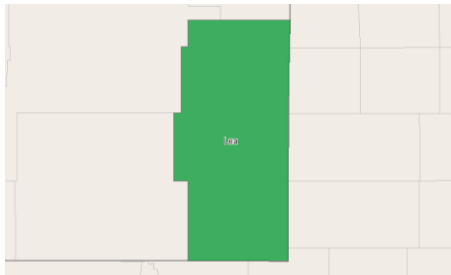


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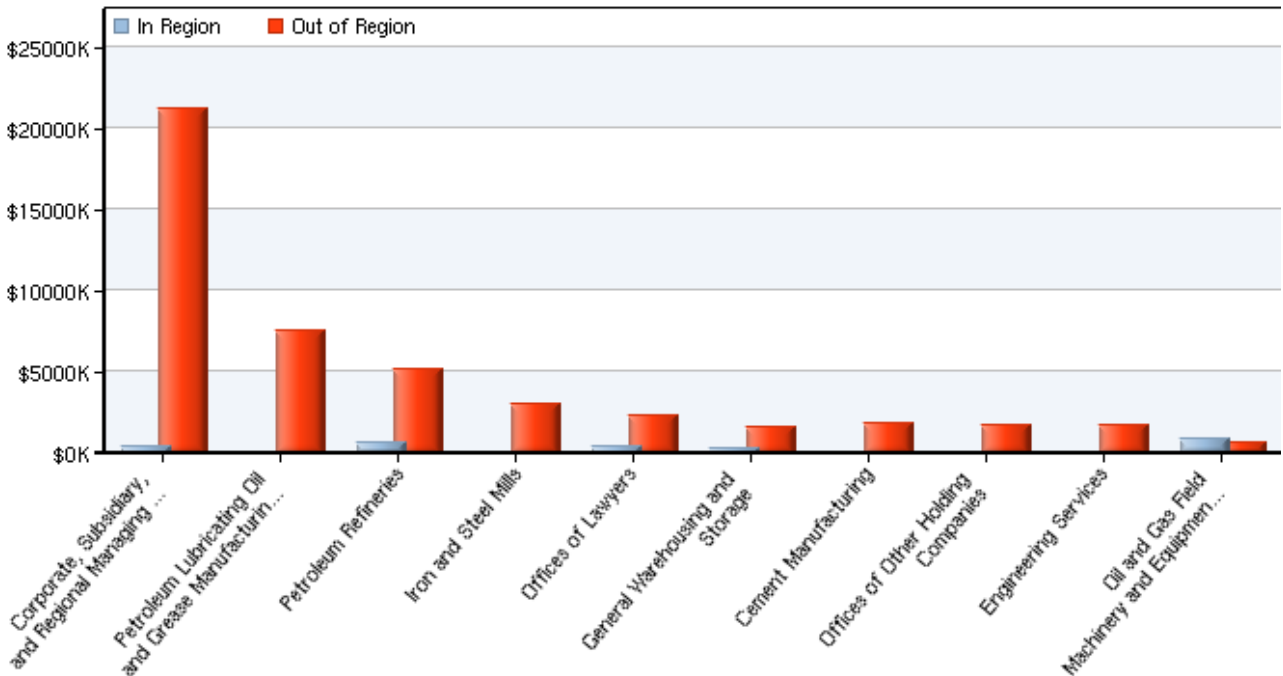


Region Info

Region: Lea County

County Areas: Lea, New Mexico (35025)

2010 Requirements for: Drilling Oil and Gas Wells



NAICS Code	Description	Total Requirements (K)	% Satisfied in Region	% Satisfied out of Region
551114	Corporate, Subsidiary, and Regional Managing Offices	\$21,527	2%	98%
324191	Petroleum Lubricating Oil and Grease Manufacturing	\$7,451	0%	100%
324110	Petroleum Refineries	\$5,746	11%	89%
331111	Iron and Steel Mills	\$2,946	0%	100%
541110	Offices of Lawyers	\$2,695	15%	85%
493110	General Warehousing and Storage	\$1,847	14%	86%
327310	Cement Manufacturing	\$1,831	0%	100%
551112	Offices of Other Holding Companies	\$1,717	0%	100%
541330	Engineering Services	\$1,662	0%	100%
333132	Oil and Gas Field Machinery and Equipment Manufacturing	\$1,461	56%	44%
332312	Fabricated Structural Metal Manufacturing	\$1,382	0%	100%
325998	All Other Miscellaneous Chemical Product and Preparation Manufacturing	\$1,367	68%	32%

325199	All Other Basic Organic Chemical Manufacturing	\$1,307	0%	100%
484121	General Freight Trucking, Long-Distance, Truckload	\$1,134	95%	5%
333120	Construction Machinery Manufacturing	\$1,047	0%	100%
327992	Ground or Treated Mineral and Earth Manufacturing	\$933	0%	100%
425120	Wholesale Trade Agents and Brokers	\$903	4%	97%
325992	Photographic Film, Paper, Plate, and Chemical Manufacturing	\$872	0%	100%
325120	Industrial Gas Manufacturing	\$804	0%	100%
522110	Commercial Banking	\$793	11%	89%
332710	Machine Shops	\$761	72%	28%
332313	Plate Work Manufacturing	\$695	0%	100%
324121	Asphalt Paving Mixture and Block Manufacturing	\$624	0%	100%
211111	Crude Petroleum and Natural Gas Extraction	\$605	95%	5%
325991	Custom Compounding of Purchased Resins	\$564	0%	100%
484110	General Freight Trucking, Local	\$553	88%	12%
482110	Rail transportation	\$535	7%	94%
524126	Direct Property and Casualty Insurance Carriers	\$495	3%	97%
532490	Other Commercial and Industrial Machinery and Equipment Rental and Leasing	\$479	95%	5%
332311	Prefabricated Metal Building and Component Manufacturing	\$458	0%	100%

