

Why doesn't Ames Attract Entrepreneurs?

Starting a business is a risky proposition. On average, only two-thirds of businesses survive two years. Only one-third survive six years. (See Chart 1). The amazing thing is despite these long odds, Americans in increasing numbers have been starting businesses. The fraction of proprietors among all employed individuals has risen from 15% to 20% since 1990. (see Chart 2).

We have seen evidence of this entrepreneurial spirit in the Des Moines metro area. All of the counties save one have experienced growth in the number of business owners since 1990, led by Polk (77%); Dallas (74%); Boone (61%); Marion (50%); Madison (34%); Jasper (29%); and Warren (13%). (see Chart 3). The sole county bucking these regional and national trends is Story County (-3%). If we look at the more recent period, the story gets a bit brighter in that we have outperformed Warren County, mainly because they have lost proprietors as we regained some of ours. (see Chart 4).

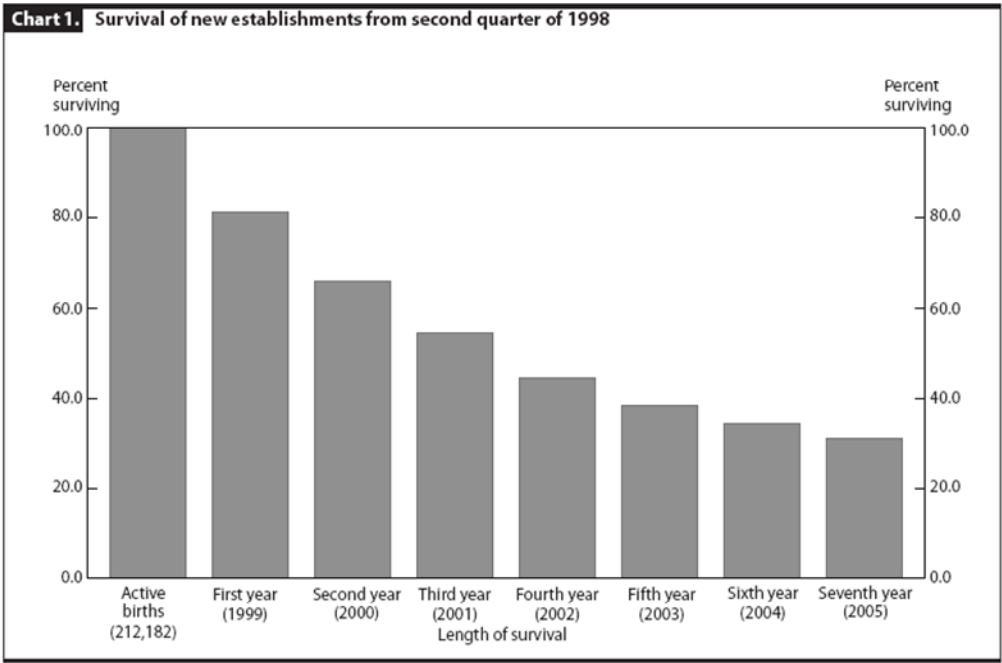
As one of the fastest growing regions in the country, the growth in entrepreneurship in the counties around West Des Moines is easy to explain. Businesses want to be near growing employment and customer bases. That Boone County has attracted so many proprietors over that time period is truly remarkable. That Story County has not is remarkable in its own way.

A recent survey of Iowa State alumni who started businesses can help us understand why firms pick the sites they do. The most important factor is that entrepreneurs open firms where they live, and so first and foremost, you need to be an attractive place for people to live. Other than meeting family needs, the next most important factors are local demand for the product, sufficient infrastructure, and local business climate. (see Table 1).

A substantial number of the ISU alumni had opened businesses in Story County, and so it is useful to compare their impressions to those of alumni who opened businesses elsewhere in the state or the nation. Story County is unusually strong in access to bankers or investors. It is unusually weak in support from the community and from local government, both in comparison to the experience of the entrepreneurs elsewhere in the state and elsewhere in the nation. (see Table 2).

Because there are now significant advantages to locating new businesses in Polk or Dallas Counties, we in Ames need to be more encouraging and accommodating than our neighbors to the south of people willing to take on the long odds of starting a business. Unfortunately, our local government has not seen the need to make fostering entrepreneurship a priority. Rather than presenting a unified front welcoming visitors and investors to the community, our elected leadership is at best indifferent if not hostile to economic development efforts. Given that we devote not a single employee in city government to economic development; it is up to the City Council to team with the Chamber and the Economic Development Commission to invite investment.

There is no better evidence of our indifference to business than the Ames City Government web page: <http://www.cityofames.org/> Investigate the web page on "Doing Business" and you see a picture of a nearly empty parking lot. Hit "Quality of Life" and you find the page is not available. Hit "Living in Ames" and you are informed of "Mosquito Fogging" and "Parties with Keg Beer". You have to try hard to find that we are a community housing a major university, a regional hospital, the Iowa Department of Transportation, and many research institutes and major companies. Why are we not attracting entrepreneurship in Ames? Because we are not trying to.



