College of Professional Studies

STEVENS POINT AREA ECONOMIC INDICATORS

Third Quarter 2011

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Featuring:
Measuring Entrepreneurial Activity

Special Report:
Business Modeling: A new tool to encourage entrepreneurial activity and new venture creation

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Outlook

Early in the year I talked about why this recovery feels like it's just a continuation of the past recession. I would like to share my thoughts on this with the Stevens Point audience and readers. Gains in productivity and international sales have helped expand the Real Gross Domestic Product. For nine consecutive quarters, the nation's output of goods and services has been expanding. However, for the past three quarters the growth in Real GDP has been very weak. This suggests the economy has been walking a tight rope and no one is quite sure if the economy will continue to grow or if it will fall back into a recession. One bright piece of news is the European Union may have come up with a debt plan which will hopefully prevent a major recession in Europe. If the plan is not accepted by Greece then big economic problems may be in store for Europe. If a major trading partner like Europe experiences a recession, then the thought is that the U.S. economy would soon follow.

The most distinguishing characteristic of this recovery, and why this recovery feels so bad, is the lack of strong employment growth. This is what has truly defined the recovery and continues to be a major concern of the American people. The official seasonally unadjusted unemployment rate was 8.8 percent in September. As a matter of record the unemployment rate has been hovering around 9.0 percent for over two years! If discouraged workers and part time workers are taken into account, the real unemployment rate is around 16 percent. With total employment growing by only 0.6 percent over the past year in the US, it could take until the end of this decade before total employment reaches pre-recession levels. In addition to the poor job market, households are being negatively affected by the loss of wealth associated with falling real estate prices and high debt levels. Moreover, households continue to be unnerved by the high degree of volatility in the world's financial markets. While the markets have been trending higher there is still a huge amount of uncertainty as to how investors will react to the next piece of bad news.

There are not many people left who remember the great financial crises of the 1930s. From a historic perspective recessions caused by wide spread financial excess are unusually deep and their recoveries are painfully slower than other types of recessions. Why? As most people already know a huge number of households are underwater with their mortgages or are behind in their monthly debt payments. Moreover, a huge number of important financial institutions suffered large mortgage related losses. This means the balance sheets of households and financial institutions are in great need of repair. Balance sheet repair usually takes a long time to accomplish and it does not happen overnight. In the near term it is going to be difficult for households and financial institutions to provide the spending and lending needed to generate significant improvement in the nation's labor market. Also aggravating the job recovery has been the growing intensity of international competition and the resulting loss of jobs to overseas competitors. Ben Bernanke, chairman of the Federal Reserve, recently indicated that

the economic recovery will be tempered by "hard-to-get credit for consumers and businesses, and by households saving more, spending less and trimming their debt." To underscore the difficulty that households are having, consider what has happened in Wisconsin. The U.S. Census Bureau reports the real inflation adjusted median household income in Wisconsin has dropped from $57,316 in 2000 to $49,993 in 2009, a decline of 14.5 percent! It's no wonder why the recovery has been almost non-existent.

The Federal Reserve and other economic forecasters have lowered their growth estimates for the remainder of this year and next. They say the probability of a recession in 2012 is at least 50 percent. Some forecasters, who are more bearish about the economy, put the probability at over 60 percent for 2012. Adding to the air of pessimism is the seeming ineffectiveness of monetary policy to stimulate the economy. With real interest rates near zero and the economy awash in liquidity, it is hard to imagine how more liquidity would convince households and businesses to engage in more economic activity. The Federal Reserve's attempt to lower long term interest via "Operation Twist" is not likely to help the short-term problems of the economy.

When it comes to fiscal policy it appears the federal government and states are more concerned with reducing budget deficits than dealing with the unemployment crisis. Raising taxes and reducing spending to close budget deficits will create an immediate drag on the economy and raises the probability of a second recession. Reducing government deficits is without question a necessary step in restoring the long run competiveness of the national economy. Unfortunately the benefits from cutting spending and/or raising taxes to bring our economic house in order will be years away and will be painful for most Americans.

Due to increases in productivity and foreign sales, US nonfinancial business firms are making record profits and are sitting on approximately two trillion dollars of cash. Their reluctance to hire new workers is due to the uncertainty surrounding future government spending, tax, and regulatory policies. It would also help planning efforts if any policy changes were made permanent. This uncertainty make forecasting the long term demand for their products very difficult and adds to their reluctance to hire additional workers or to invest in factory, plant and equipment. Lastly, the federal government inability to come to a consensus about how to deal with the budget deficit has had the effect of increasing business risk for firms. The nation's political leaders must realize they need to put their ideologies on hold, because the inability to reach a political consensus is hurting the nation's business climate and the people of this country.

TABLE 1 NATIONAL ECONOMIC STATISTICS	2010 Third Quarter	2011 Third Quarter	Percent Change
Nominal Gross Domestic Product (Billions)	$14,605.5	$15,198.6	+4.1
Real Gross Domestic Product (Billions of 2000 $)	$13,139.6	$13,352.8	+1.6
Industrial Production (2002 = 100)	93.2	94.2	+1.1
Three Month U.S. Treasury Bill Rate	0.14%	0.02%	-85.7
Consumer Price Index(1982-84 = 100)	218.4	226.9	+3.9

Central Wisconsin

The unemployment rate in each reporting areas is given in Table 2. In September 2011 Portage and Wood counties saw their unemployment rates rise to 6.0, and 6.9 percent respectively. The Marathon county unemployment rate fell to 7.0 percent from 7.2 over the course of the year. The labor force weighted unemployment rate for Central Wisconsin was unchanged staying at 6.7 percent. Similarly Wisconsin's unemployment rate remained at the same level as last year, 7.0 percent and the United States unemployment rate fell from 9.2 percent to 8.8 percent. Thus, overall there was little or no improvement in the unemployment numbers.

TABLE 2 UNEMPLOYMENT RATE CENTRAL WISCONSIN	Unemployment Rate September 2010	Unemployment Rate September 2011	Percent Change
Portage County	5.7%	6.0%	+5.0
City of Stevens Point	7.4%	7.6%	+2.7
Marathon County	7.2%	7.0%	-2.8
Wood County	6.7%	6.9%	+2.7
Central Wisconsin	6.7%	6.7%	0.0
Wisconsin	7.0%	7.0%	+0.1
United States	9.2%	8.8%	-4.5

TABLE 3 EMPLOYMENT CENTRAL WISCONSIN	Total Employment September 2010 (Thousands)	Total Employment September 2011 (Thousands)	Percent Change
Portage County	39.6	39.7	+0.3
City of Stevens Point	14.0	13.9	-0.7
Marathon County	67.3	67.2	-0.2
Wood County	38.2	37.5	-1.8
Central Wisconsin	145.1	144.4	-0.5
Wisconsin	2,823.1	2,849.6	+0.9
United States	139,714	140,502	+0.6

* Percent change figures reflect data before rounding

Employment figures in Table 3 are based on a government survey of households. Portage County employment rose by 0.3 percent over the course of the year. However, the news for Marathon and Wood County payrolls was not as good. Employment contracted by 0.2 percent and 1.8 percent respectively in these counties over the past twelve months. Central Wisconsin as a whole experienced an employment decrease of about 700 positions. Employment in the three counties fell from 145.1 to 144.4 thousand or by 0.5 percent. The state of Wisconsin saw its payrolls rise by 0.9 percent or by about 26,000 positions and the nation gained 0.6 percent or about 778,000 jobs over the year. Thus, the amount of job generation continues to be very modest in the state and nation. At this rate it will take the nation to the end of decade to recover the jobs lost during the great recession.

Table 4 gives the latest firm based employment numbers for Wisconsin. Information from the state of Wisconsin was not available at the time of the report for the state's non-metro counties. From September 2010 to September 2011 Wisconsin's total nonfarm employment rose from 2.755 million to 2.777 million or by a scant 0.8 percent. This represents a gain of just

21.5 thousand jobs during the past year. The sectors of the economy to experience job growth were the manufacturing, trade, transportation and utilities, information services, educational and health services, leisure and hospitality and other services. Good news for the state is the manufacturing sector, after many years of contraction, expanded by about 15.0 thousand positions or by 3.4 percent over the year. However, the employment results for the rest of the industrial sectors were very disappointing. The mining, construction, financial activities, professional and business services, and government sector all experienced declines in employment.

TABLE 4: WISCONSIN EMPLOYMENT CHANGE BY SECTOR	Employment September 2010 (Thousands)	Employment September 2011 (Thousands)	Percent Change
Total Nonfarm	2755.9	2777.4	+0.8
Total Private	2346.6	2376.1	+1.3
Natural Resources and Mining	3.3	3.3	0
Construction	101.9	95.6	-6.2
Manufacturing	437.4	452.1	+3.4
Trade, Transportation, and Utilities	508.6	512.5	+0.8
Information	46.8	47.3	+1.1
Financial Activities	157.2	153.4	-2.4
Professional and Business Services	275.3	272.2	-1.1
Educational and Health Services	417.8	428.9	+2.7
Leisure and Hospitality	261.3	266.1	+1.8
Other Services, exc. Public	137.0	144.7	+5.6
Government	409.3	401.3	-2.0

County sales tax distributions were generally above the pace of a year ago (Table 5). Portage County sales tax distributions rose from $1.23 million to $1.29 million, an increase of nearly 4.8 percent. Likewise, Marathon experienced a slight improvement in sales tax distributions from the state. Marathon rose from $2.47 million to $2.51 million or by 1.9 percent. Unfortunately Wood County collections contracted from $1.24 million to $1.23 million or by about 0.4 percent over the course of the past year. In general there was a slight improvement in retail activity in Central Wisconsin.