Source: EMSI Complete Employment - 2nd Quarter 2010

Note: Requirements less than \$1K are not shown

Data Sources and Calculations

Input-Output Data

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State Data Sources

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New Mexico Junior College

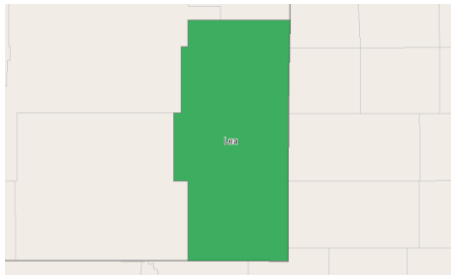


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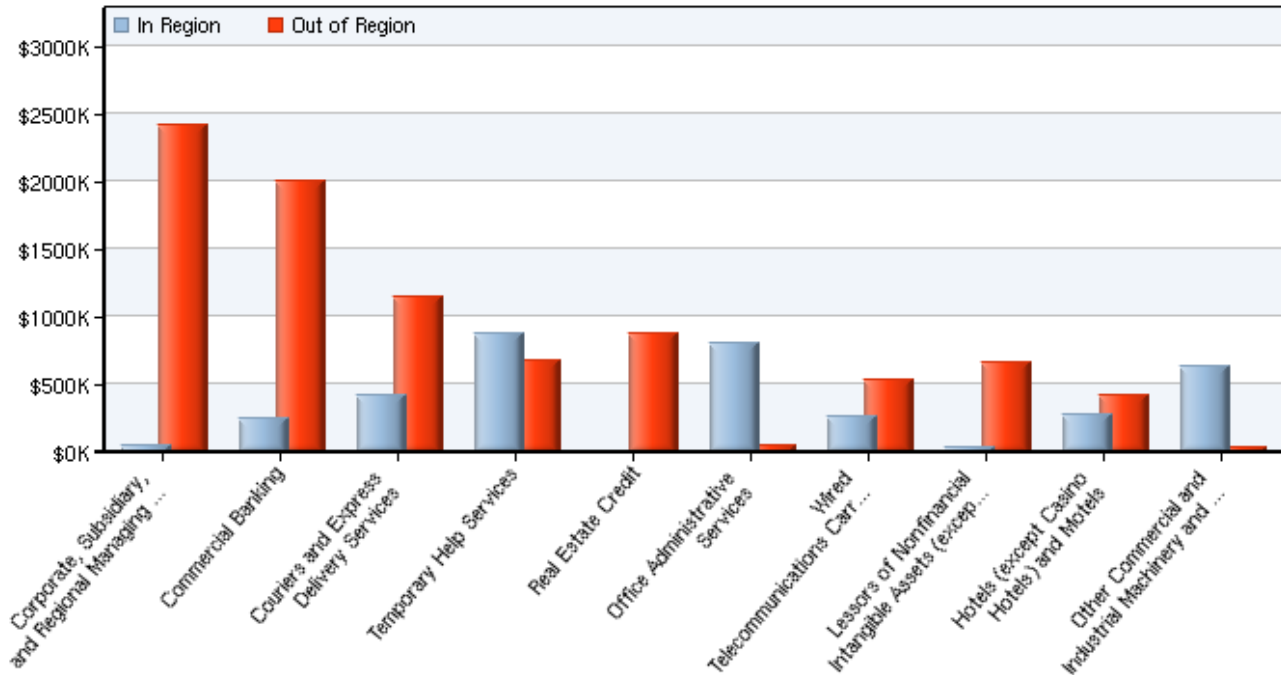


Region Info

Region: Lea County

County Areas: Lea, New Mexico (35025)

2010 Requirements for: Mining



NAICS Code	Description	Total Requirements (K)	% Satisfied in Region	% Satisfied out of Region
551114	Corporate, Subsidiary, and Regional Managing Offices	\$2,454	2%	98%
522110	Commercial Banking	\$2,246	11%	89%
492110	Couriers and Express Delivery Services	\$1,569	27%	73%
561320	Temporary Help Services	\$1,536	57%	43%
522292	Real Estate Credit	\$875	0%	100%
561110	Office Administrative Services	\$849	95%	5%
517110	Wired Telecommunications Carriers	\$782	32%	68%
533110	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	\$696	5%	95%
721110	Hotels (except Casino Hotels) and Motels	\$688	39%	61%
532490	Other Commercial and Industrial Machinery and Equipment Rental and Leasing	\$664	95%	5%
541611	Administrative Management and General Management Consulting Services	\$650	0%	100%
481111	Scheduled Passenger Air Transportation	\$642	2%	98%
532412	Construction, Mining, and Forestry Machinery and Equipment Rental and Leasing	\$597	95%	5%

811310	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	\$580	95%	5%
561330	Professional Employer Organizations	\$571	61%	40%
722110	Full-Service Restaurants	\$571	78%	22%
324110	Petroleum Refineries	\$567	11%	89%
541990	All Other Professional, Scientific, and Technical Services	\$533	37%	62%
524126	Direct Property and Casualty Insurance Carriers	\$440	3%	97%
811111	General Automotive Repair	\$407	76%	24%
541211	Offices of Certified Public Accountants	\$392	69%	31%
522310	Mortgage and Nonmortgage Loan Brokers	\$361	0%	100%
532111	Passenger Car Rental	\$360	18%	82%
522120	Savings Institutions	\$356	1%	99%
722211	Limited-Service Restaurants	\$344	95%	5%
522210	Credit Card Issuing	\$342	0%	100%
611310	Colleges, Universities, and Professional Schools	\$341	3%	97%
522220	Sales Financing	\$337	0%	100%
524114	Direct Health and Medical Insurance Carriers	\$315	0%	100%
524113	Direct Life Insurance Carriers	\$314	4%	96%

Source: EMSI Complete Employment - 2nd Quarter 2010

Note: Requirements less than \$1K are not shown.

Data Sources and Calculations

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New Mexico Junior College

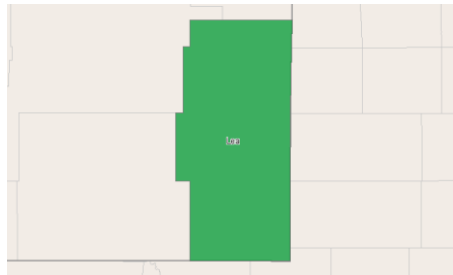


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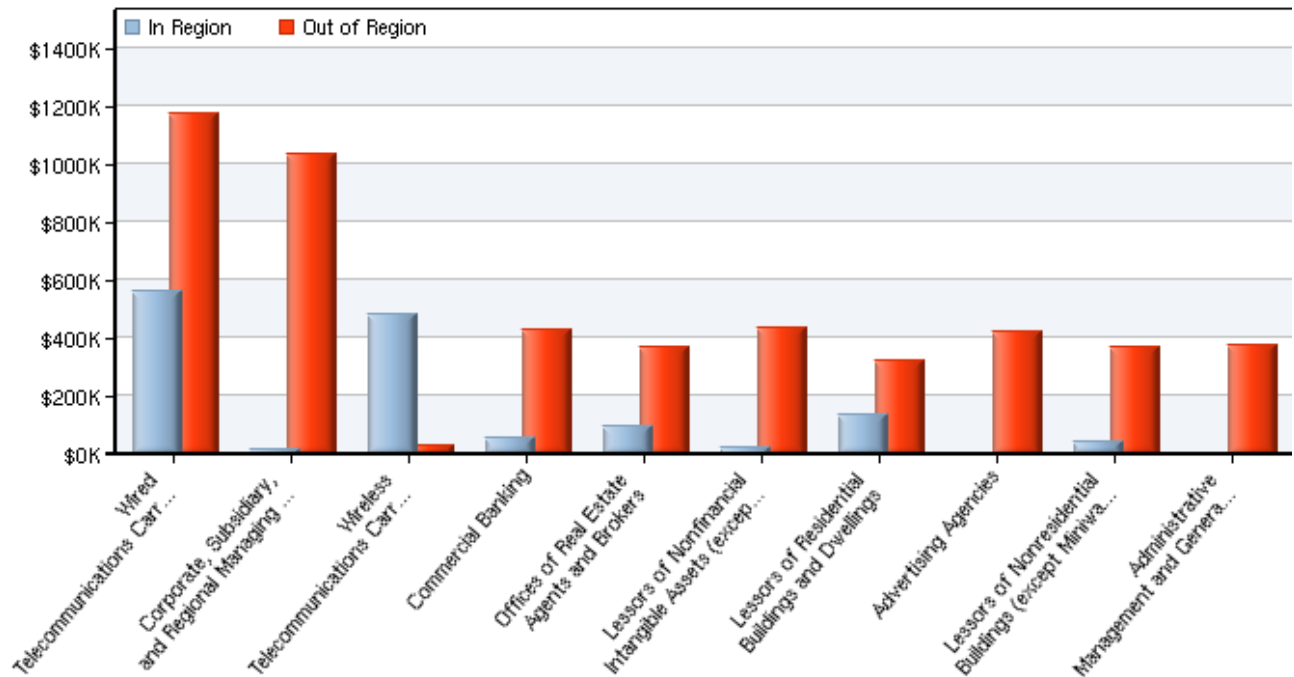


