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Some Characteristics of an Ideal Industry

Purdue University Cooperative Extension Service

7. **The industry earns large profits from the sale of its product.** A new industry that produces and markets a profitable product has money to pay higher wages. It has money to invest in new plants and equipment. It may even have money to donate to civic projects. Also, if the new industry is making money, it will probably expand its operation, which will create more jobs and more businesses.

8. **The industry employs skilled people and trains unskilled workers.** This is an important characteristic. A new industry which requires its employees to be skilled will probably pay better than one that hires semi and unskilled employees. But it is important that those skilled employees be local residents. Also, for the community's youth, the industry should be willing to train unskilled people to the level of competency needed. Most firms will work with a public technical training school to set up and run a training program tailored to the firm's needs.

9. **The industry has a high ratio of capital to labor relative to other industries.** This means that the value of plant and machinery investment per worker is high. The natural consequences of this characteristic are that the industry will pay high wages and employ skilled workers. A power plant is an example of such an industry. An obvious trade-off may occur to the reader. Power plants employ few people most of whom will move into the area from outside. The local governments where the investment is located will benefit from the new property tax receipts.

10. **The industry is a leader in product development and innovative cost-reducing production technology.** The host community wants their new industry to be financially strong. One important way is to lead one's competitors in product development and technological breakthroughs in cost reducing production technology. These two activities will naturally lead the firm to invest in research and development which will lead to investments in plant and equipment to produce new products and introduce new production techniques.

11. **Ownership and entrepreneurial talent for starting and expanding the industry reside within the area that local leaders are trying to develop.** Often this will not be possible. However, this characteristic is mentioned because profits from the activities of the industry will go to the owners and top management. Ideally, this money should stay in the community to add to local family incomes and businesses when spent. Also, absentee ownership has proved to have a negative impact on the host community—no civic involvement and poor property maintenance. By contrast, in the case of Columbus, Indiana, Cummins Engine Company owners have invested millions of dollars in that city.

12. **The industry is big enough to have a significant impact on the rest of the community's economy.** If a community's goal is growth, that community wants a new industry or industries that will earn new dollars, then spend them on wages, salaries, inputs and interest on loans. These new dollars will then stimulate consumer spending and business investment. This will all add up to a vigorous local economy.

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SOME CHARACTERISTICS OF AN IDEAL INDUSTRY

TO PROMOTE YOUR COMMUNITY'S ECONOMIC GROWTH

Many municipalities, some counties and a few multicounty regions have active industrial development groups. They foster economic growth usually by encouraging the location of industrial firms within their areas.

This raises the question, "What characteristics should an industry have to generate growth?" Listed here are some industry characteristics ideally suited to help a region grow. After each characteristic is stated, a rationale is given for its inclusion.

No industry is likely to have all the characteristics listed. However, for local leaders actively promoting economic growth, this list provides a yardstick to measure alternative types of industries that might locate or develop in their area.

COOPERATIVE EXTENSION SERVICE
PURDUE UNIVERSITY
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SOME CHARACTERISTICS OF AN IDEAL INDUSTRY

1. **The industry employs many people.**
2. **The industry pays high wages and salaries relative to other industries.**
3. **Wage and salaried employees of the industry reside within the area rather than commute from outside the region.**
4. **The industry produces a product that is sold outside the area.**
5. **The industry buys most of its needs (inputs) within the area and is financed by local lenders.**
6. **The industry produces a product for which there is a growing demand.**
7. **The industry earns large profits from the sale of its product.**
8. **The industry employs skilled people and trains unskilled workers.**
9. **The industry has a high ratio of capital to labor relative to other industries (a big investment in building and machinery per worker).**
10. **The industry is a leader in product development and innovative cost-reducing production technology.**
11. **Ownership and the entrepreneurial talent for starting and expanding the firms in the industry reside within the area that local leaders are trying to develop.**
12. **The industry is big enough to have a significant impact on the rest of the region's economy.**

These characteristics can be used to consider both a group of firms selling similar products, such as cattle producers, and a single manufacturing firm such as Cummins Engine Company.

An industry is defined, for the purposes of this publication, as one or more firms producing a similar product within a defined substate region. Thus, dairy farmers in Newton County, Indiana, comprise the dairy production industry in that county; and the Inland Container Company comprises the cardboard box manufacturing industry in Vermillion County, Indiana.

The key element of the list is this: A community needs a competitive, well-managed, growing industry that sells its products outside the area and at the same time buys its inputs inside the area. The results will be new dollars earned outside the community and spent inside. This will stimulate local business and add to local household incomes.

One should be aware of two added considerations. First, a firm is no better than its management, but it might be difficult for community leaders to assess management's competence. Second, external occurrences such as business cycles, changes in tastes and preferences, new technological breakthroughs, and changes in the cost of inputs can all destabilize an industry.

Finally, it might be appropriate to point out that five firms employing 1,000 people but producing different products create a more stable situation than one firm employing 1,000 people. It also may be easier to attract five small firms than one large firm.

1. **The industry employs many people.** "Jobs for our community" most often is the reason local leaders want to attract new industry. Today 41 percent of the population in the U.S. hold paying jobs. Yet many communities have only one job for every five people. The rest of their potential work force is unemployed, underemployed or commutes to jobs in other communities. Realizing this, bright young people often move to where the jobs are rather than stay home and commute. Thus, local leaders want to increase the availability of jobs in their community.

2. **The industry pays high wages and salaries relative to other industries.** Next important after jobs is the wage and salary level. If a community attracts a low-wage industry, local labor may not be willing to leave old jobs to which they must commute, to take new jobs in their community. Young people may not be attracted to the new jobs if they can move out of their community to a job which pays better. Low-income people will then fill the jobs. They may either commute to or move into the community. However, if there exists a large underemployed pool of women in a community, they may be the primary beneficiaries of the new jobs.

3. **Wage and salaried employees of the new industry reside within the area rather than commute from outside.** Where are the new employees going to come from? Ideally, local leaders want the new jobs to be filled by unemployed and underemployed people who presently live in their community. This maximizes the economic benefit to local households. Then, if this new family income is spent locally, this maximizes the benefit to local businesses.

4. **The industry produces a product that is sold outside the community.** Most local economies that are not growing lack ways to earn new dollars. New dollars are earned by industries that sell their product to markets in other parts of the country. A new industry that exports its products to outside markets will then earn the new dollars which, when circulated in the local economy, create economic growth. However, if a new industry produces a product used as an input for another local industry, this also is desirable. This is called a backward linkage. Linkages allow local money to pass from one hand to another.

5. **The industry buys most of its needs (inputs) within the area and banks locally.** Once the new industry earns new dollars, what does it do with them? Ideally, it pays wages and salaries to local families, borrows and deposits money in local banks and buys materials used in its production from local businesses. This circulates new money in the economy and allows the total local economy to grow.

6. **The industry produces a product for which there is a growing demand.** In order for a new industry to be financially strong, it needs a market for its products. Ideally, that market should be an expanding one. This will stimulate the new industry to buy more inputs, hire more employees and invest more in its plant and equipment.