TABLE 5 COUNTY SALES TAX DISTRIBUTION	2010 Third Quarter (Thousands)	2011 Third Quarter (Thousands)	Percent Change
Portage County	$1,226.9	$1,285.9	+4.8
Marathon County	$2,466.9	$2,514.6	+1.9
Wood County	$1,239.1	$1,234.4	-0.4

* Percent change figures reflect data before rounding

The CWERB's survey of area business executives is reported in Table 6. This group believes that recent events at the national level have led to deterioration in economic conditions. In addition they believe the local business climate has stayed about the same over the past year. When they were asked to forecast the future they expect economic conditions to improve ever so slightly in late 2011. Also, they expressed the same level of optimism for the local economy and for their particular industry in September 2011. Basically they felt that economic matters would not change for their business and for their community. Table 6 also shows that the level of optimism was generally higher in June 2011 than in September 2011.

TABLE 6 **BUSINESS CONFIDENCE**	**Index Value** **June 2011**	 **September 2011**
Recent Change in National Economic Conditions	62	42
Recent Change in Local Economic Conditions	55	48
Expected Change in National Economic Conditions	65	55
Expected Change in Local Economic Conditions	65	52
Expected Change in Industry Conditions	63	52
100 = Substantially Better	50 = Same	0 = Substantially Worse

Figures 1 thru 7 give a historic overview of how the economy in Wisconsin has performed during the 2007-2011 time period. For example Figure 5 shows the dramatic decline in Wisconsin manufacturing and the rebound taking place since 2010. In 2007 about 508,000 were employed in manufacturing and at the end of 2010 the number of jobs bottomed out at approximately 425,000; thus over this period the recession caused 83,000 jobs to be lost in this one sector alone. Since that time the rebound in activity has added about 20,000 positions to the manufacturing sector. Figure 7 shows the steep decline in the number of people employed in leisure & hospitality, from about 262,000 in 2007 to 255,000 in the late-2011. Thus about 7,000 jobs have been lost over the past three years in this sector.

Figure 1: Employment Level: WI

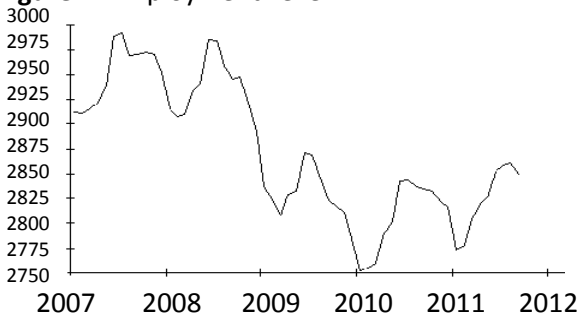


Figure 2: Unemployment Level: WI

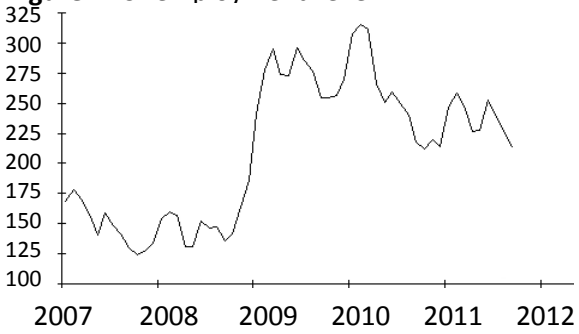


Figure 3: *Unemployment Rate: WI*

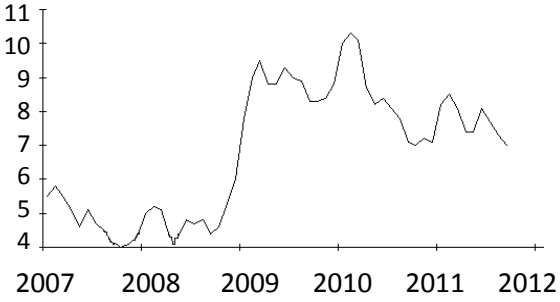


Figure 4: *Labor Force: WI*

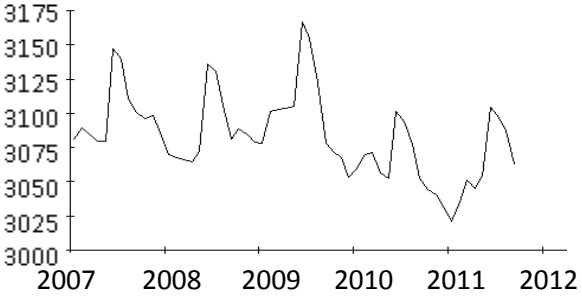


Figure 5: Manufacturing: WI

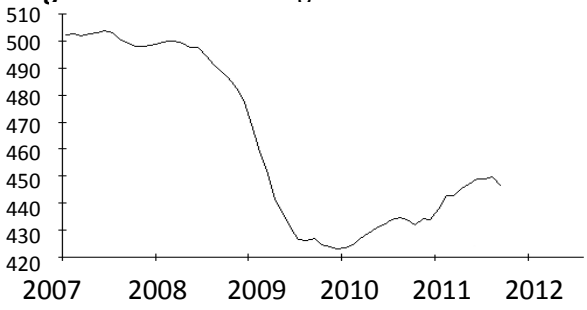


Figure 6: Education and Health Services: WI

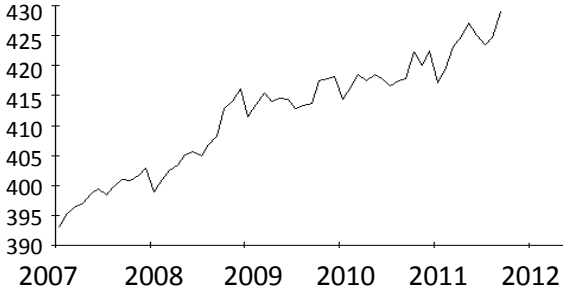
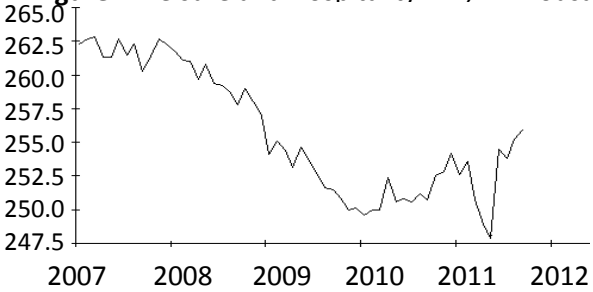


Figure 7: Leisure and Hospitality: WI, In Thousands



Stevens Point – Plover Area

We usually include Table 7 which gives employer based estimates of industrial sector employment in Portage County. However, please note at the time the report was written these data for September were not available from the Wisconsin Department of Workforce Development. Hopefully these data will be available on a timely basis in the future and will be included in the report.

In Table 8 the September CWERB's retailer confidence survey finds that merchants feel that actual store traffic and store sales did not improve over the levels of the previous year. In addition, their expectations about store traffic and sales have become more pessimistic than in June 2011. When it comes to expectations about the future it appears that June 2011 assessment of retail activity was marginally stronger than in September 2011. This group feels that retail activity in the later part of 2011 will be not be any better than what is in 2010. The overall significance of the survey is that local merchants are saying that there is little improvement taking place in the local retail sector.

TABLE 8
RETAILER CONFIDENCE
STEVENS POINT - PLOVER AREA

	Index Value June 2011	Index Value September 2011
Total Sales Compared to Previous Year	48	50
Store Traffic Compared to Previous Year	48	52
Expected Sales Three Months From Now	57	50
Expected Store Traffic Three Months From Now	57	50

100 = Substantially Better 50 = Same 0 = Substantially Worse

Please note the CWERB is unveiling a new help wanted advertising measure that is based on job advertising on the web. Table 9 Help Wanted Advertising is a barometer of local labor market conditions and indexes for Stevens Point, Wausau, Marshfield and Wisconsin Rapids are now based on job advertising on the internet. The index for Stevens Point and Marshfield rose by 37 percent and by 30 percent respectively when compared to a year ago. However, Wisconsin Rapids experienced a decline in the amount advertising taking place by about 17 percent. Wausau's index grew by just 7 percent. These data suggests that advertising growth has been uneven in the area labor markets. If these data hold true, then perhaps as 2012 unfolds we will see a stronger overall market for job seekers.