Region Info

Region: Lea County

County Areas: Lea, New Mexico (35025)

2010 Requirements for: Arts, Entertainment, Recreation & Visitor Industries



NAICS Code	Description	Total Requirements (K)	% Satisfied in Region	% Satisfied out of Region
517110	Wired Telecommunications Carriers	\$1,731	32%	68%
551114	Corporate, Subsidiary, and Regional Managing Offices	\$1,052	2%	98%
517210	Wireless Telecommunications Carriers (except Satellite)	\$506	95%	5%
522110	Commercial Banking	\$477	11%	89%
531210	Offices of Real Estate Agents and Brokers	\$459	20%	80%
533110	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	\$456	5%	95%
531110	Lessors of Residential Buildings and Dwellings	\$452	29%	71%
541810	Advertising Agencies	\$419	0%	100%
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)	\$406	10%	90%
541611	Administrative Management and General Management Consulting Services	\$377	0%	99%
512110	Motion Picture and Video Production	\$356	0%	100%
517911	Telecommunications Resellers	\$299	2%	98%
561730	Landscaping Services	\$298	23%	77%

541110	Offices of Lawyers	\$297	15%	85%
711211	Sports Teams and Clubs	\$293	2%	98%
561720	Janitorial Services	\$291	27%	73%
518210	Data Processing, Hosting, and Related Services	\$281	0%	100%
541990	All Other Professional, Scientific, and Technical Services	\$278	37%	63%
522292	Real Estate Credit	\$253	0%	100%
515120	Television Broadcasting	\$245	0%	100%
221112	Fossil Fuel Electric Power Generation	\$240	95%	5%
561320	Temporary Help Services	\$232	56%	43%
711510	Independent Artists, Writers, and Performers	\$228	1%	99%
541211	Offices of Certified Public Accountants	\$224	69%	31%
531390	Other Activities Related to Real Estate	\$216	15%	85%
221122	Electric Power Distribution	\$214	95%	5%
531311	Residential Property Managers	\$179	12%	88%
221210	Natural Gas Distribution	\$153	95%	5%
541820	Public Relations Agencies	\$150	0%	100%
541330	Engineering Services	\$150	0%	100%

Source: EMSI Complete Employment - 2nd Quarter 2010

Note: Requirements less than \$1K are not shown.

Data Sources and Calculations

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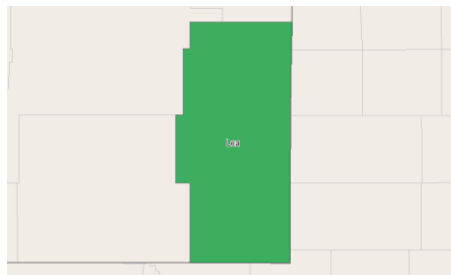


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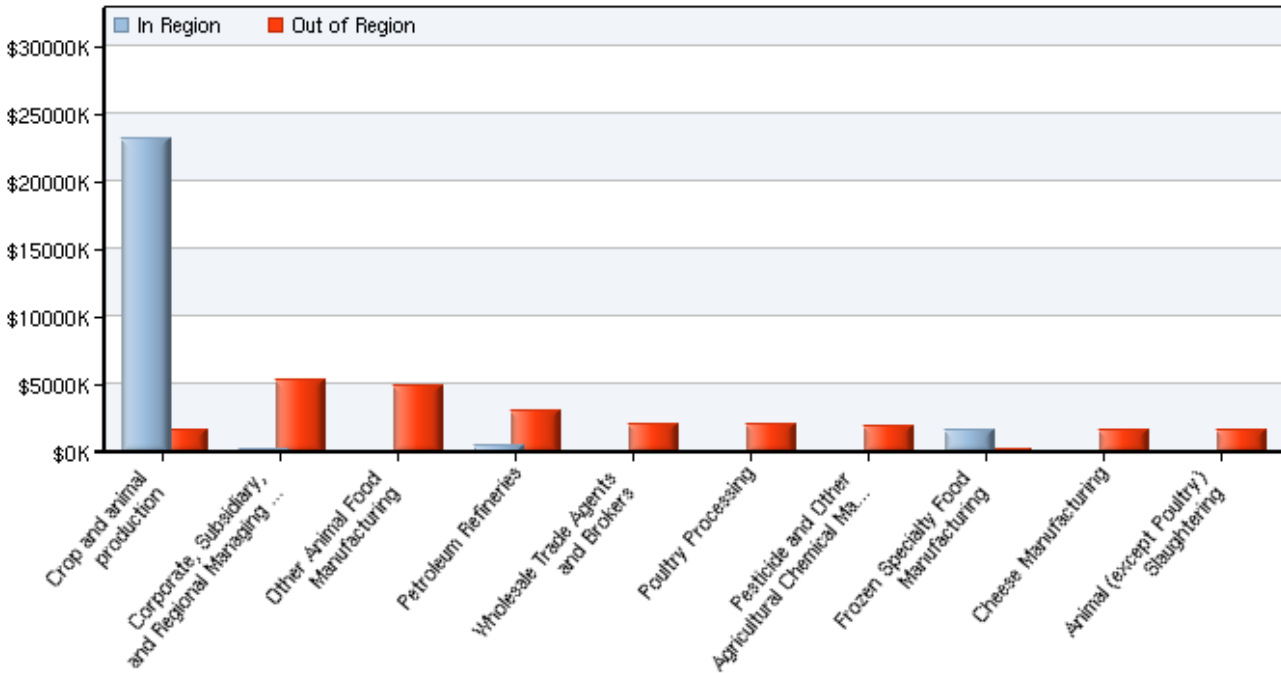


Region Info

Region: Lea County

County Areas: Lea, New Mexico (35025)

2010 Requirements for: Agribusiness, Food Processing & Technology



NAICS Code	Description	Total Requirements (K)	% Satisfied in Region	% Satisfied out of Region
11A000	Crop and animal production	\$24,726	93%	7%
551114	Corporate, Subsidiary, and Regional Managing Offices	\$5,409	2%	98%
311119	Other Animal Food Manufacturing	\$4,922	0%	100%
324110	Petroleum Refineries	\$3,406	11%	89%
425120	Wholesale Trade Agents and Brokers	\$2,034	3%	96%
311615	Poultry Processing	\$1,938	0%	100%
325320	Pesticide and Other Agricultural Chemical Manufacturing	\$1,878	0%	100%
311412	Frozen Specialty Food Manufacturing	\$1,674	95%	5%
311513	Cheese Manufacturing	\$1,617	0%	100%
311611	Animal (except Poultry) Slaughtering	\$1,565	0%	100%
531210	Offices of Real Estate Agents and Brokers	\$1,451	20%	80%
531110	Lessors of Residential Buildings and Dwellings	\$1,428	29%	71%
115115	Farm Labor Contractors and Crew Leaders	\$1,361	77%	23%
311612	Meat Processed from Carcasses	\$1,335	0%	100%
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)	\$1,281	10%	90%

484121	General Freight Trucking, Long-Distance, Truckload	\$1,223	95%	5%
322211	Corrugated and Solid Fiber Box Manufacturing	\$1,143	0%	100%
311222	Soybean Processing	\$1,109	0%	100%
493110	General Warehousing and Storage	\$1,100	14%	86%
482110	Rail transportation	\$1,089	7%	93%
522110	Commercial Banking	\$959	11%	89%
423430	Computer and Computer Peripheral Equipment and Software Merchant Wholesalers	\$870	6%	94%
311411	Frozen Fruit, Juice, and Vegetable Manufacturing	\$854	0%	100%
115210	Support Activities for Animal Production	\$829	78%	22%
524210	Insurance Agencies and Brokerages	\$801	40%	60%
333111	Farm Machinery and Equipment Manufacturing	\$740	0%	100%
221210	Natural Gas Distribution	\$713	95%	5%
423830	Industrial Machinery and Equipment Merchant Wholesalers	\$687	95%	5%
531390	Other Activities Related to Real Estate	\$683	15%	85%
311211	Flour Milling	\$679	0%	100%

Source: EMSI Complete Employment - 2nd Quarter 2010

Note: Requirements less than \$1K are not shown.

