

Rural business trends and

By Carlton Smith
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On the television program *CBS This Morning*, which touts itself as breakfast for your head, this hour is early to be at home, mind you. And having been raised in rural Alaska myself, 7 a.m. for any kind of meeting is sort of uncalled for, right? But when I was asked to speak to you about the trends in rural business for the 90's, I took the assignment from the beginning, knowing full well most folks just aren't motivated to move much at this hour.

I want to share with you a very recent experience I had in travelling to Northwest Alaska and my contact with two business owners who have clear focus on where they are



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going and growing in their own markets. I stayed at a friend's home just a few weeks ago when the family called a local restaurant for me and placed an order for dinner over the phone. This only took a minute, and when I asked how long this would take, his response was, "let's synchronize our watches--you'll be amazed at this--" Just 14 minutes later, a shiny van drove up the drive, a knock at

the door revealed the restaurant owner with the order to be delivered. He came inside, as it was 25 below zero, put the insulated delivery container on the counter, took my money and said on his way out the door--"Give us a call if you need anything more--we are minutes away with the best food in town."

A bed and breakfast owner in another location told me over Labor Day his business had been doubling each year for the last three years. My questions was, "How do you advertise your operation?" He told me three years ago *Sunset Magazine* had run a two-liner copy about his home-grown business and characterized it as a personal tour of the area includes a hotel room. Since then, travel agents sought him out, indicating their clients wanted "the true Alaskan

experience" as a part of their trip.

Just exactly what has made this family's bed and breakfast operation special? The owner picks his guests up in an old vintage Lincoln Town car remarking, "By the time the tourists get to me, they have seen and ridden in every 12-passenger van imaginable, and they tell me they hate the things." Next, they are given a local tour, and end up at the house, which was his family's home since statehood. Each feature of the house has a history, which he shares if they wish then on an optional tour, this entrepreneur gives the traveller a chauffeured trip covering local history, Native culture, a taste of his own subsistence caught smoked fish, and some imported cider if they wish. "It's like showing your in-laws your home", he said. And I get paid for it, too. This particular owner has now operated for eight years, and wants no more growth. "We've reached the point where if we grow much more, it won't be fun anymore", he said.

These are examples of two rural business owners who are making the extra effort. They see the business trends that will have dramatic impacts on all of us who own and operate businesses in rural Alaska. These are the business owners who are taking action now in order to protect their "niche" as changes occur.

What I would like to do is share some trends that are quietly but radically changing the way we all do business in and with rural Alaska. It is my hope you benefit from at least one of these observations. The main idea is as a result you might go away with at least one idea about how to position your business owner, and you personally face the risk and potential rewards of business ownership, it is extremely difficult to "understand" business as a concept. You have to jump in and do it. Let's take a look at what might occur and see how we might all benefit from the changes taking place.

Let me tell you about five major trends for rural small business are emerging statewide. And for each, I would like to follow by telling about ways your business may profit from these trends. Five trends rapidly emerging are:

No. 1: Alaskan consumers will move from using small business to larger businesses and back again for one principal reason: they will again value the relationships with the people who provide

them with service.

It is interesting today on a national basis, major financial service firms are making a pitch to "get to know you first" before selling their products approach. As we have seen, the so called "bigness" advantage of using large financial service firms can lead to distaste for investors, and a loss of personal service just as easily as it can with small business vendors. After all, who knows rural Alaska better than rural Alaskan business owners?

As a business owner, you have already seen what we are going through here in urban Alaska. "Eagle Hardware--it will change your life", a friend told me recently. The larger firms, while they can offer price incentives to rural consumers, they don't and won't really get to know them over time. Knowing your business vendors in Alaska will remain important. And this fact will be borne out.

In order to ready your business for this trend, it is important you put into place simple systems of keeping in contact with your customers. Key among these ideas is to develop a basic direct mail system with your local customer base. Since you will have most of the main customers you deal with on a first name basis, this type of extra marketing effort will enable you to keep in touch with them on a scheduled basis. Where will your large business competitors start to develop a mailing list besides starting with Boxholder as a personal address? As the local business person, or representing a local corporation, make these personal relationships work for you. The trend again will be for your customers to be wooed by big business offering price point and selection. But it will be these relationships bringing them back.