TABLE 9
HELP WANTED ADVERTISING

	Index Value Second Quarter 2011	Index Value Third Quarter 2011	Percent Change
Stevens Point	398.30	544.67	36.7%
Wausau	922.34	989.67	7.3%
Marshfield	525.00	682.33	30.0%
Wisconsin Rapids	269.31	224.33	-16.7%

Tables 10, 11 and 12 give valuable insight into how local family financial distress fared in Portage County over the past year. The number of new applications for public assistance decreased from 185 to 150 or by 18.9 percent. However, the total caseload for public assistance rose from 6,609 to 6,648 or by a scant 0.6 percent over the year. Table 11 gives detailed information on the types of public assistance for July-September. Since the data are new to the report, we do not have comparable numbers for 2010. In the future we will be able to give year over percentage changes for these numbers.

TABLE 10 PUBLIC ASSISTANCE CLAIMS PORTAGE COUNTY	2010 Third Quarter (Monthly Avg.)	2011 Third Quarter (Monthly Avg.)	Percent Change
New Applications	185	150	-18.9
Total Caseload	6,609	6,648	+0.6

TABLE 11 BY PROGRAM TYPE PORTAGE COUNTY	Third Quarter 2011 July	August	September	Average
Medical Assistance (All Programs)	11,394	11,369	11,351	11,371
Food Share (Food Stamps)	2,458	2,453	2,448	2,453
W2 (Paid Cases Only)	22	25	22	23
Wisconsin Shares Child Care	428	400	413	414

In Table 12 the number of new unemployment cases fell by over 30 percent when compared to the levels in 2010. In addition and more importantly the total claims number dropped from 2,359 to 1,889 or by about 20 percent over the year. Typically results like this are good news for the local area and are thought to mean that fewer people are filing for unemployment claims. However, if a large portion of the decline in the number of cases is due to people's unemployment insurance running out then the decline would not be taken as a positive economic sign.

TABLE 12 UNEMPLOYMENT CLAIMS PORTAGE COUNTY	2010 Third Quarter (Weekly Avg.)	2011 Third Quarter (Weekly Avg.)	Percent Change
New Claims	275	190	-30.8
Total Claims	2359	1889	-19.9

Table 13 presents the residential construction numbers for the Stevens Point-Plover area. In our yearly comparison the number of permits issued in Third Quarter was 12 and they had an estimated value of $3.76 million. The number of housing units totaled 35. When comparing Third Quarter 2010 to that of 2011 residential alteration activity expanded from 223 to 259 permits. However, the value of this type of activity went down from $2.23 to $2.19 million. Thus, overall the 2011 construction data results were mixed when compared to a year ago.

TABLE 13 RESIDENTIAL CONSTRUCTION STEVENS POINT - PLOVER AREA	2010 Third Quarter	2011 Third Quarter	Percent Change
Residential Permits Issued	24	12	-50.0
Estimated Value of New Homes	$10,645.1 (thousands)	$3,757.0 (thousands)	-64.7
Number of Housing Units	25	35	+40.0
Residential Alteration Permits Issued	233	259	+11.2
Estimated Value of Alterations	$2,237.7 (thousands)	$2,193.6 (thousands)	-2.0

The nonresidential construction figures in Table 14 were as follows for Third Quarter 2011. The number of permits issued was 7 and the estimated value was $3.5 million. This is a large increase over the 2010 estimated value of new structures figure. The number of business alteration permits was 55 in 2010 compared to 51 in 2011. The estimated value of alteration activity was $2.78 million in 2010 compared to the 2011 figure of $2.02 million. In sum the pace nonresidential construction activity was more brisk in the prior year.

TABLE 14 NONRESIDENTIAL CONSTRUCTION STEVENS POINT - PLOVER AREA	2010 Third Quarter	2011 Third Quarter
Number of Permits Issued	2	7
Estimated Value of New Structures	$310.0 (thousands)	$3,522.0 (thousands)
Number of Business Alteration Permits	55	51
Estimated Value of Business Alterations	$2,777.2 (thousands)	$2,028.4 (thousands)

* Includes Stevens Point, Village of Plover, and the Towns of Hull, Stockton, Sharon, and Plover.

Figures 8 thru 11 on the next page give an economic history lesson as to how the employment level, the unemployment level, the unemployment rate, and the labor force have trended over the past five years in Portage County. The figures clearly show the influence of the great recession on the area local economy and the figures supplement the report's short-term data by placing it into a longer- term context. Also this allows short-term events to be judged more properly.

Figure 8: Employment Level: Portage

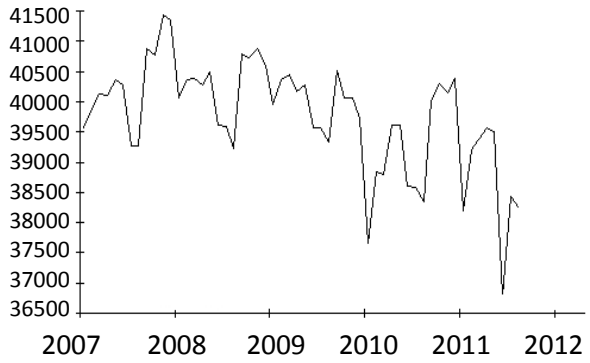


Figure 9: Unemployment Level: Portage

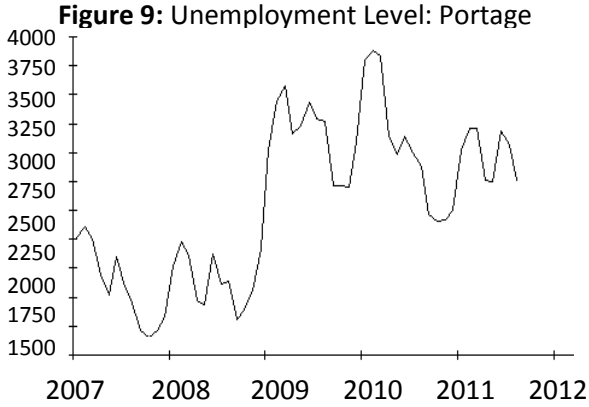


Figure 10: Unemployment Rate: Portage

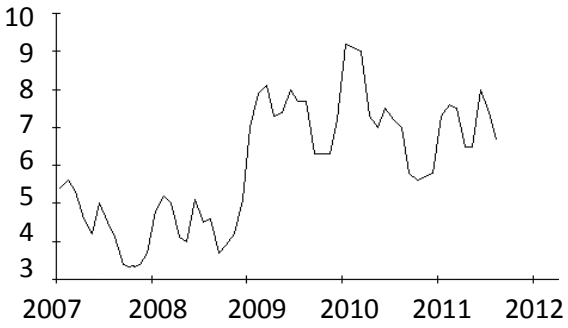
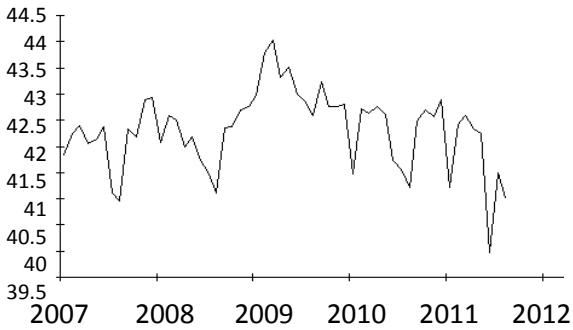


Figure 11: Civilian Labor Force: Portage



Housing Market Information

The following seven tables contain information on the national, regional, and local housing market. Housing activity is an incredibly important aspect of the economy. We believe the reader will gain valuable insight into housing markets conditions and greater insight into the local economy in section III of the report.

Table 15 gives national median home price for the U.S. and major regions in the U.S. housing prices in the Midwest are the lowest in the country. The median home price in our part of the country has dropped from $167,800 in 2006 to $137,400 in 2011, a decline of 18 percent. In general housing prices have declined dramatically in all parts of the U.S.

TABLE 15 NATIONAL MEDIAN HOME PRICES	THIRD QUARTER 2011 U.S	NORTHEAST	MIDWEST	SOUTH	WEST
2006	$221,900	$271,900	$167,800	$183,700	$342,700
2007	219,000	279,100	165,100	179,300	335,000
2008	198,100	266,400	154,100	169,200	271,500
2009	172,500	240,500	144,100	153,000	211,100
2010	173,000	243,500	141,699	150,100	215,100
September 2011 p	165,400	229,400	137,400	144,400	207,400

Table 16 National and the Midwest existing home sales data shows a substantial drop off in sales activity over the past six years. In the Midwest 1,483,000 homes were sold in 2006. The preliminary estimate for 2011 is that only 1,090,000 homes will be sold in 2011 in Midwest, a decline of 30 percent.

TABLE 16 NATIONAL EXISTING HOME SALES	THIRD QUARTER 2011 U.S	NORTHEAST	MIDWEST	SOUTH	WEST
2006	6,478,000	1,086,000	1,483,000	2,563,000	1,346,000
2007	5,652,000	1,006,000	1,327,000	2,235,000	1,084,000
2008	4,913,000	849,000	1,129,000	1,865,000	1,070,000
2009	5,156,000	868,000	1,163,000	1,914,000	1,211,000
2010	4,908,000	817,000	1,076,000	1,861,000	1,154,000
September 2011 p *Annualized Basis	4,910,000	790,000	1,090,000	1,890,000	1,140,000

The national inventory of homes is given in Table 17. As of June 2011 the inventory backlog is estimated to be 9.2 months. In 2006 the national supply of homes was only 6.5 months.