Amy Knaup and Merissa C. Piazza, "Business employment dynamics data: survival and longevity, II." *Monthly Labor Review*, September 2007.

Chart 2: Proportion of Proprietors in the U.S. labor force, 1969 2006

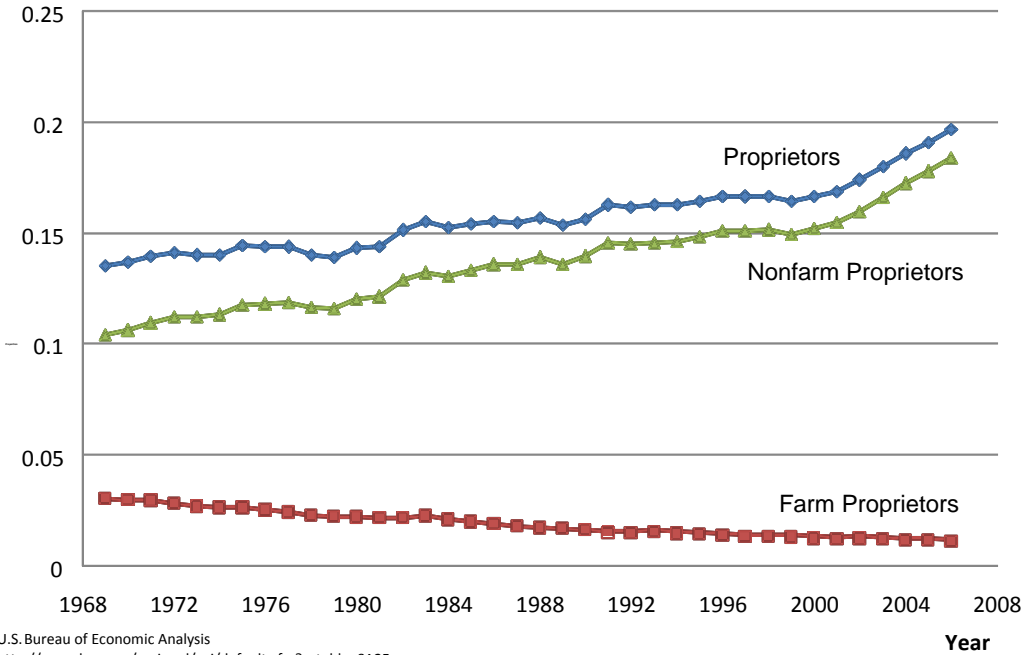
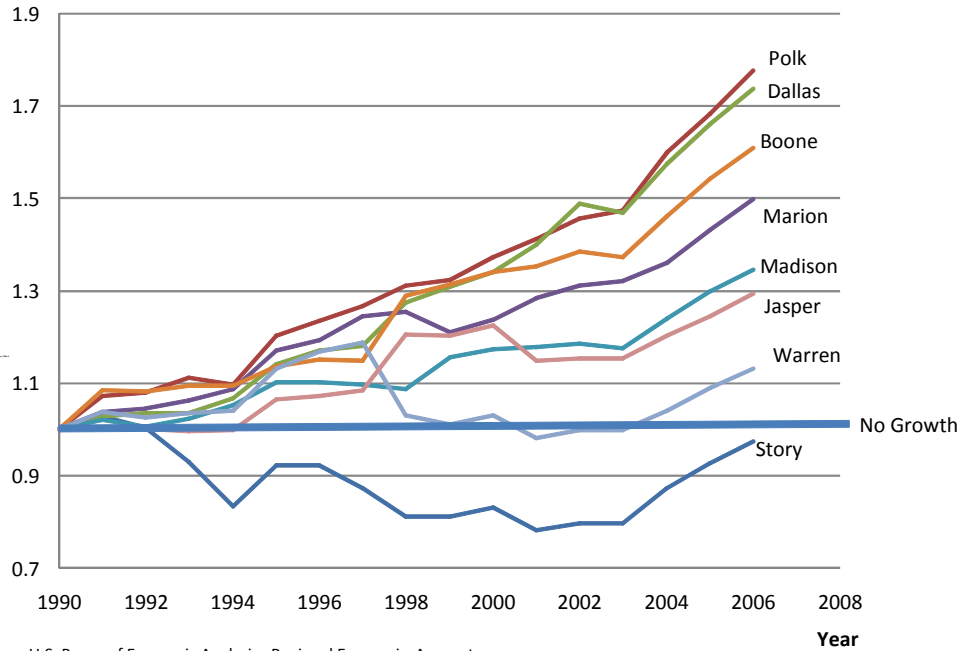
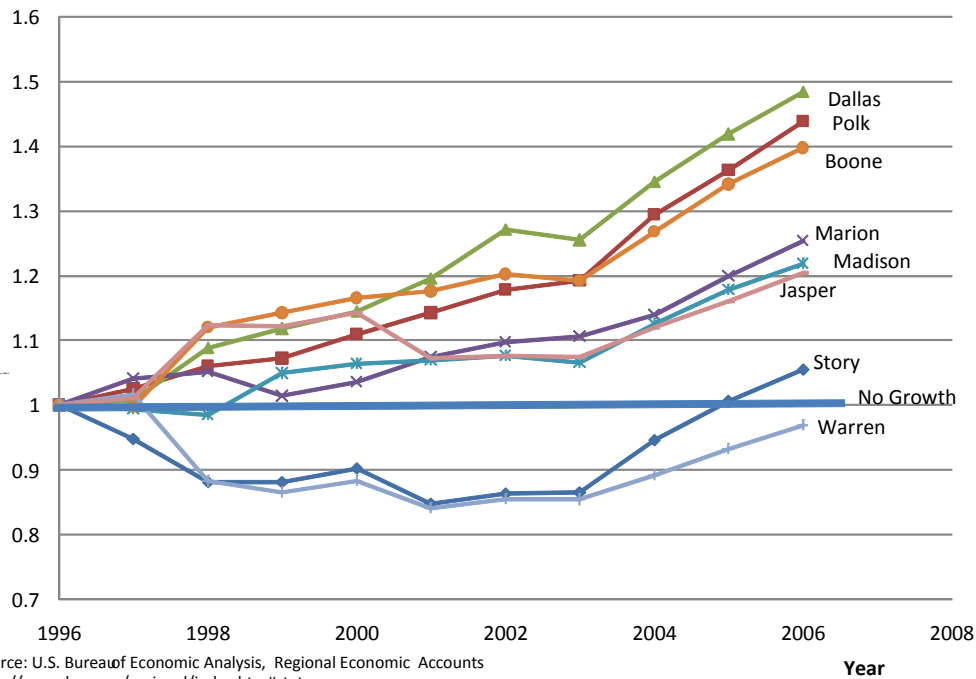


