CUSTOMER INSIGHTS FOR COMMUNITY-ECONOMIC-DEVELOPMENT AGENCIES (EDAS): THE TIME SERIES BEHAVIOR OF PROGRAMS

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ABSTRACT

EDAs produce a variety of products and not all products need to generate profits; some of them may be produced for the good of society at large. However, in many cases EDAs do seek return on their investments. The market-selection method presented in this paper should be considered an investment in future profitability.

Keywords: Business Planning, Community Economic Development, Marketing, Market Selection, Sine Function.

INTRODUCTION

This paper is built on the premise that government units should adopt marketing approaches to meet mandates and satisfy client needs in the present day, diminishing-resources environment. In line with (Varadarajan, 2009), we define marketing approaches as customer-satisfaction focused behavior of firms. Examples of market-focused behavior include target market choices, creating product(s) which offer value to customers in exchanges, etc. Note that the marketing approach aims to achieve optimum relationships between the organization and its environment (Litten, 1980; White & Hammermesh, 1981).

Critiques of the marketing approach tend to argue that it is inappropriate to run government like business (Litten, 1980). We believe that this competes with the view that government needs to be more responsive to the needs of the public and that marketing may help governments accomplish this goal (Wilkie & Moore, 2007). Indeed, Osborne and Gaebler (1993) observe that

Democratic governments exist to serve their citizens. Businesses exist to make profits. And yet it is business that searches obsessively for new ways to please the people. Most governments are customer-blind, while McDonald’s and Frito-Lay are customer-driven. This may be the ultimate indictment of bureaucratic government.
And for the argument that governments should not be in competition with the private sector (Copulos, 1977), it is essential to note that government is definitely not a business, but is an institution charged primarily with serving the public interest and that, in many cases, it can do this more effectively by employing a marketing approach (Kotler & Drucker, 1993).

To demonstrate the usefulness of marketing approaches to community development organizations, this paper utilizes a case study approach. Specifically, it highlights how a government-funded EDA, which is the outgrowth of a need for an agency to monitor conditions in rural Illinois, can benefit from analyzing its past behavior to gain insights into target-market selection.

LITERATURE REVIEW

Many EDAs offer products that can be directed at different end-use markets. For example, the EDA at the University of Illinois, University of Illinois Extension, offers educational services to small businesses, local governments, and residents (health education, for example). Since opportunities differ in different markets and the future of the EDA is tied to its markets, market selection is a crucial consideration in business planning (Rossiter & Percy, 1996).

In marketing, market selection is often based on classifying purchasers as heavy and light users. Since heavy users generate the most revenue for the business, marketing efforts such as advertising are focused on heavy users, the primary target audience (East, Malcolm & Vanhuele, 2008).

Statistical approaches that are employed to categorize users and profile them include group comparison procedures, and cluster analysis (Lilien & Rangaswamy, 2004). The group comparison procedure utilizes median split of product-usage statistics to gain insights into the attitudinal / psychographic differences between heavy and light users (see for example, Lantz, 1995). For cluster analysis, the focus is on exploration. Specifically, respondents’ scores on a number of profile variables such as personality measures are subjected to (dis)similarity analysis and the resulting pattern examined to understand differences between heavy and light users (Dillon & Goldstein, 1984). Note the a priori assumption in cluster analysis that heavy and light users would differ on profile variables; a questionable assumption given conflicting findings in the extant literature (Hackleman & Duker, 1980; Morgan, 1979).

To understand the methods of market selection used in EDAs, a search for relevant academic and practitioners’ publications was conducted. As shown in Table 1, of the 120 hits in the Community Development Journal, only six articles contained “marketing” related discussions (Abucar, 1995; Cearbhaill & Cinnèide, 1986; Cossio & Winder, 1985; Hafner, 1995, Hodge, 1996; and Jones, 1967). However, none of these articles / reviews pertains to target-market selection. For example, Abucar (1995) highlights community development efforts in a Canadian region heavily dependent on producing and marketing natural resources. Similarly, Jones (1967)
discusses marketing within the context of changing needs for agricultural products. As regards practitioner publications, a Google search for “regional economic consulting” produced 22,400 results. The results page had one ad for the firm Quant Economics, Inc. (www.quanteconomics.com). Based on the belief that the advertising firm should have expertise in helping EDAs choose target markets, we explored their website for copies of white papers on the topic. While no publication could be found, the firm does claim expertise in market analytics such as pricing, and demographic analysis. Finally, a random pick of an economic-development consulting firm from the Google-search results lead us to ICF International’s web page (www.icfi.com). Again, no publication on market selection was found (Table 1).

In summary, little or no publication on market selection strategies for EDAs could be found. However, as mentioned earlier, for survival in the marketplace, it is essential that EDAs optimize their programming. This paper utilizes empirical models to derive norms for programming decision making.