TABLE 17 NATIONAL INVENTORY	THIRD QUARTER 2011 INVENTORY	MONTH SUPPLY
2006	3,450,000	6.5
2007	3,974,000	8.9
2008	3,700,000	10.4
2009	3,283,000	8.8
2010	3,560,000	9.4
June 2011 p	3,717,000	9.2

Table 18 presents the national affordability index. Low interest rates and falling home prices have greatly improved the affordability of homes. The preliminary estimate for 2011 of 183.7 means that a household earning the median income has 183.7 percent of the income necessary to qualify for a conventional loan covering 80 percent of a medium-priced existing single-family home. The higher the index, the more affordable housing is becoming for the typical family.

TABLE 18 NATIONAL AFFORDABILITY INDEX	THIRD QUARTER 2011 MEDIAN PRICED EXISTING SINGLE FAMILY HOME	MORTGAGE RATE	MONTHLY P & I PAYMENT	PAYMENT AS A % OF INCOME	MEDIAN FAMILY INCOME	QUALIFYING INCOME	COMPOSITE
2007 r	217,900	6.52	1,104	21.7	61,173	52,992	115.4
2008 r	196,600	6.15	958	18.1	63,366	45,984	137.8
2009 r	172,100	5.14	751	14.6	61,845	36,048	171.6
2010 r	173,200	4.89	735	14.3	61,583	35,280	174.6
September 2011 p	168,400	4.69	698	13.6	61,553	33,504	183.7

P&I = Principal and interest

Composite = measures affordability. For example for the year 2011, the index of 183.7 means a family earning the median family income has 183.7 percent of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home.

Table 19 displays data on state and local area median prices. For the most part the state of Wisconsin and local area prices has been more stable than the U.S. as a whole. In Central Wisconsin the lowest median home price is in Wood County at $92,600. Portage County has the highest medium price of $136,000 and Marathon falls somewhere between other the two counties, with a medium house price of $114,000.

TABLE 19 LOCAL AREA MEDIAN PRICE	WISCONSIN	MARATHON	PORTAGE	WOOD
2008	$154,000	$134,500	$135,000	$94,000
2009	142,500	126,800	132,000	94,500
2010	141,000	123,000	132,375	97,000
2011	132,682	114,000	136,000	92,600

Table 20 gives the number of local housing units sold. The state and the counties of the region have all experienced substantial declines in the number of units sold. Home sales on a yearly basis have contracted by approximately 38 percent in Wisconsin over the past four years.

TABLE 20 LOCAL UNITS SOLD	WISCONSIN	MARATHON	PORTAGE	WOOD
2008	54,924	1,142	533	652
2009	55,132	1,090	532	714
2010	51,263	1,074	474	620
2011	36,828	727	329	398

Tables 21 and 22 present the changes that have taken place in the local median prices and units sold, and compare second quarter 2010 to second quarter 2011.

TABLE 21 LOCAL MEDIAN PRICE	SECOND QUARTER 2011 MARATHON	PORTAGE	WOOD
Second Quarter 2010	129,000	164,695	91,000
Second Quarter 2011	118,000	132,000	113,900
Percent Change	-8.5%	-19.9%	25.2%

TABLE 22 NUMBER OF HOME SALES	SECOND QUARTER 2011 MARATHON	PORTAGE	WOOD
Second Quarter 2010	132	70	74
Second Quarter 2011	109	47	77
Percent Change	-17.4%	-32.9%	4.1%

Measuring Entrepreneurial Activity as Potential Measure of Job Growth

UWSP Small Business Development Center
Vicki Lobermeier, SBDC Director of Entrepreneurship Activities
Mary Wescott, SBDC Counseling Manager

In recent months, the Ewing Marion Kauffman Foundation released data showing that while more firms than ever have been created each year since the current recession began, the small businesses are not creating as many jobs per start. In the 1990's, Bureau of Labor Statistics data showed that new businesses opened their doors with an estimated 7.5 jobs on average, compared to 4.9 jobs per new establishment today. Businesses are starting out smaller and staying smaller. Kauffman studies demonstrates that this trend pre-dates the recession. In response the Kauffman Foundation has put together a startup act proposal encouraging more high-growth small business startups. Information on the Kauffman studies and proposal can be found at

http://www.kauffman.org/Section.aspx?id=Entrepreneurship

Among the attributes to record and measure, the Kauffmann Index of Entrepreneurial Activity suggests measuring

- **New Business Development** – New incorporations and LLC formations
- **Access to Capital** – US Small Business Administration Loans

We'll use these measures to compare entrepreneurial activity in the Portage, Marathon and Wood Counties for the period (1Q – 3Q) of 2010 compared to the same time period in 2011.

Please note that New Business Development includes only separate legal entities of LLC and Incorporations and does not include formations of sole proprietors.

New Business Development

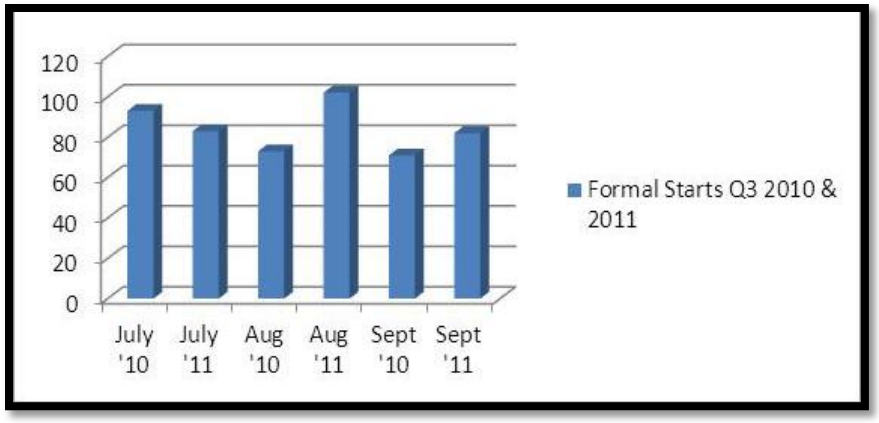
Q1 – Q3 2010 showed a total of 736 new business entities created. The numbers of sole proprietorships created during any period is unknown.

Q1 – Q3 2011 shows a total of 776 new business entities created. This is an increase over the same time period in 2010. The most starts during the two periods were filed during Q2 2011.

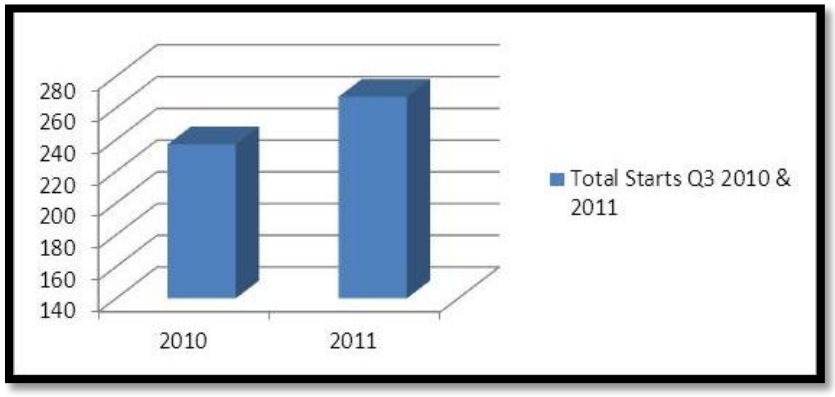
Access to Capital

In our 3-county region, over 18 M in SBA loans were issued Q1-3 in 2011 compared to 13.7 in Q1-3, 2010, an increase of 4,372,000 in 2011. The number of loans was fewer in 2011, but the overall capital infusion amount into the marketplace was much greater. The quarter with the largest loan amount was the most recent, Q3 of 2011.