Data Sources and Calculations

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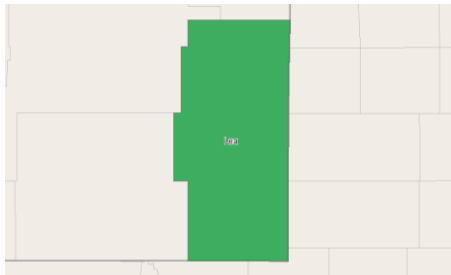


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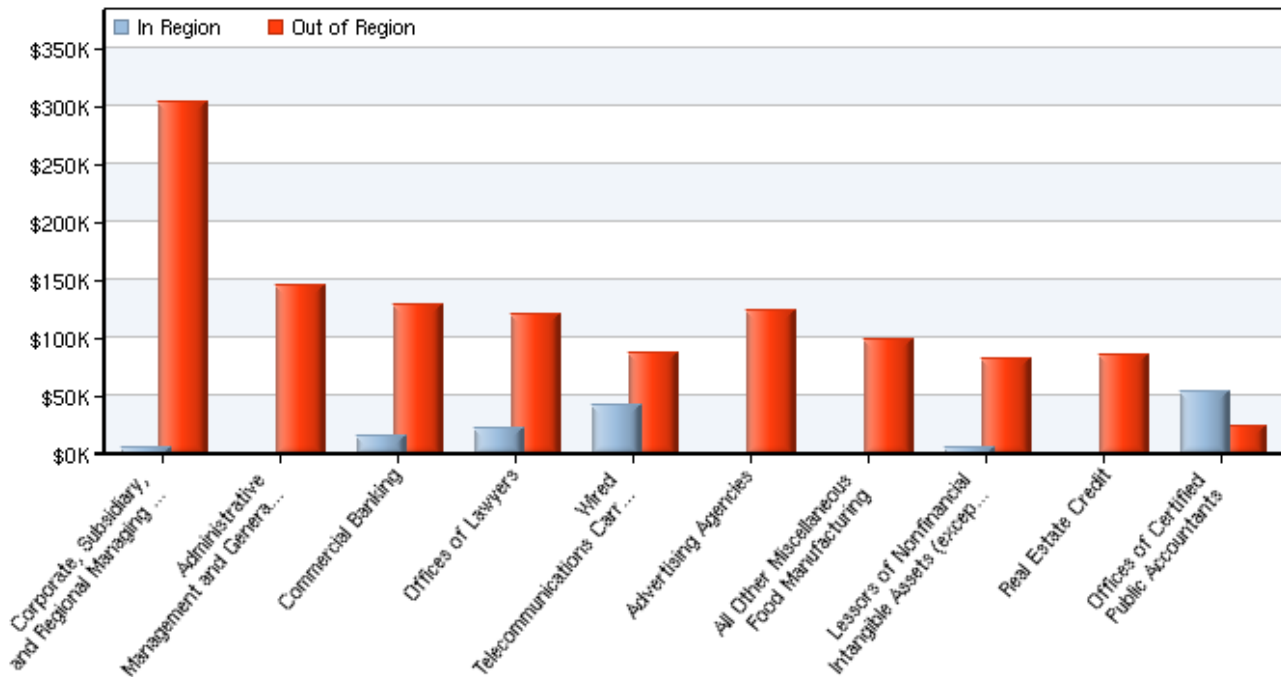


Region Info

Region: Lea County

County Areas: Lea, New Mexico (35025)

2010 Requirements for: Casinos (except Casino Hotels)



NAICS Code	Description	Total Requirements (K)	% Satisfied in Region	% Satisfied out of Region
551114	Corporate, Subsidiary, and Regional Managing Offices	\$307	2%	99%
541611	Administrative Management and General Management Consulting Services	\$146	1%	100%
522110	Commercial Banking	\$145	11%	89%
541110	Offices of Lawyers	\$141	16%	84%
517110	Wired Telecommunications Carriers	\$128	32%	68%
541810	Advertising Agencies	\$124	0%	100%
311999	All Other Miscellaneous Food Manufacturing	\$98	0%	100%
533110	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	\$86	5%	95%
522292	Real Estate Credit	\$85	0%	100%
541211	Offices of Certified Public Accountants	\$77	69%	31%
518210	Data Processing, Hosting, and Related Services	\$77	0%	100%
531210	Offices of Real Estate Agents and Brokers	\$76	20%	80%
531110	Lessors of Residential Buildings and Dwellings	\$74	30%	72%
711510	Independent Artists, Writers, and Performers	\$72	1%	99%

312111	Soft Drink Manufacturing	\$68	0%	100%
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)	\$67	9%	90%
311991	Perishable Prepared Food Manufacturing	\$66	26%	74%
541990	All Other Professional, Scientific, and Technical Services	\$65	37%	62%
312120	Breweries	\$62	0%	100%
541330	Engineering Services	\$55	0%	100%
221112	Fossil Fuel Electric Power Generation	\$55	96%	5%
311611	Animal (except Poultry) Slaughtering	\$53	0%	100%
221122	Electric Power Distribution	\$49	96%	4%
561730	Landscaping Services	\$49	24%	78%
561720	Janitorial Services	\$48	27%	73%
311612	Meat Processed from Carcasses	\$45	0%	100%
541613	Marketing Consulting Services	\$45	0%	100%
541820	Public Relations Agencies	\$44	0%	100%
541219	Other Accounting Services	\$44	18%	82%
561320	Temporary Help Services	\$43	56%	44%

Source: EMSI Complete Employment - 2nd Quarter 2010

Note: Requirements less than \$1K are not shown

Data Sources and Calculations

Input-Output Data

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State Data Sources

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Industry Description: Metal Fabrication

The US fabricated metal parts manufacturing industry includes about 55,000 companies with about \$340 billion in combined annual revenue. Major companies in specialty segments include Ball Corporation, Flowserve, Mueller Industries, Snap-On, and The Timken Company. Because of the special manufacturing processes involved for individual parts, most companies make a limited range of products. The industry as a whole is fragmented: the largest 50 companies account for about 20 percent of revenue. But concentration can be high in industry segments such as boiler, cutlery, metal can, and spring manufacturing.

Competitive Landscape

Demand is driven largely by the needs of other industrial companies and is therefore linked to economic growth. The profitability of individual companies depends on technical expertise and efficient manufacturing. Large companies have economies of scale in purchasing raw materials. The specialized nature and use of many products allows smaller companies to compete effectively.