Chart3: Relative growth of proprietors by county, 1990-2006



Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts
<http://www.bea.gov/regional/index.htm#state>

Chart 4: Relative growth of proprietors by county, 1996-2006



Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts
<http://www.bea.gov/regional/index.htm#state>

Table 1: Average importance attached to the following factors in choosing the location for a businesses

(1 = not at all important; 5= very important)

<i>Factors</i>	<i>Mean</i>	<i>Std</i>
where I lived is important	4.28	1.27
Local product or service demand is important	3.65	1.50
Family needs are important	3.15	1.63
Sufficient local infrastructure is important	2.69	1.57
Business climate is important	2.65	1.48
Local amenities and services are important	2.31	1.51
Availability of skilled labor is important	2.23	1.51
Availability of labor is important	2.18	1.45
Proximity to other businesses providing similar products or services	2.11	1.36
Local natural amenities are important	2.09	1.43
Where the business was located important	1.32	1.85
Other factors are important	1.31	1.70

Source: The Iowa State University Alumni Career Survey, 2008

Table 2: Percent agreeing or strongly agreeing with statements regarding local support of entrepreneurship in Story County, elsewhere in Iowa, and in other states

Statement	Entrepreneurs			
	Story County, IA	Other counties in Iowa	Other states	Whole sample ^a
Those with successful businesses get a lot of attention and admiration	65.1% 7.1%	68.1% 12.1%	67.9% 16.7%	78.7% 14.5%
Young people are encouraged to be independent and start their own businesses	28.0% 3.6%	31.3% 2.8%	31.1% 4.9%	27.2% 2.0%
State and local governments provide good support for those starting new firms	9.1% 3.6%	17.7% 0.3%	19.2% 2.6%	20.6% 1.3%
Bankers and other investors go out of their way to help new firms get started	25.3% 2.6%	21.1% 3.3%	19.6% 3.6%	15.2% 1.2%
Other community groups provide good support for those starting new firms	29.4% 2.2%	33.4% 2.5%	29.6% 2.6%	33.0% 1.7%
There are many examples of well-respected people who have made a success of themselves starting by new businesses	79.0% 13.5%	71.7% 17.8%	82.2% 25.5%	78.6% 20.1%
The local media does a good job covering local business news	29.0% 4.4%	31.7% 4.4%	36.8% 5.4%	46.0% 4.9%
Most of the leaders in this community are people who own their own businesses	44.0% 6.1%	48.8% 6.1%	47.4% 10.0%	36.7% 5.1%

Source: The Iowa State University Alumni Career Survey, 2008.

Entrepreneurs are defined as having ever started a business. About 16% of the full sample are entrepreneurs

The full sample includes 5416 ISU alumni who were randomly sampled from all ISU graduates from 1982-2006

Bolded numbers are those either agreeing or strongly agreeing with the statement.

Unbolded numbers are the percent strongly agreeing with the statement