<table>
<thead>
<tr>
<th>Source</th>
<th>Keywords</th>
<th>Search Period / date</th>
<th># of Hits</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development: Journal of the Community Development Society, Routledge</td>
<td>Market selection (“all words”, and “all fields” search)</td>
<td>Issue 1, 1978 to Issue 1, 2011</td>
<td>0</td>
<td>The search was initiated through “informaworld” (<a href="http://www.informaworld.com">http://www.informaworld.com</a>)</td>
</tr>
<tr>
<td>Google.com</td>
<td>“regional economic consulting”</td>
<td>February 16, 2011</td>
<td>22,400</td>
<td>When the search was restricted to the US, 17,000 hits were obtained. The advertising on the results page was explored for market selection related publications (see text above).</td>
</tr>
<tr>
<td>ICF International (<a href="http://www.icfi.com">www.icfi.com</a>)</td>
<td>Market selection</td>
<td>February 16, 2011</td>
<td>1</td>
<td>Claims to have expertise in researching markets for energy-efficient products; no publications on market selection was found.</td>
</tr>
</tbody>
</table>
THE SETTING

In 1986, a Task Force on the Future of Rural Illinois conducted a set of 25 public hearings and one of the outcomes was a need for a permanent agency to study rural issues and to identify potential remedies. In 1989, the focal EDA was created as a companion agency to the Governors Rural Affairs Council. Since then, the agency has obtained and utilized $41.8MIL to improve the quality of life for rural residents.

Table 2 highlights some of the activity and capacity measures of the agency for the 2009 time period. It also shows the annual compound growth rate of the metrics during the past three years starting 2007. As shown in the table, the agency’s financial capacity (budget) has declined during the 2007-2009 time period. The same is true for the institute’s community-development activities. However, not all capacity measures pose a declining trend. The agency’s human resources (number of full-time employees) registered a positive growth rate during the three-year time period.

<table>
<thead>
<tr>
<th>Table 2: Capacity and Activity Metrics – Focal EDA, 2009</th>
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<tbody>
<tr>
<td>Category</td>
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<tr>
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<tr>
<td>Capacity Measures: Indicates the institute’s ability to get things done</td>
</tr>
<tr>
<td>Activity Measures: Measures progress toward the goals that drive the institute’s behavior</td>
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</table>

It is easy to dismiss the decline in financial capacity and programming activities as signs of uncertain economic times; and hope that marketplace would drive reversion to mean performance in the coming years. However, this “just play along” strategy can erode the agency’s positional advantage; the incumbent advantage in the community-economic-development marketplace in Illinois.

The need to be robust and responsive to changes in the marketplace raises the question of where to compete. In fact, extant research suggests that 80% of (revenue) growth is explained by choices about where to compete, leaving only 20% explained by choices about how to compete (see for example, Bahadir, Bharadwaj & Parzen, 2005).

In the following pages, we address the “where to compete” question using a data driven approach. Because the evolution of markets is path dependent (Cohendet and Steinmueller, 2000) – that is, the current state in any one time is the sum product of all previous events, including random ones, we model the time series behavior of the focal EDA’s programs to predict places (counties) to compete in the coming years.
Consider Figure 1. It is a list plot of the agency’s programs implemented during the 2000-2008 time period. To better understand this wave-like pattern of demand for the programs, we utilize the sine function (Gartner & Halbherr, 2004).

![Figure 1: Scatter Plot of the EDA’s Programs: Monthly Data for 2000-2008](image)

**THE MODEL**

As mentioned earlier, we hypothesize that the time pattern of EDA programming to be:

\[
PD_t = f(\sin(t)) \tag{1}
\]

where, \(PD_t\) = Demand for EDA programs during month \(t\).

We operationalize equation 1 using the following formulation:

\[
PD_t = a_1 + a_2 t + a_2 \sin \left( \frac{a_1 + t}{a_3} \right) + \epsilon_t \tag{2}
\]

The parameters in equation 2 have the following interpretation:

- \(a_1\) = Constant term;
- \(a_2\) = Secular trend;
$a_3 = \text{Amplitude of the sine wave};$

$a_4 = \text{Displacement of the sine curve relative to the time origin; } \sin(-a_4) = 0.$

The parameter $a_4$ is unique up to an additive factor of $n \cdot \pi \cdot a_5$. If $n$ is odd, then $a_3$ changes signs.

$a_5 = \text{Period of the wave; a complete cycle of the sine wave requires } 2 \pi a_5 \text{ years.}$

Note that statistically significant parameters $a_3$ to $a_5$ would enable us to not only assess the fit of the prediction equation 2 with observed data, but also predict the timing of the peaks and troughs in programming. The latter would help the EDA target its marketing efforts during peaks to outgrow competitors.