A second part of this trend is for increasingly rural businesses to be very concerned with how much of the local market they can capture. If you do not know what percentage of your local market for your products your business does capture, make it a priority to find out. In local economies "flat" to declining, you must have a firm idea of how you are picking up or maintaining your market share. Larger businesses call this "a strategic position" in the market from which planning can be carried out. Smaller businesses, when they know their market position, will call this their "survival line"--this is the break-even or profit point from which your next moves must be designed.

Profit strategies for the '90's

Trend No.2 is to recognize the way we look at employees will change radically during the 90's. Up until this point, maximum employment of skilled workers has meant hiring local workers, transients from other locations, and training and re-training these work forces during our start up times was just the way people got employed in rural Alaska.

Today, with increased costs of providing benefits and offering training to employees, and the sharpened competition, you will begin seeing rurally based companies decide that they can no longer afford high turnover. The result? A trend is emerging quickly where employers will begin to focus on a trained work force who can be retrained from year to year. From season to season. Locals are finding themselves locked out of work and lacking the right skills, only to be replaced by those coming to rural Alaska and picking up these jobs which do not exist in Alaska's larger cities.

A major employer in a small Oregon city told me "Someone has to die in order for a slot to open on the day shift." The Oregon analogy is real. The Rural Alaska comparison makes employing local residents an immediate issue.

The tragic and expensive result of this trend will be seasonal, and often lucrative employment opportunities for residents in rural Alaska will FOREVER be dominated by an "outside" labor force. And its happening now. This year, this month, in your community.

The most effective strategy to profit from this trend as an employer will be to consider recruitment and training of a skilled local labor force one of your prime priorities as a business. Because it is. And tell your local job candidates this. Over and over again. You must emphasize hiring needs well ahead of time in order to secure local employees to help minimize turnover. All of this will develop as local economies in rural Alaska continue to suffer from some of the highest employment rates in the country. Again, the recruitment and training of local workers will see a huge and renewed emphasis during the decade.

For business owners willing to devote time to structured training programs, there will be numerous opportunities for companies to employ local residents as a part of both union and non-union training efforts. The strategy here will

be to achieve the cost saving we talked about earlier, and reduce the expense of turnover.

Trend No. 3 will see a huge wave in the amounts of new set aside programs available for

companies positioned to do government contracting as minority contractors. Under the new Clinton Administration, the Depts. of Defense, Interior, Health and Social Services, and others are gearing up to focus

on increasingly radically the number of set aside programs *targeted at businesses with minority ownership.* THIS WILL START A TREND OF BUSINESS ACQUISITIONS & MERGERS.

This month in Washington, the National Indian Policy Forum will take up some of the "opportunity" issues. This group will identify specific recommendations for programs, *Continued on page 8*

• Companies rejecting get rich quick schemes

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policy, regulatory, administrative and legislative changes for consideration by the Clinton Administration and Sec. Babbitt. The companies able to track these developments and anticipate expansion in the different departments of the Federal Government, may profit handsomely from these changes. It is already clear the Depts. of Energy, Defense, and Interior will set aside programs which could have huge impacts on Rural Alaska businesses.

One strategy to profit from this trend will be for corporations wishing to join forces with minority companies have the potential for 8-A status under SBA for example, to be merged in to new companies that will take advantage of the opportunities. For companies wishing to be acquired, there are numerous stable and well manage Native owned corporations searching for well run and profitable companies with track records of success.

A partner in a major CPA firm told me there are excellent opportunities for companies to be acquired where their local, urban operations have been profitable and stable over the long term. And these companies, many times are owned by long-time Alaskans who are concerned they locate not only profitable companies to acquire them, but to locate companies which will appreciate their employees and continue to grow their businesses after the sale.

An effective strategy to employ to track this trend will be to seek out companies for acquisition that have clear vision of how they fit into the marketplace, and that have the willingness to grow under new ownership.

Another key area of opportunity, which is largely controlled by the actions of Congress will be to amend the Buy-Indian Act. If the proposed

amendment^s are adopted, this legislation could have very positive spin-off impacts for both Native and non-Native owned companies in rural Alaska.