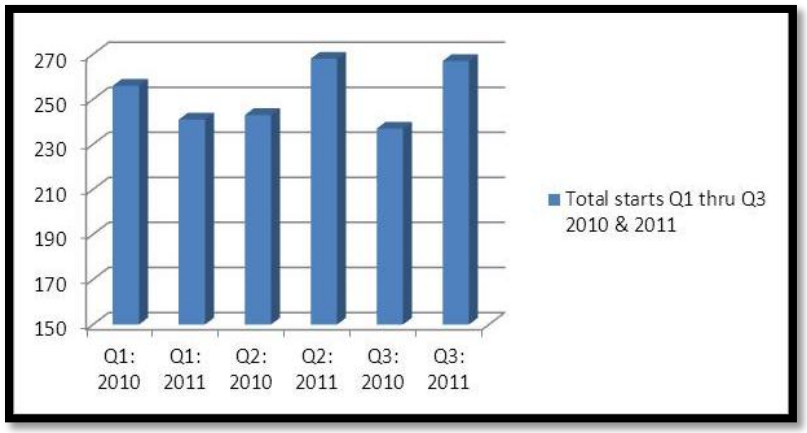
Formal Starts Q3: 2010 & 2011



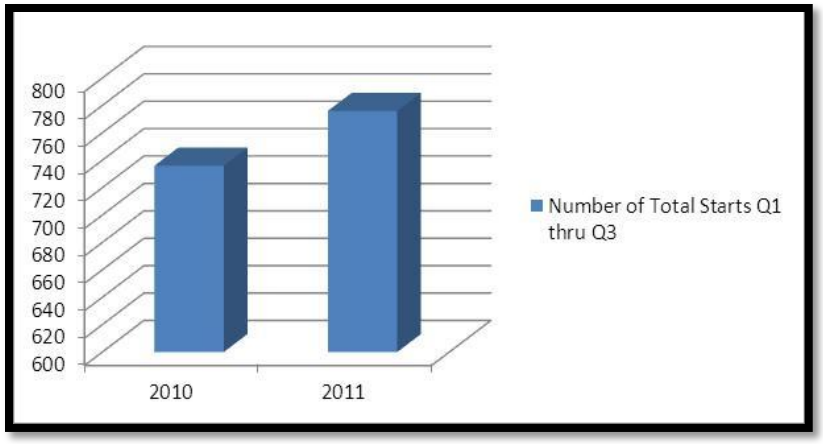
Total Starts Q3: 2010 & 2011



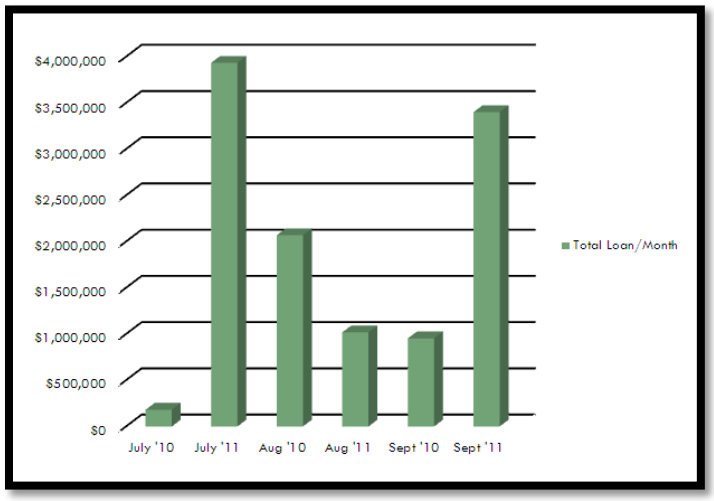
Total Starts Q1 thru Q3: 2010 & 2011



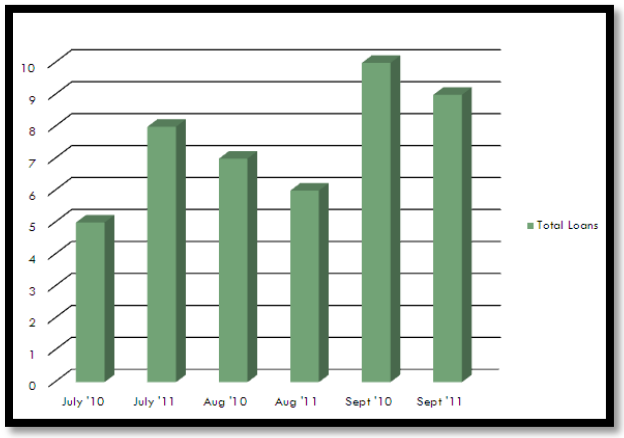
Number of Total Starts Q1 thru Q3



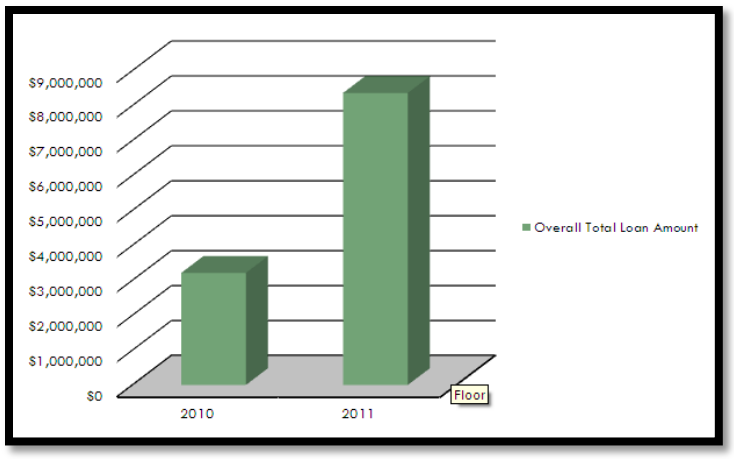
Total Loan Amount/Month



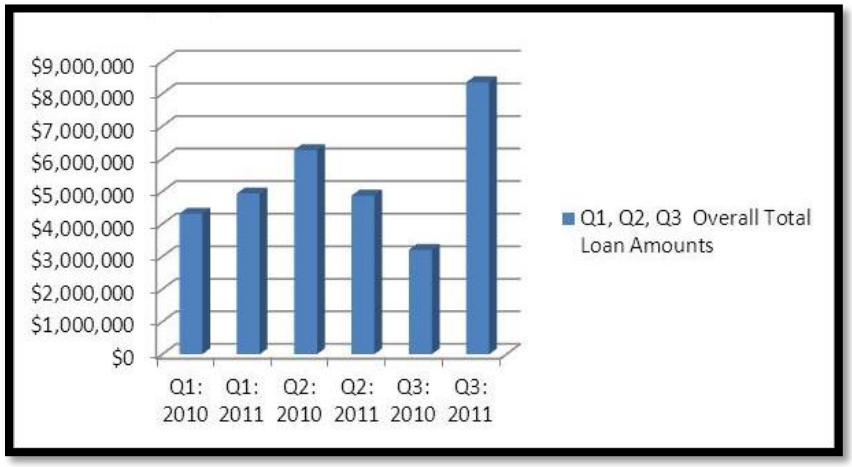
Total Number of SBA Loans



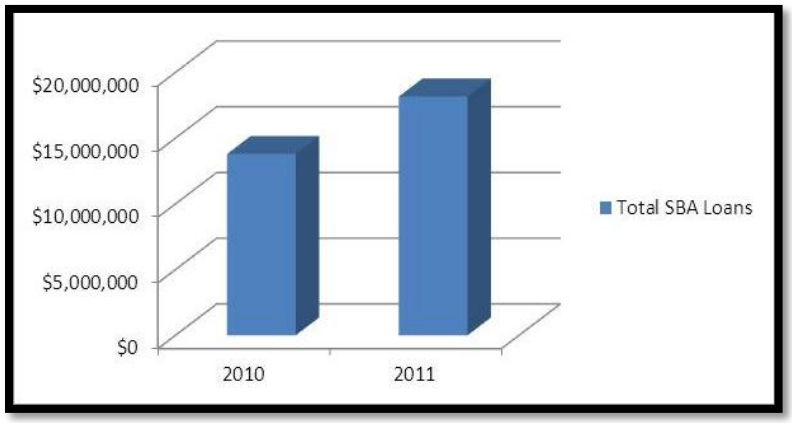
Overall Total SBA Loan Amount – 3rd Quarter 2011