Data for model calibration were obtained from the agency’s management information system. In all 6720 observations, pertaining to program implementations for the years 2000-2008, were assembled. The reduced data matrix had 9 (years) x 12 (monthly) data points.

**MODEL CALIBRATION**

The model (equation 2) was calibrated using nonlinear least squares. The presence of serially correlated errors, necessitated that $\varepsilon_t$ be specified as follows:

$$\rho \varepsilon_{t-1} + u_t$$

where, $u_t$ are independent and identically distributed with $E(u_t) = 0$, and $V(u_t) = \sigma_u^2$, and

$$\rho = \frac{\sum_{t=0}^{n} \sum_{t-1}^{n} \varepsilon_{t-1}}{\sum_{t=0}^{n} \sum_{t-1}^{n} \varepsilon_{t-2}}$$

The adjustment of equation 2 for correlated errors results in:

$$PD_t - \rho PD_{t-1} = a_1 + a_2 t + a_3 \sin\left[\frac{a_4 + t}{a_5}\right] + \varepsilon_t$$

$$- \beta \left[ a_1 + a_2 (t - 1) + a_3 \sin\left[\frac{a_4 + (t - 1)}{a_5}\right] + \varepsilon_{t-1} \right]$$
This revised equation was calibrated using the 9x12 data matrix shown in Table 3, where rows = years and columns = months.

<table>
<thead>
<tr>
<th>Table 3: Data Matrix</th>
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<tbody>
<tr>
<td>50</td>
</tr>
<tr>
<td>58</td>
</tr>
<tr>
<td>57</td>
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<td>53</td>
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<tr>
<td>54</td>
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<tr>
<td>64</td>
</tr>
<tr>
<td>53</td>
</tr>
<tr>
<td>48</td>
</tr>
</tbody>
</table>

Note: “?” denotes unreliable data; we attribute these measurement errors to omissions by the agency’s personnel in reporting or recording activities in the management information system.

RESULTS

During 2000-2008, the focal EDA implemented an average of 58 programs per month. Peaks were reached in March 2007 (110 programs) and April 2008 (102). A trough occurred in September 2000 (22 programs). How well does our model predict these peaks and troughs?

Table 4 shows the results of model calibration. The amplitude of the sine wave, parameter $a_3$, is statistically significant at the conventional $p \leq 0.05$ level. This supports our contention that the agency’s program implementations follow a wave-like pattern. In addition, while coefficient $a_5$ implies a cycle length of about approximately 5 months, coefficient $a_4$ suggests that the start of the sine wave [$\sin(t) = 0$] to be June 2000 (see Appendix 1 for more on the sine function).

<table>
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<tr>
<th>Table 4: Model Parameters</th>
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<tbody>
<tr>
<td>Parameter</td>
</tr>
<tr>
<td>$a_1$</td>
</tr>
<tr>
<td>$a_2$</td>
</tr>
<tr>
<td>$a_3$</td>
</tr>
<tr>
<td>$a_4$</td>
</tr>
<tr>
<td>$a_5$</td>
</tr>
</tbody>
</table>

Figure 2 shows that the fitted model does a reasonable job of explaining the time varying pattern of demand for the programs (adjusted $R^2 = 0.88$); for simplicity, only the first 20 data
points are used to demonstrate model fit. Appendix 2 provides additional information about model predictions.

**Figure 2**

**DISCUSSION**

The data-driven approach to marketing decision making suggests that the focal EDA should target the high potential customers shown in Table 5 to increase and/or defend market share; these are the counties that value the agency’s programs more than other competitive alternatives. A longitudinal study of business performance reveals that firms find it difficult to maintain higher performance levels than their competitors for more than five years at a time (Kauffman, 1995). Long term competitive advantage is often obtained by adapting new sources of temporary advantage. We believe that such an advantage can be gained by gathering and utilizing proprietary insights about the markets given in Table 5 and Appendix 3. For instance, the economic-development aspirations of these customers – county-level decision making units, can be gathered and disseminated to program managers. This would enable program managers to sell “solutions”, that is, product bundles, to customers. For example, it could be beneficial to bundle community planning with other technical assistance such as economic-impact analysis and educational services. Note that most of the customers do not have the expertise in these areas and look elsewhere in the value chain for missing expertise.
Table 5: High Potential Customers (2008)

<table>
<thead>
<tr>
<th>Peak of the Sine Wave (Time)</th>
<th>Top 3 Customers (Counties)</th>
<th># of Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2008</td>
<td>McDonough, Sangamon, and Shelby</td>
<td>21</td>
</tr>
<tr>
<td>June 2008</td>
<td>Champaign, McLean, and Sangamon</td>
<td>18</td>
</tr>
<tr>
<td>November 2008</td>
<td>Peoria, Schuyler, and Stark</td>
<td>17</td>
</tr>
</tbody>
</table>

Note: A list of high potential customers for each of the years (2000-2008) is given in Appendix 3.