By and large, the Alaska Native corporations of the 90's are on the move. Scores of companies, having survived the volatile 80's and had the wisdom of rejecting the get-rich quick schemes of that era, are taking stock of the long term perspective. The boards of directors and management of these companies are looking at solid and conservative plans for asset allocation, and clearing their companies back rooms of unprofitable investments and drains on their focus.

Going forward, because this group of companies represents a large core of Alaska's real and long term business capital, ANCSA corporations are being recognized by business forums statewide as partners to cultivate long term relationships with. *As the major private landowners of over 40,000 acres of land THAT WILL NOT BE SOLD, and keepers of a collective capital base of nearly a billion dollars, this group is beginning to speak loudly and confidently about the future of business in Alaska.*

Trend No. 4 will develop as a new and continued barrage of government regulation that will come at the same time as new dollars will flow from the Congress and agencies that have served rural Alaska in the past. An example of this was last week's announcement by the newly appointed Secretary of the Interior, Bruce Babbitt, who announced to the mining congress the the administrations' view of reforms pending for the mining industry would be "comprehensive" and structural in their impact. Small business and its relationship with the Federal government will become strained with new regulation and red tape will

definitely come with the announcement of new funds for this purpose.

The strategy to keep abreast of these changes and taking advantage of the changes that make sense for rural businesses, will be to make sure that as a group rural businesses have advocates that will amplify their concerns. Groups such as this should eventually consider being a forum for responding to change of this magnitude. One regional corporation president recently remarked that if regulatory oversight of small business continues to cost small business productivity time and real administrative expense, a "Boston tea party" of sorts would have to occur before the growth in regulation is curbed. A group of rural small business owners, if formed, might help you effectively monitor the changes, and increase your potential to participate.

Trend No. 5 will be for rural business to diversify to survive as year-round, profitable businesses. I heard a story about a Nebraska farm boy who moved to a rural Alaska village where he started a laundromat. The year was 1980. With the business a success in three years, he opened up a taxi service, and a year later, a restaurant.

Today he owns three restaurants, a hotel, a taxi service and the laundromat. I spoke with him a week ago, and he was planning on a gift shop and convenience store. His secret was not in his ability to apply business genius only to the successful laundromat. His success is in seeing a need, identifying his potential position as a dominant player. And laying out a plan to grow through diversification. This type of small business diversification we are seeing in rural Alaskan communities of 1000 or more. This seems to be the minimum population size

where diversifying is practical and small businesses can thrive.

CONCLUSION: If we agree five major trends of small business in rural Alaska are:

- *A customer shift from small to large business and back again.

- *A more careful and calculated view of how we recruit and retain our employees due to high cost.

- *A new wave of minority business contracting to mergers and acquisition.

- *A barrage of new government regulations.

- *Diversification of local businesses to achieve year round profitability.

Then a logical question is how can I today as a business manager, CEO, board member, or employee, have the positive impact on the bottom line, and go forward without the fear my company might be swallowed up by a larger company from another state, owned by stockholders who have never visited Alaska?

It is clear rural small business owners and operators will need to have the tools to make the kinds of decisions will be required during this decade. And they need to be affordable by the same group.

One vehicle you might form in the future to provide small business owners with a forum you own and control is a rural small business industry council, which could serve as an official directory and

networking tool, and it could include members from other companies wishing to do business with you. This type of a group is worth considering if the goals are straight forward, and if you have additional tools to help you do your future planning.

Such a council could locate qualified advisors to serve you as members. The advisors should have a track record of serving rural businesses.

I hope some of these ideas may be of some inspiration for each of you to view your current business plan in a different way. To me, the best options for beating the trends will be for you to get together and have strength in your numbers, and your willingness to preserve your business position. You have already demonstrated your success. The question now will be how to grow and how to secure that growth.

To the folks at Eagle Hardware, I wish them well. To the rural small business person I would just like to close by saying YOU are what makes Alaska the last Frontier. YOU hold the long term perspective.

Editors note: The author is the Finance Chairman and a director for Sealaska Corp. He also serves on the Anchorage Board of Realtors. The former Tundra Times columnist is a Stanford University graduate. This was presented at today's Rural Alaska Small Business Conference.

Tundra Times prize winners from the Rural Alaska Business Conference will be notified by mail.