Products, Operations, Technology

Major sources of revenue for the industry include machine shops (10 percent of industry revenue); metal valves and fittings (10 percent); ornamental and structural metals (10 percent); forging and stamping (5 percent); metal containers (5 percent); and sheet metal work (5 percent). Many companies make products in smaller specialized segments.

Companies manufacture mainly simple metal parts used by industrial customers, such as those making autos, airplanes, machinery, appliances, and computers. Some companies make simple finished products like metal cans, tools, plumbing fixtures, and structural steel members. Most companies operate a single manufacturing facility.

Basic raw materials are ferrous and nonferrous metals, such as carbon, alloy and stainless steels, aluminum, titanium, brass, copper, and various alloys. Raw materials are bought in semi-finished form (slabs, billets, and blooms) or finished form (plates, coils, sheets, wire, bars, rails, beams), either directly from primary metal processors or, more often, from large metals distributors (metals service centers).

Three major metal processing operations are fabrication, preparation, and finishing. Fabrication includes processes such as punching, cutting, bending, welding, coil processing, roll forming, laser cutting, and stamping. Machining, a fabrication method, uses a wide variety of machine tools to cut or form material to precise specifications. Preparation includes cleaning and surfacing metal with chemicals. Finishing includes plating, polishing, coloring, and coating.

Many companies have highly automated production lines. Typical equipment includes presses, screw machines, rotary transfer machines, computer controlled (CNC) single- and multiple-

spindle lathes, and turning and machining centers. Some companies use CAD and computer-aided manufacturing (CAM) equipment. Engineering skills are needed to design products and production processes.

Sales and Marketing

Many companies supply only a handful of products to a few large customers. To a large extent, such companies function as manufacturing subsidiaries of their customers.

A combination of marketing channels are used, often including a company sales force and manufacturers' representatives. Trade shows are important, especially since companies often are selling their ability to produce according to customer requirements, rather than a standard line of products.

Most work is awarded via purchase orders or contracts that detail product specifications, volumes, and delivery schedules. Sales often depend on a company having the design, engineering, and manufacturing capabilities to make the product to specification and on time. Price is often a secondary consideration. Raw material price changes can often be passed to the customer.

Finance and Regulation

Companies often have high receivables and large inventories of raw materials and semi-finished product. The specialized nature of some products and their high engineering content can allow high profit margins, but other products may be commodities with low margins. Gross margins generally range between 10 and 50 percent. Companies often have large capital investments in plant and equipment.

Because metal parts manufacturers work with some toxic metals, and often use toxic chemicals in various steps of manufacture, especially in metal finishing operations, they sometimes have workplace and waste-stream pollution problems. Working with metals and metal wastes can often produce ground contamination. Workplace safety can also be a major problem because of the heavy use of machinery. Workplace conditions are regulated by OSHA, while the EPA enforces environmental pollution regulations.

Regional and International Issues

The movement of some US manufacturers to foreign production facilities has tended to reduce demand for US-made metal products, as manufacturers try to obtain materials locally. At the same time, imports of fabricated metal products to the US have increased and account for nearly 15 percent of the US market. Leading sources of imports are China, Canada, Mexico, Japan, and Germany. Imports from China grew nearly 60 percent between 2005 and 2008; overall imports rose by about 30 percent during the period.

Exports of fabricated metal products make up nearly 10 percent of US production. Canada and Mexico, the leading markets, account for about half of export sales.

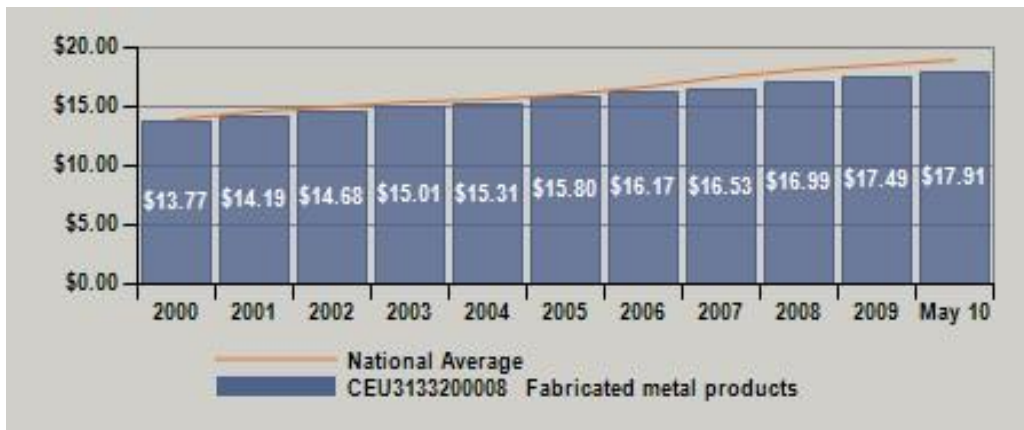
Human Resources

Many production jobs in metal parts manufacture are semiskilled, therefore average hourly industry pay is slightly lower than the national average. Production work often involves operating large machines, which can be a safety hazard. The industry's safety record has improved in the past decade, but the injury rate is still about 75 percent higher than the national average.

Industry Employment Growth - Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase - Bureau of Labor Statistics



Business Trends

Varying Demand Cycles — Demand for metal products is affected by varying demand in customer industries. Production of industrial equipment increased more than 20 percent between 2003 and 2007 before entering a period of decline amid the recession of the late 2000s. However, production of defense and space equipment has enjoyed relatively steady production growth since 2003, despite the recession.

Customers Moving Overseas — Many metal products customers, such as auto companies and appliance manufacturers, have moved production abroad to take advantage of lower labor costs and position themselves to sell products to a growing international market. Unless their US suppliers move with them, these customers buy from local manufacturers, especially if they use just-in-time inventory management.

New Powder Metal Applications — The US makes more parts from metal powder than does any other country. Powder metal parts are often cheaper to produce, and in some cases are lighter or have better performance characteristics. The light weight of powder metal parts is particularly attractive in automotive applications: on average, vehicles now contain about 43 pounds of powder metal parts.

Industry Opportunities

New Manufacturing Materials — New metal alloys with desirable physical properties allow manufacturers to upgrade existing products and introduce new ones. Such alloys have been especially useful for products that must operate in extreme conditions, such as inside engines and in cooling applications. However, the use of new materials requires a large prior investment in engineering and testing.

Greater Complexity of Final Products — As machinery and other products become more sophisticated in function and design, the parts used to build them generally also become more complicated, requiring more engineering and tighter manufacturing specifications. Manufacturers that can invest in modern fabricating technology will be able to increase market share.

New Production Methods — New rapid prototyping methods produce delicate parts good for sizing and ergonomic studies. Lasers have growing applications in metal parts manufacturing, such as laser cutters used in sheet metal industries. New fabrication technology for metal parts, like laser-assisted arc welding, can rapidly produce part molds directly from CAD files, thus bypassing the traditional need for tooling. New metal casting technology can reduce the time from initial design to production.

Increased Customer Outsourcing — Equipment manufacturers are increasingly outsourcing the production of parts they formerly made themselves. Much of the sheet steel and steel plate bought by manufacturers from metal service centers is processed by a fabricator under an outsourcing arrangement before delivery.

Nonmetal Product Line Additions — Many companies are expanding their product line, sometimes adding nonmetal items. Manufacturers of metal windows and doors may also manufacture vinyl and wooden ones. Manufacturers of industrial products like valves may also produce a consumer version.