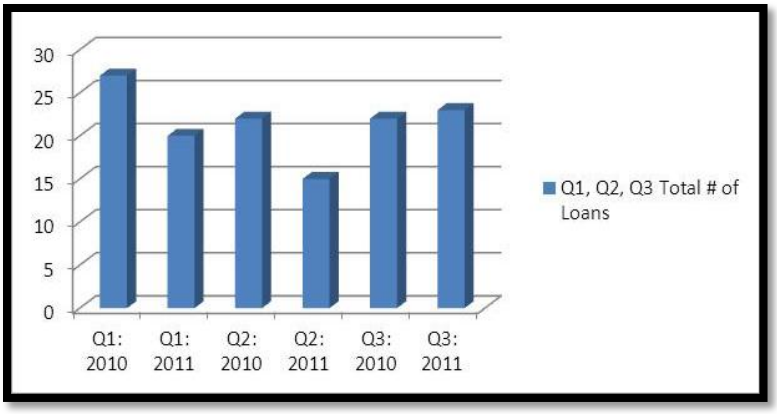
Q1, Q2, & Q3 Overall Total Loan Amounts



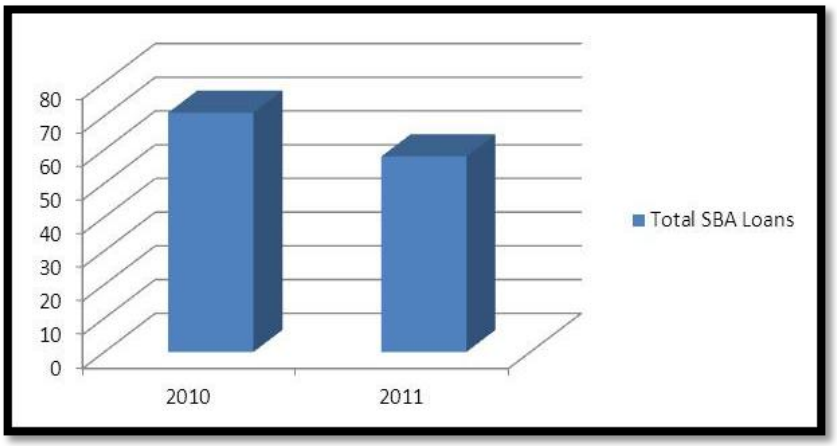
Total Loan Amounts Q1 thru Q3



Q1, Q2, & Q3 Total Loans

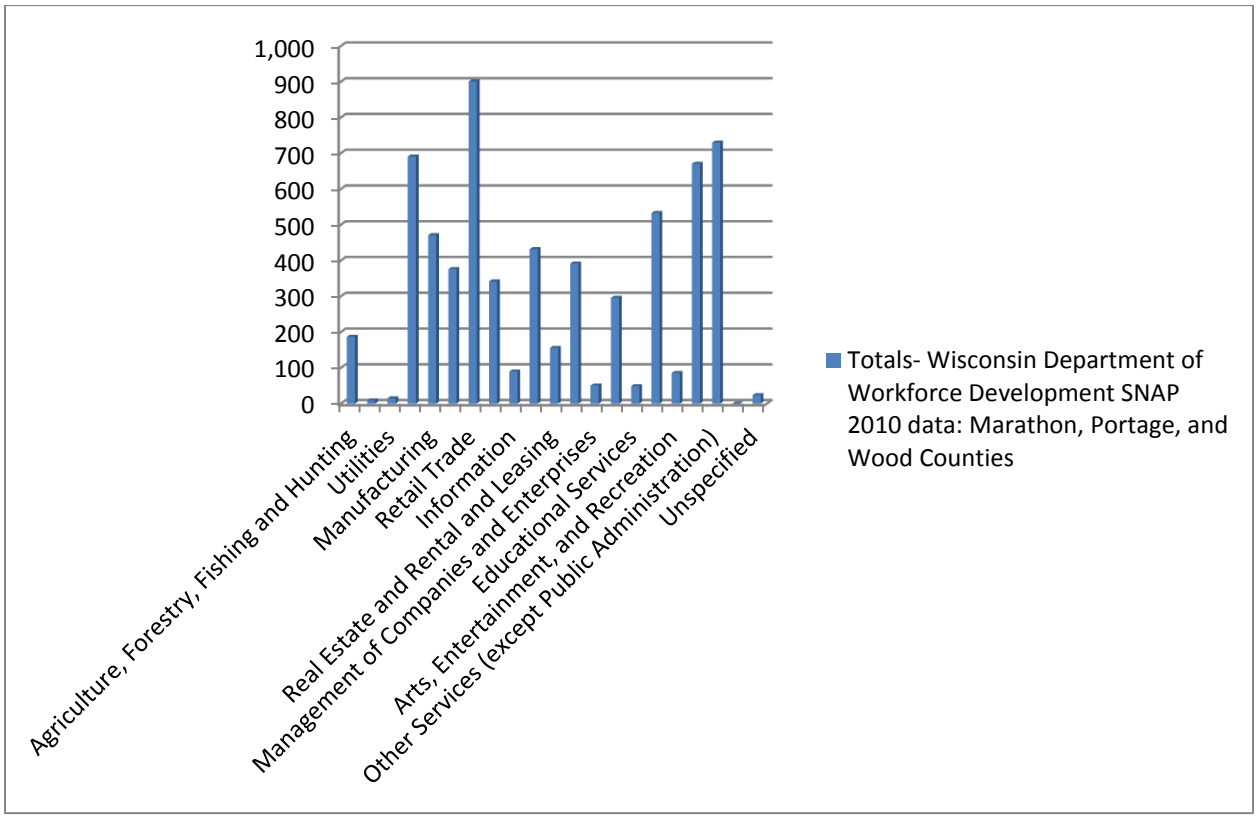


Total Loans Q1 thru Q3



Totals – Wisconsin Department of Workface Development

SNAP 2010 Data: Marathon, Portage, and Wood



Business Modeling: A new tool to encourage entrepreneurial activity and new venture creation

By: John Leschke

Introduction

"You don't have a business, until you have a business plan!"
"Show me your business plan!"

How many times have we heard these statements or variations on this theme? The business plan document has taken on an aura of a "rite of passage" or "the" major hurdle to clear on the way to launching a new venture.

But what does an aspiring entrepreneur exploring a variety of opportunities do? Or an existing business deciding which new market to enter or new product line to add?

Does it make sense to invest the time and effort to develop a business plan for every option? Or just take an educated guess as to which direction to pursue without a thorough examination of the alternatives and their implications?

For those caught in this dilemma, an answer can be found in business modeling. Business Modeling is a process of documenting the key assumptions across a broad set of strategic and tactical components. The resulting Business Model should be sufficient to compare and contrast competing opportunities and make a determination as to which alternative is best to carry forward to the Business Planning stage. With a little practice a number of very comprehensive Business Models can be developed over the course of several hours instead of the several weeks or months required to develop a detailed Business Plan.

Formal Business Modeling methods are relatively new. This presentation introduces one approach that I have developed at the University of Wisconsin-Stevens Point. I have incorporated it into my introductory entrepreneurship classes with great success. Novice entrepreneurs are able to quickly grasp the scope of issues to be considered and are capable of, within a very short period of time, assess a number of business opportunities and determine which, if any, is worthy of further development.

This report describes the sixteen essential components of a Business Model, introduces the Business Model Mapping tool, and illustrates the process using a case example. The insights gleaned from this presentation are relevant to entrepreneurs, business advisors, investors and non-profit organizations; as well as existing firms considering new lines of business.

The Entrepreneurial Imperative

Based on a quick scan of the popular press, entrepreneurship and new business creation seem to be the most popular solution to reviving our anemic economy. New resources promoting and supporting entrepreneurs seem to pop up in the headlines every day:

- "Startup business help offered" Central Wisconsin Business, September 26, 2011.
- "Business programs sprout up in colleges" Green Bay Press Gazette, August 20, 2011.
- "Long-awaited Startup America opens for business" Wall Street Journal, September 26, 2011.
- "… 2010 startup rate remains highest in 15 years…" KauffmanFoundation.org, March 7, 2011.

Nevertheless, the 2010 Kaufmann Index of Entrepreneurial Activity[1] shows that Wisconsin ranks third from the bottom in new business created in 2010; at a rate of 0.18 percent versus the national average of 0.34 (0.18 means 18 new businesses per month were created per 10,000 adults). Its average rank over the past 14 years is 32nd. The worst state in 2010 was West Virginia (0.17); the top 15 states had rates between 0.36 and 0.51.

While many factors contribute to variations in entrepreneurial activity between states—individual dispositions, opportunity, necessity, resources, cultural differences, population shifts, etc.—it is clear that the state of Wisconsin lags its peers on this dimension. This paper does not attempt to explain why but does put forth an idea that may increase the number and quality of ideas translated into business plans and ultimately lead to more actual startups.

Business Modeling

Business modeling is a relatively new concept, only being formalized in the past few years. Based on his 2004 doctoral thesis[2], Alexander Osterwalder developed the Business Model Canvas around 2008[3] and published a best-selling book in 2010[4]. The purpose of a business model is to efficiently, yet comprehensively, describe "the rationale of how an organization creates, delivers and captures value.[4]" It is not intended to capture all the detail and depth commonly found in a business plan. Nevertheless, it should still be sufficient to communicate a fairly clear vision of how an idea might be translated into a business. Thus, it is sufficient to compare, contrast and critique competing approaches (e.g., an on-line retailer vs. a physical retail storefront).

Osterwalder's Business Model Canvas[5] includes nine business model building blocks:

1. Key Activities – the most important activities in executing the value proposition.
2. Key Resources – the resources necessary to create value for the customer.
3. Partner Network – relationships considered essential to accomplishing the value proposition
4. Value Proposition – the goods and services offered and their distinguishing advantage
5. Customer Segments – the specific target market(s) intended to be served
6. Channels – the proposed channels of distribution
7. Customer Relationship – the type of relationship the firm wants with its customers
8. Cost Structure – characteristics of the costs structure
9. Revenue Streams – the way the company will make money, how it is paid and pricing

Prior to Osterwalder's concept, business models tended to be classified into general categories and designated by a simple catchphrase (e.g., bricks and clicks; on-line content provider, low-cost producer, razor and blades, etc.). With his nine building blocks a more detailed and nuanced version of a business model can be defined. Osterwalder envisions the model as a hands-on tool to foster understanding, creativity, discussion and analysis.