Within a broader context, the drivers of community-economic development are changing. For example, government funding for community spending in Illinois is expected to fall from $80 Mil in 2004 to $70 Mil in 2014 (http://www.illinoispolicy.org/news/article.asp?ArticleSource=2834). The consequence of reduced funding would be enhanced competition among EDAs for provision of business services such as site-selection assistance, professional development (for example, seminars and management training), and business “greening” consulting (Currid-Halkett & Stolarick, 2011).

EDAs produce a variety of products and not all products need to generate profits; some of them may be produced for the good of society at large. However, in many cases EDAs do seek return on their investments. The market-selection method presented in this paper is an investment in future profitability.

SUMMARY AND CONCLUSION

One of the essentials for competitive advantage is the ability to convert mere data into competitively useful insights about the marketplace. This paper spans counties, and EDA functions (for example, programs that help communities craft strategic plans), to translate programming data into marketing-planning insights.

Briefly, we suggest that the focal EDA’s programs target the Illinois counties listed below: Adams, McDonough, McLean, Peoria, Sangamon, and Warren. The targeting should be based on proprietary market research about customer’s incentive to implement the agency’s programs. For example, do these counties value the technical, or the complementary services of the agency?

In conclusion, in these turbulent times, slow and steady doesn’t win. Through analysis like this, EDAs can acquire market-insights to survive in this complex, post-financial-crisis world.

REFERENCES


APPENDIX 1
THE HARMONIC OSCILLATIONS: COMPUTING THE WAVE LENGTH

Express the sine component of equation 2 in the form:

\[
\alpha_3 \sin \left( \frac{2\pi t}{a_b^4} \right) = -\alpha_3 \cos \left( \frac{2\pi}{a_b^4} + \frac{\pi}{2} \right) \tag{A1}
\]

Simplifying using relevant parameters results in:

\[
\alpha_3 \sin \left( \frac{2\pi t}{a_b^4} \right) = 4.50 \cos \left[ \frac{\pi}{7.58299} + .3372 \right] \tag{A2}
\]

Now consider figure AF1. It is a plot of the function \(4.50 \cos \left[ \frac{\pi}{7.58299} + .3372 \right]\) where, \(t\) ranges from \(-2\pi\) to \(2\pi\).

Figure AF1
Plot of the Function
\[4.50 \cos \left[ \frac{\pi}{7.58299} + .3372 \right]\]

Note the wave length in Figure 1, around 5 \(t\) units. This suggests that the agency’s programming peaks once in five months beginning June 2000.
APPENDIX 2
MODEL FIT

Data points: October 2001 – May 2003

Data points: June 2003 – January 2005

Data points: October 2006 – December 2008
APPENDIX 3
ATTRACTIVE COUNTIES FOR THE FOCAL EDA

We posit that a community-economic-development market offering has two orthogonal characteristics: value of the offering, and the cost of the program for the customer (price). The term orthogonal implies that changes in price do not affect the value of the offering. Rather, it changes the customer’s incentive or intention to purchase the market offering (incentive to purchase = value – price). Customers at the peak of the sine curve believe that:

\[
[\text{Value}_{\text{EDA PROGRAM}} - \text{Price}_{\text{EDA PROGRAM}}] > [\text{Value}_{\text{COMPETITOR’S}} - \text{Price}_{\text{COMPETITOR’S}}]
\]

Simply put, customers at the peak of the sine curve possess a greater incentive to purchase the agency’s products.

<table>
<thead>
<tr>
<th>Year</th>
<th>Counties</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>McDonough, McLean, and Sangamon</td>
</tr>
<tr>
<td>2007</td>
<td>McDonough, McLean, Peoria, and Sangamon</td>
</tr>
<tr>
<td>2006</td>
<td>Fulton, McDonough, McLean, Peoria, and Sangamon</td>
</tr>
<tr>
<td>2005</td>
<td>Adams, McDonough, Sangamon, and Warren</td>
</tr>
<tr>
<td>2004</td>
<td>Adams, McDonough, and Sangamon</td>
</tr>
<tr>
<td>2003</td>
<td>Adams, Knox, Sangamon, and Warren</td>
</tr>
<tr>
<td>2002</td>
<td>Adams, LaSalle, McDonough, Sangamon, St. Clair, and Washington</td>
</tr>
<tr>
<td>2001</td>
<td>Adams, Hancock, Knox, McDonough, Rock Island, and Sangamon</td>
</tr>
<tr>
<td>2000</td>
<td>Fulton, McDonough, and Sangamon</td>
</tr>
</tbody>
</table>