Associated SIC Codes

[Help](#)

- 3429** Hardware, nec
- 3441** Fabricated structural metal
- 3444** Sheet metalwork
- 3451** Screw machine products
- 3463** Nonferrous forgings
- 3465** Automotive stampings
- 3466** Crowns and closures
- 3469** Metal stampings, nec
- 3471** Plating and polishing
- 3479** Metal coating and allied services
- 3493** Steel springs, except wire
- 3494** Valves & pipe fittings, nec
- 3495** Wire springs
- 3496** Misc. fabricated wire products
- 3497** Metal foil & leaf
- 3498** Fabricated pipe & fittings

Associated NAICS Codes

- 332111** Iron and Steel Forging
- 332112** Nonferrous Forging
- 332114** Custom Roll Forming
- 332115** Crown and Closure Manufacturing
- 332116** Metal Stamping
- 332214** Kitchen Utensil, Pot, and Pan Manufacturing
- 332312** Fabricated Structural Metal Manufacturing
- 332313** Plate Work Manufacturing
- 332321** Metal Window and Door Manufacturing
- 332322** Sheet Metal Work Manufacturing
- 332323** Ornamental and Architectural Metal Work Manufacturing
- 332410** Power Boiler and Heat Exchanger Manufacturing
- 332420** Metal Tank (Heavy Gauge) Manufacturing
- 332439** Other Metal Container Manufacturing
- 332510** Hardware Manufacturing
- 332611** Spring (Heavy Gauge) Manufacturing
- 332612** Spring (Light Gauge) Manufacturing
- 332618** Other Fabricated Wire Product Manufacturing
- 332721** Precision Turned Product Manufacturing
- 332722** Bolt, Nut, Screw, Rivet, and Washer Manufacturing

- 332812** Metal Coating, Engraving (except Jewelry and Silverware), and Allied Services to Manufacturers
- 332813** Electroplating, Plating, Polishing, Anodizing, and Coloring
- 332919** Other Metal Valve and Pipe Fitting Manufacturing
- 332999** All Other Miscellaneous Fabricated Metal Product Manufacturing
- 333414** Heating Equipment (except Warm Air Furnaces) Manufacturing
- 333924** Industrial Truck, Tractor, Trailer, and Stacker Machinery Manufacturing
- 334518** Watch, Clock, and Part Manufacturing
- 336399** All Other Motor Vehicle Parts Manufacturing
- 337215** Showcase, Partition, Shelving, and Locker Manufacturing
- 339911** Jewelry (except Costume) Manufacturing
- 339912** Silverware and Hollowware Manufacturing
- 339914** Costume Jewelry and Novelty Manufacturing

Industry Description

The US metal coating, engraving, and heat treating industry includes about 6,000 companies with combined annual revenue of about \$22 billion. Major companies include AZZ, Precoat Metals (a division of Sequa) and North American Galvanizing & Coatings. The industry is fragmented: the largest 50 companies generate about 40 percent of revenue.

Competitive Landscape

Demand depends on the level of manufacturing production and construction activity. The profitability of individual companies is linked to manufacturing process efficiencies. Most companies are small and compete by focusing on a specialty customer niche within a local or regional area.

Competition comes from metal manufacturers and fabricators that have in-house capability. Other competitors are large steel mills and aluminum producers, such as Nucor and Alcoa, that have operations that incorporate these value-added services.

Products, Operations And Technology

Major services are metal surface finishing treatments: engraving, galvanizing, and coating (55 percent of industry revenue); electroplating, plating, anodizing, and coloring (25 percent); and heat treating (20 percent).

Surface finishing protects a metal product from corrosion, improves resistance and functional properties. For example, electroplating involves coating an object in a solution to improve electrical insulation and/or conductivity. Zinc coatings are commonly used to prevent corrosion of steel products. Major customer industries for metal surface finishers are the auto, aerospace, building construction, highway construction, petrochemical processing, and utility markets.

The basic steps in the surface finishing process include material cleaning; preparing, or priming, the surface; applying coating or other treatments (galvanizing, etching, electroplating, or anodizing); curing or drying; and inspection. In the case of heat treating, the material is heated to a high temperature under carefully controlled conditions then cooled rapidly to set the desired properties. Facilities vary in size but a typical facility ranges from 40,000 to 60,000 square feet and is company-owned.

Various alloys of steel and aluminum with unfinished surfaces are transported to facilities specifically designed to perform these services. The company provides the raw materials, such as primers, paints, coatings, caustics, and zinc, to complete the service, while the fabricator typically owns the metal inventory. This arrangement is known as “tolling” or “toll conversion,” and companies that perform this third-party outsourcing are “converters” or “jobbers.”

In most cases, the finished product is shipped directly to the fabricator’s customer. In some cases, the product may be returned to the fabricator for subsequent processing, especially for heat treated products (steel, aluminum, and bronze) where heat treating is used to impart properties of strength and formability prior to further processing.

Automated application systems, computerized process controls, and advanced environmental treatment systems are being adopted, but the industry remains labor-intensive. Most productivity improvements require large capital investments, making operations dependent on high processing volumes to recoup invested capital.

Sales and Marketing

Target customers are typically metal fabricators within a local or regional area. Sales are generated by a direct sales force. In many operations, the owner is the general sales manager and is deeply involved with customers because of detailed knowledge of the business and the company’s capabilities.

Most business is performed under contracts negotiated at the senior management level. Contracts may be renewable automatically or upon review, with clauses to protect against raw material and energy cost increases. While contracts may be long-term, they don't usually contain volume guarantees because of customer dependence on market forces beyond their control.

Marketing generally consists of company brochures detailing facility capabilities offered both in print and online. Association trade shows, technical forums, and customer visits are the primary forms of face-to-face contact with customers and potential customers.

Finance and Regulation

Revenue is somewhat seasonal, especially in northern areas where building and construction may be affected by weather. Model year introductions of autos also create some seasonality of demand. Customers own the materials to be processed to keep companies from tying up large amounts of cash in metal inventories.

The industry is subject to intense regulatory oversight by EPA and OSHA due to the hazardous and toxic nature of many of the chemicals, coating content, and waste byproducts. Xylene, toluene, methyl ethyl ketone (MEK), acids, zinc wastes, and hexavalent chromium are a few of the more common hazardous compounds used in processing.

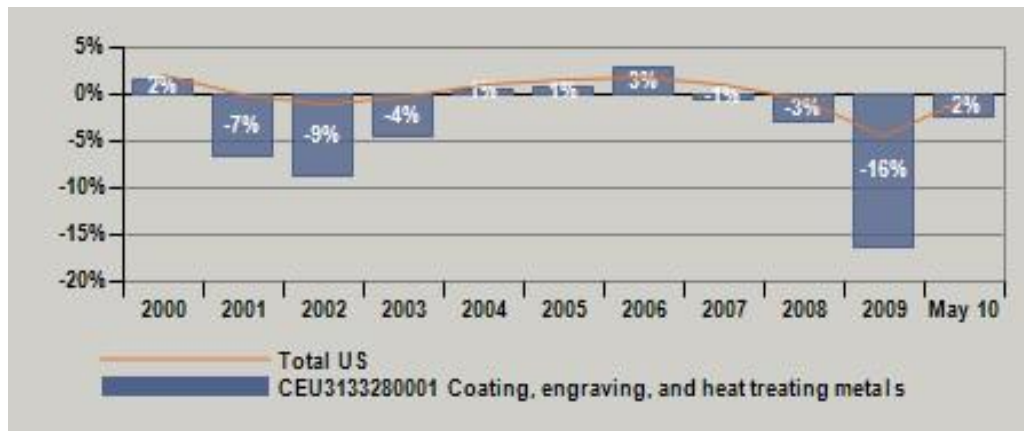
Regional and International Issues

States with the highest number of facilities include California, Michigan, Ohio, and Indiana. In addition to the highway and transportation businesses in these populous states, they're also centers of aerospace and auto production. Facilities are typically close to their customer base unless a particularly unique process is required.