The Business Model Map

The need for a Canvas-like framework arose while teaching an introductory entrepreneurship course for students with little prior business knowledge. Students from all disciplines—communications, health and wellness, interior design, the fine and performing arts, as well as business—were encouraged to enroll. The traditional "business plan" framework was inappropriate for this audience; given their limited background—something equally comprehensive but simpler, higher level and easier to construct was required. It was also important that the new framework integrated the pre-business planning activities of idea generation and concept development, as well as incorporated the aspect of the "entrepreneur as an individual." After several iterations of an independently conceived model, then incorporating Osterwalder's work, the Business Model Map framework evolved.

The 16 Components

The Business Model Map introduced in this paper extends Osterwalder's work, adding some new building blocks and dividing others into more distinct parts. The Map identifies sixteen "components" of a Business Model. Entirely new components include Entrepreneurial Fit, Role/Position in the Value Chain and Intellectual Property while others like Operating Activities and Marketing Activities represent a more precise distinction of Osterwalder's Key Activities.

The table below shows how the Business Model Map components correspond to the Business Model Canvas building blocks.

Business Model Map (Leschke 2011)	Business Model Canvas (Osterwalder, et al. 2010)
1. Value Proposition a. Essential Means b. Essential Need	Value Proposition
2. Entrepreneurial Fit a. Starting Position b. Personal/Technical/Strategic Fit c. Exit Alternatives	
3. Role/Position in the Value Chain	
4. Target Market/Customer	Customer Segments
5. Products/Services	Value Proposition
6. Channels of Distribution	Channels
7. Revenue Streams	Revenue Streams
8. Costs and Expenses	Cost Structure
9. Operating Activities	Key Activities
10. Key Suppliers and Partners	Partner Network
11. Resources and Assets	Key Resources
12. Intellectual Property	
13. Marketing Activities	Key Activities
14. Customer Relationships	Customer Relationship
15. Product Alternatives	
16. Industry/Economic Environment	

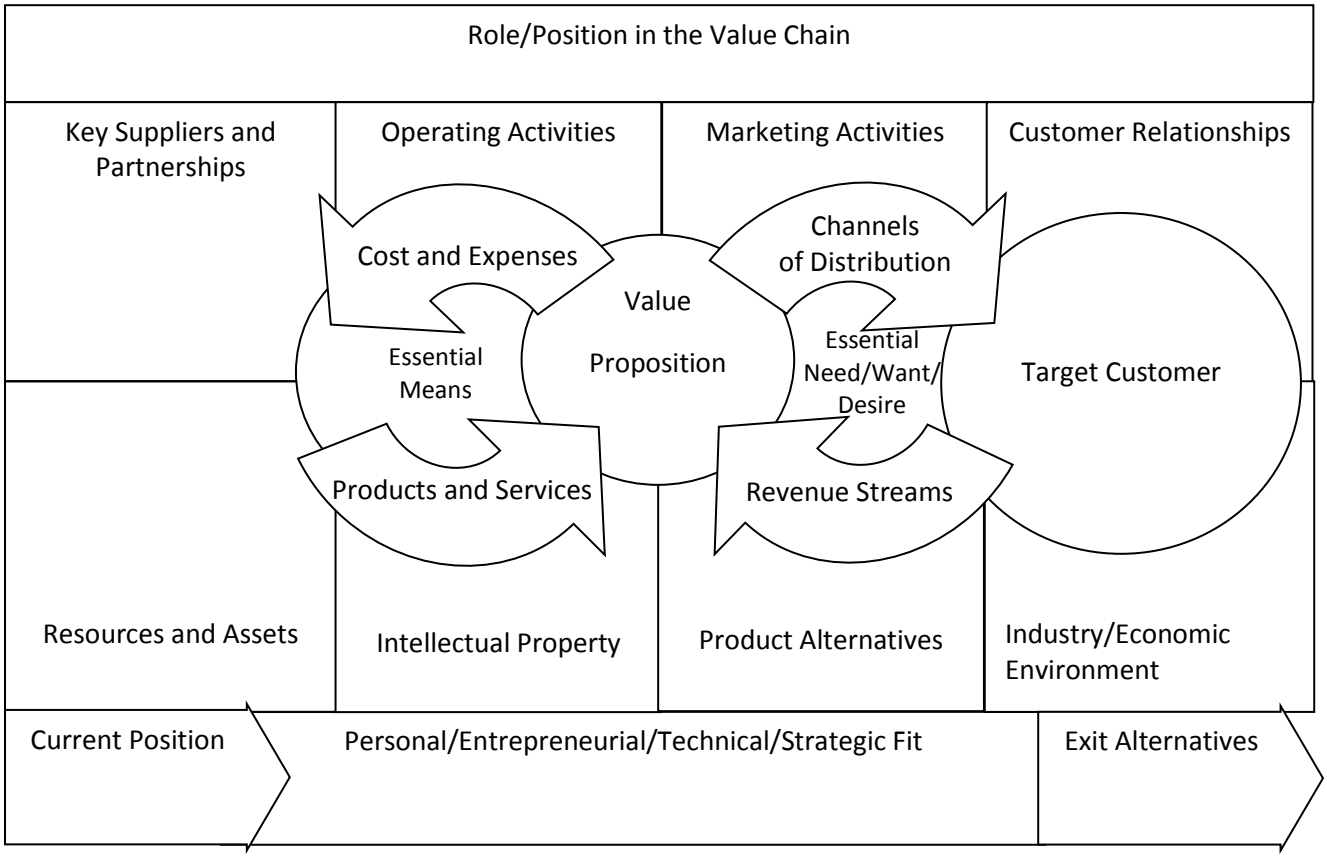
The additional components call on the entrepreneur to consider a more complete set of issues. Entrepreneurial Fit demands the entrepreneur to reflect on his personal strengths and limitations, ambitions and goals, personal values and lifestyle objectives. Since the process of building a business is both a personal as well as a professional journey, it is critical the entrepreneur himself be included in the model assessment. Similarly, if the model is for expanding an existing business, it is important to consider the firm's history, strategy and competencies.

Describing the role in the Value Chain is important for perspective. By noting where the value proposition falls within the overall value chain, the modeler can hopefully better define the value added, product and service characteristics, channels, target market and other components, but also see where the idea fits into the larger scheme of value creation. Perhaps, this stepping back for a higher level view may lead to identifying a new model to consider at a different value-adding stage. For example, an entrepreneur initially intent on opening a retail coffee shop might

consider the alternatives of being a wholesaler, roaster, franchisee or importer which may, in fact, be more profitable, lower risk and a better entrepreneurial fit.

Intellectual property is important to consider if there are substantial intangible assets currently in place or required for the model to be successful. Explicitly noting a wealth or a gap of intellectual property complements the assessment of Fit. It can also suggest examining alternative business models such as licensing, consulting or selling property rights.

Adding Product Alternatives and Industry/Economic Environment components to the Map fill out the analysis by incorporating four major elements of business strategy: product substitutes, rivals, other threats, and dynamics in the external environment.



The graphical representation of the Business Model Map is shown in the figure above. A table with working definitions and question prompts for each of the sixteen components is included as an Appendix.

Like the Business Model Canvas, the Map can be enlarged and laid out for a group to mark up or apply notes. Alternatively, the sixteen components can be presented in a table format. The

tabular format is very effective for summarizing the results in an efficient and compact way, as demonstrated in the following example.

An Illustrative Example: Business Models for a Coffee Shop

The corner coffee shop is a very familiar business model and serves as a good example to illustrate the Business Model Mapping tool. The process begins by capturing the essential idea – a coffee shop—then annotating the Map with short bullet points describing key assumptions, intentions or implications for each component. See the Appendix for explanation and clarification of each component.

There is no prescribed sequence to business modeling—it is a non-linear, iterative process; however, working through the components in the general order presented in the table has a logical flow and most likely speeds the process. In this case, the entrepreneur has identified two approaches for entering the coffee business: a small café and an outdoor kiosk.