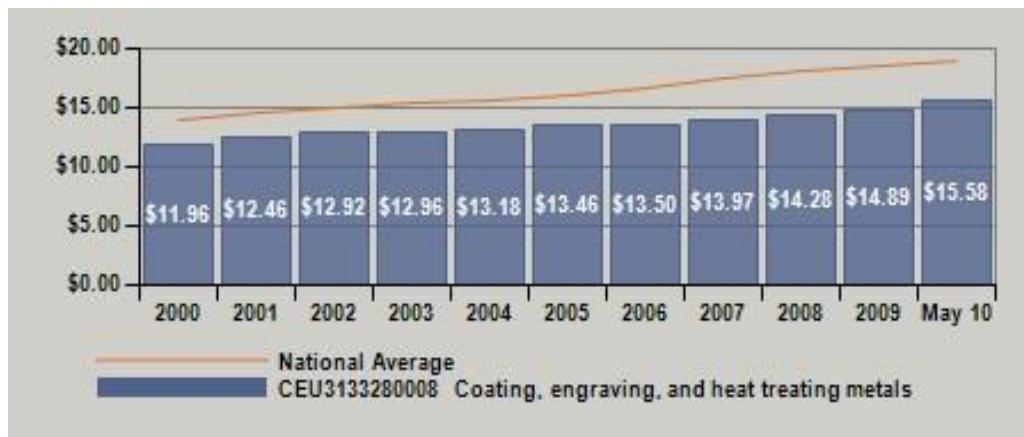
Exports are minimal, as most work is done for local or regional customers. Imports of raw materials such as zinc come from Peru, Ireland, Mexico, and Canada. Countries in the Asia-Pacific region are growing in importance as sources of finished metal products

Workers are relatively low-skilled and earn average hourly wages that are moderately lower than the national average. Worker safety is a major focus for the industry. The industry's annual injury rate is moderately higher than the US average. Employees routinely contact hazardous chemicals, coatings, and byproducts such as hexavalent chromium. Company safety programs require workers to wear protective clothing and respirators at certain times. Material Safety Data Sheets (MSDS) are available to workers so they understand the risks and safe handling procedures of compounds.

Industry Employment Growth - Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase - Bureau of Labor Statistics



Business Trends

New Coating Technologies — Advanced coating technologies are now available that offer performance and cost advantages and less environmental impact. Low volatile organic compound (VOC) coatings, powder coating, and radiation-cured coatings are some products now available. Machinery and process upgrades required for coating and finishing companies to take advantage of these new technologies often slow their adoption.

Tighter Environmental Controls — As more research corroborates the health concerns regarding the use and disposal of industry raw materials and waste byproducts, tighter regulations are put in place. These new regulations may require investment in additional waste collection and emissions control equipment for which ROI is small.

Increasing Foreign Sources of Pre-Coated Materials — Industry customers are finding opportunities to buy foreign raw materials already treated with required substrate finishes. Pre-coated steel coils are bought offshore and fabricators simply complete final processes such as cutting to size. Asian-Pacific countries have become competitive sources of such pre-coated raw material.

Industry Opportunities

Manufacturer Outsourcing — Third-party coaters and finishers have successfully added customers who formerly carried out these processes internally. Outsourcing is favored when a fabricator is running at capacity, or when bottlenecks are created by in-house operations. Outsourcing allows manufacturers to avoid capital expenditures and difficult regulatory compliance issues.

Expanding Materials Treated — Companies in this industry traditionally work with metal substrates, but treatments for vinyl, wood, and other synthetic materials offer expansion opportunities. Subtle differences in application techniques, chemical variation in the treatment process, and altered curing time and temperature allow companies to participate in these markets without large capital expenditures.

Infrastructure Growth — The US population is forecast to grow by some 60 million in the next 20 years, which will create demand for more and upgraded infrastructure. The net result will be increased opportunities for companies that support highway, auto, and construction markets.

Promoting Multiple Treatments — Corrosion-resistant surfaces extend product life cycles. Painting or galvanizing had once been considered an “either/or” proposition. However, through successful marketing of the benefits of combined treatments, they're increasingly being performed together. Additional thicknesses of protection or dual applications are becoming more accepted, boosting industry revenues.

Associated SIC Codes

[Help](#)

3398 Metal heat treating

3399 Primary metal products, nec

3471 Plating and polishing

3479 Metal coating and allied services

Associated NAICS Codes

3328 Coating, Engraving, Heat Treating, and Allied Activities

Machine Shops Industry Description

Industry Description

The US machine shops industry includes about 21,000 companies with combined annual revenue of about \$35 billion. No major companies dominate the industry, which is highly fragmented: the 50 largest companies generate about 15 percent of revenue.

Competitive Landscape

Demand depends on US manufacturing activity. The profitability of individual companies is linked to engineering expertise and operating efficiency. Larger shops have the ability to invest in advanced production machinery. Smaller shops can compete effectively by serving specialized customers, or by providing engineering services. Despite continuing automation, the industry is labor-intensive: average annual revenue per worker is about \$140,000.

Products, Operations, Technology

Machine shops are intermediaries in metal products production. They work on a job basis: generally, they receive unfinished metal parts or raw materials from a manufacturer, perform various operations, and return the parts to the manufacturer for further processing. They own and operate special machine tools that can perform a variety of metalworking operations, including drilling; boring (enlarging an existing hole); tapping (cutting threads inside a drilled hole); threading (cutting threads on a bolt); cutting; milling (removing metal from a surface); and grinding (usually a finishing operation). These operations involve metal removal, frequently with great precision. The machines that perform these operations are usually expensive and often computer-controlled.

Machine tools vary by the type of operation they perform, the size of a piece they process, and the precision of their operations. Many are operated with numerical controls (NC) or computer numerical controls (CNC). Machine shops may own dozens of different machine tools produced by a variety of manufacturers. Aside from a few US companies, many major machine tool makers are German, Japanese, or Swiss. The workforce in a machine shop consists of skilled technicians who tend the machines and workers who move semifinished parts from one machine station to the next.

Four major operating activities in machine shops are pre-production, machine setup, actual production, and quality control. Machine setup for a particular job can be time-consuming and can hugely affect costs. Major material costs for machine shops are the expensive, specially hardened machining bits consumed in the various metalworking operations, including drilling

bits, milling heads, cutting tools, and abrasives. Electricity is the major source of energy consumed, but usually amounts to about 5 percent of total costs.

Sales and Marketing

Marketing for machine shops consists largely of direct contacts with local manufacturers. Because of the need for close technical consultation between machine shops and customers, the work of most machine shops is usually confined to a very local area. New business may also come through requests for proposals (RFPs) from manufacturers familiar with the company. Customers can be in a wide variety of manufacturing industries. Because work is local, companies often have a large concentration of customers in the same industry.

Major end-users nationally are manufacturers of auto parts, aircraft parts, electronics, and industrial machinery. New work is often acquired through job bidding. While pricing is always a consideration for new business, product quality and the ability to meet production timetables are often of greater concern. Management expertise is very important in properly pricing a bid, since the workability of metals, the complexity of machine setup, and the capabilities of individual pieces of machinery can vary substantially.

Finance and Regulation

Machine shops have large investments in machinery and equipment, including drill presses; lathes (turning machines); and milling and grinding machines. Individual pieces of equipment may cost several hundred thousand dollars, and can often be bought with financing provided by the manufacturer. Shops generally don't have large investments in inventory because customers typically provide materials. Because they often deal with many customers, machine shops may have credit and collection problems. There is very little seasonality in production or cash flow, but the industry is susceptible to customer work stoppages and economic cycles, which can produce highly uneven and unpredictable cash flow.

Because of the nature of working with metals, including the use of lubricants and solvents and the production of sizable amounts of metallic wastes, machine shops can have environmental pollution problems, particularly with regard to ground contamination and toxic waste disposal. Some types of machining operations can also release fine particles into the air, creating hazardous workplace conditions unless proper control steps are taken. The EPA administers environmental pollution regulations; OSHA administers workplace regulations.

Regional and International Issues

Machine shops are most concentrated in states with a large amount of industrial manufacturing activity, especially of autos, aerospace equipment, electronics, and machinery. The largest concentrations of machine shops are in California, Michigan, Ohio, Texas, Illinois, Wisconsin, Pennsylvania, and Minnesota.

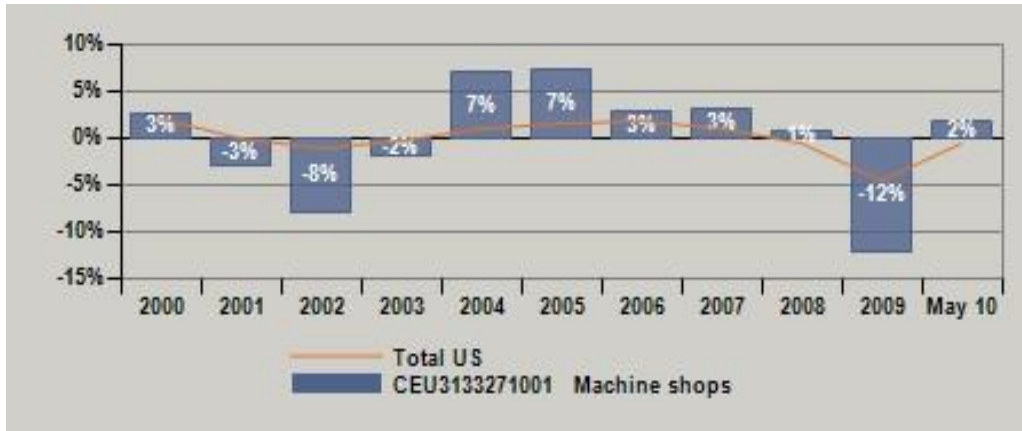
Imports of machine shop products to the US come primarily from Taiwan, China, Japan, Canada, and Germany. Major export markets for US machine shop products include Canada, Mexico, UK, China, and France.

Human Resources

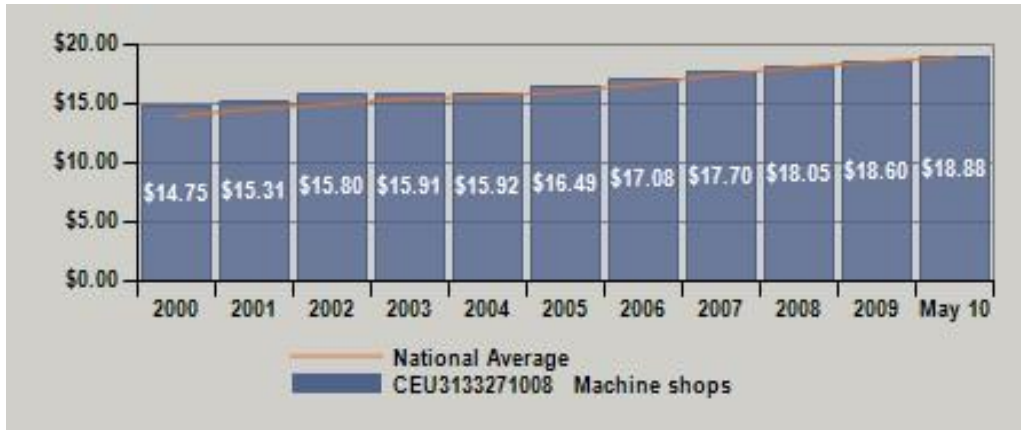
Machine shop jobs require **strong technical and engineering skills**, but many employees are machine operators who need only equipment-specific training. Average hourly pay for the industry is about the same as the national wage.

The safety record of the industry has improved with the greater use of computer-controlled machinery that removes the operator from the actual point of metal contact. However, the industry **injury rate** is still **50 percent higher** than the national average.

Industry Employment Growth - Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase - Bureau of Labor Statistics



Business Trends

Higher Productivity — The increased use of computer-controlled machine tools has allowed machine shops to decrease average labor costs. Technicians rather than skilled machinists can tend modern machines. In the past decade, industry production increased 20 percent, while employment growth was mostly flat.

Machining Centers — Most equipment in machine shops performs a single function. Machining centers are pieces of equipment that can perform several operations, either at the same time or sequentially, on the part being worked. Machining centers are becoming more popular because they're more productive. These pieces of equipment are more expensive than single-function machines and more likely to be computer-controlled.

Unattended Operations — Computer numerical controls (CNC) machine tools can work on parts without an operator and provide continuous production if attached to automated feeding machines or robotic systems that supply fresh raw materials. Many traditional machines have been reconfigured to make unattended operations easier. For example, traditional horizontal lathes can be replaced with vertical, spindle-inverted turning machines that can more easily accept parts on their work platform.

Ceramic Cutting Tools — Many superhard materials can't be adequately machined with traditional metal-cutting tools. Ceramics technology has produced cutting tools made from ultrahard mineral composites like silicon nitride, silicon carbide, and zirconium oxide, which, while more expensive than steel, are more durable.

Industry Opportunities

Outsourcing — Many manufacturers that produce high volumes of a particular metal product incorporate machining in their regular manufacturing process. However, manufacturers that produce smaller batches of products (or that frequently make different products) can reduce costs by outsourcing the machining to independent shops. The development of "lean" manufacturing techniques, including just-in-time inventory replenishment, has favored outsourcing to machine shops that can guarantee quality and on-time delivery.

CAD/CAM — Most industrial products are now developed using CAD software. Machine tools that can machine parts directly from the software designs (such as machining centers with automatically interchangeable cutting tools) are more productive and more precise than the traditional multi-step machining process. Computer-aided manufacturing (CAM) requires close coordination between machine shops, customers, and nontraditional technical skills.

Pre-Production Design — To minimize production costs, a customer's parts can be designed to take best advantage of the various machining capabilities. Some machine shops become closely involved with customers in the design process, and can offer extensive CAD capabilities.

Advanced Machinery — New machining techniques, such as electrical discharge machines (EDM), robotics, waterjet cutting, and lasers, allow machine shops to offer new services. These techniques require acquiring new machinery and advanced machinist training.

Nonmetal Machining — Although metals account for the bulk of machining that most shops do, plastics, ceramics, and composite materials are being used in more manufactured products. Such materials often require specialized machining equipment and operating skills.

Associated Industry Codes

SIC Codes

- 3599: Industrial machinery, nec

NAICS Codes

- 33271: Machine Shops