Business Model Map Components	**Café Model**	**Kiosk**
1. Value Proposition a. Essential Means b. Essential Need	• A café offering fine coffees and espresso-based drinks in a warm welcoming atmosphere	• A kiosk offering fast and convenient hot coffee and espresso drinks for people on the go
2. Entrepreneurial Fit a. Starting Position b. Personal/Technical / Strategic Fit c. Exit Alternatives	• No prior restaurant experience • Changing careers • Enjoys meeting people • Enjoy the business then sell in a few years	• No prior restaurant experience • Changing careers • Enjoys meeting people • Enjoy the business then sell in a few years
3. Role/Position in the Value Chain	• Final production step and direct delivery to customer	• Final production step and direct delivery to customer
4. Target Market/Customer	• People seeking a place to relax and enjoy a conversation or just a cup of coffee	• Professionals on the go, on coffee break, between meetings or on an errand
5. Products/Services	• Coffee, tea, espresso, smoothies, pastries, bulk coffee, iced drinks, t-shirts and coffee-related gifts	• Hot coffee and espresso drinks, to go snacks, soft drinks and water
6. Channels of Distribution	• Café in upscale business district, shopping district or neighborhood	• Kiosk in high traffic location
7. Revenue Streams	• Sales of products • Premium pricing • Cash, credit and loyalty cards • High volume required	• Sale of drinks • Competitive/affordable pricing • Cash and prepaid punch cards • Limited capacity and volume
8. Costs and	• Coffee and food, milk, staff,	• Coffee and food, milk, outdoor

	Expenses	utilities, lease, laundry, insurance, high fixed costs, high margin	space rental, wages, low fixed and variable costs, high margin
9.	Operating Activities	• Drink preparation, table service, cleaning, maintenance, scheduling, purchasing, stocking inventory and merchandise, opening and closing	• Drink preparation, transportation and setup, teardown and cleaning, maintenance, purchasing and stocking kiosk, seasonal prep and shutdown
10.	Key Suppliers and Partners	• Landlord, coffee supplier, other vendors, health department, neighboring businesses	• Coffee supplier, kiosk vendor, equipment maintenance firm, licensing and permitting agencies
11.	Resources and Assets	• Personal Savings, furniture, fixtures and equipment, inventory	• Kiosk and brewing equipment
12.	Intellectual Property	• Brand, name and trademark, logo, knowledge of coffee, location, specialty drinks, menu, atmosphere, décor, barista skills	• Location, coffee making, barista skills, customer service skills, specialty drinks
13.	Marketing Activities	• Signage, print media, website, promotions, events, advertising, sponsorships, coupons	• Signage, word of mouth, coupons, Twitter promotions
14.	Customer Relationships	• Personal, loyal, face to face, professional, yet friendly, repeat customers, sense of affinity to café	• Personal, friendly, face to face, repeat customers
15.	Product Alternatives	• Home brewing, nearby cafes, non-coffee beverages	• Home brewing, office break rooms, nearby cafes, soft drinks
16.	Industry/Economic Environment	• Coffee culture, limited disposable income	• Coffee as a pick-me-up, faster pace of life

This example illustrates the relatively low level of detail and specificity necessary to effectively capture the key characteristics of each approach. The differences are highlighted and implications of each are apparent. In just a short time (constructing this example took 45 minutes), an entrepreneur can comprehensively capture the implications of pursuing a business opportunity in a particular way and make an more than reasonably informed assessment of its potential risk and reward.

Other Applications

The same process can be applied by established firms. Business Model Maps can be prepared to evaluate introducing a new product or line, entering a new market or adding another channel. Mapping could be used to examine the implications of entering a business at different stages of the value chain (i.e., manufacturer or seller). It can also be used to decompose an existing business into its component business models and permit management to more clearly see and exploit synergies and economies between new or existing opportunities.

This notion—that a firm can be conceptualized as multiple overlays of various business models—is particularly useful to the new entrepreneur looking ahead to developing a business plan. Having a set of alternative approaches to entering a market, the entrepreneur has the capability to create a plan in which the enterprise grows over time by incrementally laying on additional models. This approach makes business planning more flexible (and realistic) in the sense that the execution plan can be presented in terms of business model segments and achieving certain milestones, rather than a single long-term vision and a single aggregation of business models. This contingency approach allows the plan to be implemented as events transpire and opportunities present themselves without necessarily needing to prepare a new business plan.

The same benefits apply to other participants in the business development process. Investors and lenders can better advise and assess risk. Business development teams can better define the scope and objectives of a particular project.

Business Model Mapping is equally applicable to non-profit situations. In one case, a local, non-profit organization dedicated to promoting sustainability, small-scale agriculture and healthy eating had a narrow window of opportunity. A property with an abandoned greenhouse in the heart of the city was to be sold by the bank. Before soliciting offers from developers, the bank offered the non-profit the opportunity to buy the property at a below market price. With very limited time, the organization scrambled to find the funds and purchased the site. In less than two months, the non-profit closed on the property.

Concurrent with the negotiations to purchase the property, meetings with potential donors were taking place. On several occasions, donors explicitly asked to see a business plan before they would consider a gift. Given the rapid unfolding of events there was no time to write a meaningful business plan.

In this case, the opportunities were endless. There was so much potential. Narrowing down the possibilities in a formal business plan was impractical at this stage. Clearly, before any further decisions could be made a major concept development and assessment process was needed. Yet, progress on the project was stalled until more funds could be acquired.

This case highlights the importance of an efficient and effective methodology for generating ideas and evaluating opportunities. An initial brainstorming session yielded dozens of appealing uses for the greenhouse property—there was no way to create a meaningful and executable business plan that captured the long term vision imagined by the project participants. Without a means to document the requirements and implications of pursuing each idea, it would be nearly impossible to reach a consensus on implementation priorities. The leadership was overwhelmed.

After a workshop introducing the Business Model Map and Mapping process, the feeling of hope in tackling this problem were palpable. Small work groups were assigned to map different opportunities without judging whether they might be in the business plan or not. In this way, every member had the opportunity to present their idea, share it with others, and feel satisfied that it received a fair hearing. After all the maps were completed the leadership began the process of sifting through the alternatives, setting priorities, laying out implementation stages and determining resource requirements over a realistic planning horizon.

Summary

Business Modeling and its accompanying Business Model Map can be a powerful tool in developing and evaluating business opportunities before a formal business plan is prepared. The methodology is broadly applicable—for new ventures or established business, for non-profit and for-profit organizations, for incremental adjustments to business strategy or major departures into new markets. Business modeling can rapidly document and evaluate a large number of opportunities making it vital to firms in fast-moving markets or high-technology environments.

Coupled with the resources and new programs promoting and supporting entrepreneurs and entrepreneurship, Business Modeling has the potential to speed development and shorten the time between conception and launch. Business Modeling is not a substitute for business planning—training and education in business planning is still necessary—but Business Modeling should also be part of an entrepreneur's education. For example, Small Business Development Centers supported by the SBA and other agencies could include Business Modeling in their course offerings, even making it a pre-requisite to Business Planning.

Anecdotal evidence suggests venture capitalists fund only one-in-ten proposals. Therefore, there are nine aspiring entrepreneurs and nine potential business starts. It may or may not be that Wisconsin is less entrepreneurial-minded, but it is likely there is a pool of entrepreneurial-minded individuals in the pipeline actively searching for the right opportunity. Business modeling has the potential to speed this process, connecting entrepreneurs to their right opportunity—m ore ideas, better ideas—more options, better plans—better plans, more business starts.

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Appendix: Business Model Mapping Component Descriptions

Business Model Map Components	Component Descriptions
1. Value Proposition a. Essential Means b. Essential Need	• What is the nature of the value provided for which the customer is willing to pay? o What are essential characteristics of the means or method employed? o What are the defining needs, wants or desires being met?
2. Entrepreneurial Fit a. Starting Position b. Personal/Technical / Strategic Fit c. Exit Alternatives	• What is current situation? • Fit with the entrepreneur's … o Ambitions and goals? Attributes and competencies? Managerial expertise? • Fit with the existing business' … o Technical and managerial experience? Strategic objectives and goals? • What are the exit and harvest options?
3. Role/Position in the Value Chain	• What is the value adding activity? o Extraction? Processing? Fabrication? Transportation? Wholesale? Retail?
4. Target Market/Customer	• Who is the target customer or market? o Demographics? Needs? Wants? Desires? Sources of pain? • What is the customer's buying behavior? o Order-winning criteria? Order-qualifying criteria?
5. Products/Services	• What products and/or services are offered? o Differentiating characteristics? Mix? Functions and features? • What research and design infrastructure is required?
6. Channels of Distribution	• What are the channels for distributing the product or service? o Retail? Wholesale? Distributors? Online Storefronts?
7. Revenue Streams	• How will the business make money? o Subscription? Commission? Direct sale, etc.? • How is the product priced? • How is the transaction executed?
8. Costs and Expenses	• What are the major cost and expense components? o What categories are unique to this model? Require close management?
9. Operating Activities	• What operating activities are critical to this business model? o Product design? Logistics? Production? Transaction processing? o Quality? Flexibility? Cost? Speed?
10. Key Suppliers and Partners	• Who are the key suppliers and upstream partners? o Joint ventures? Contractual relationships? Vendors? Networks?
11. Resources and Assets	• What resources or assets are critical to implementing the business model? o Plant and equipment? Human capital? Infrastructure?

12. Intellectual Property	• What intellectual property is essential to the business model?
	  o Distinctive competencies? Patents? Trade Secrets?
	• How much additional research and development is required?
	  o Critical milestones? Resources required? Timeframe?

13. Marketing Activities	• How are the products and/or services to be marketed?
	  o Product Features and Attributes? Pricing, Placement and Positioning?
	• Selling methods and strategy?
	  o Advertising and Promotion? Media? Branding?

14. Customer Relationships	• What kind of relationship between the customer and the company is desired? o Face-face? Online? Professional? Personal? Social Media?
15. Product Alternatives	• What alternative exist to address the customers' needs, problems or desires? o What are their comparative advantages? Disadvantages?

16. Industry/Economic Environment	• What are the relevant industry, market, technological, and cultural trends?
	  o Growth and Expansion? Contraction? Rules and Regulations?
	• What broad economic trends or factors are relevant?
	  o Income Levels and Spending Patterns?