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Business Priorities for Reducing The Cost of Doing Business in Nebraska

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Introduction

The cost of doing business in Nebraska affects all residents of the state. It directly influences the profitability and prospects of tens of thousands of Nebraska proprietorships, partnerships, and corporations. The indirect effects may be even more far-reaching, affecting both the cost of living and the quality of life in the state. Business costs influence the prices that businesses must charge for providing goods and services. These costs even affect whether certain retail and service businesses survive in small and mid-size Nebraska communities. The cost of doing business also may influence the size of the Nebraska economy. Many Nebraska manufacturers, farmers, and transportation and service businesses face competitors located around the nation and the world. Businesses' costs influence their ability to compete effectively.

There are many ways to examine the issue of business costs. A study might compare business costs in Nebraska or other states or examine the relative growth rate for businesses in Nebraska. This study takes a different, and perhaps more direct, approach by surveying a random sample of Nebraska businesses about their cost reduction priorities. Businesses are presented with a list of 19 business cost factors ranging from market-driven matters (such as the cost of supplies and raw materials, labor costs, or utility costs) to factors more directly tied to federal, state, and local policies (such as taxes and regulation). While businesses might want to see all types of costs fall, the survey requires respondents to select their five top

priorities for cost reduction. The result is a list of priorities as reported by businesses.

This report presents the results of a survey sent to 500 Nebraska businesses during March 2005. Business priorities are presented for all businesses. Separate results on cost reduction priorities also are presented for businesses with more than 20 employees.

Survey Responses

The survey was sent to 250 Nebraska businesses with fewer than 20 employees and an equal number of businesses with 20 or more workers. This method was selected over a random sample of Nebraska firms of all sizes in order to 1) ensure that there were a significant number of responses from mid-size and large businesses in the state; and 2) examine whether there were notable differences in the priorities of businesses with more than 20 employees. Results from the two samples then are recombined in order to create estimates for all businesses. Results from businesses with fewer than 20 employees were given more weight, however, because more than 90% of Nebraska businesses (including proprietors) have fewer than 20 employees. The overall survey response rate was 46%, with a 41% response rate for businesses with fewer than 20 employees and a 51% response rate for businesses with 20 or more employees. Rates in each case are strong response rates for a mail survey.

Table 1 shows the cost reduction priorities reported by business. Business were given a list of 19 cost factors and asked to select five as their highest

Table 1: Summary of Responses (%): Cost Reduction Priorities for All Businesses and Businesses with 20 or More Employees

	All Businesses	Businesses With 20 or More Employees
Health Care Benefit Costs	64%	89%
Federal Taxes	49%	27%
Energy Prices (Electricity, Natural Gas)	48%	41%
State Taxes	42%	30%
Local Taxes	38%	27%
Transportation Costs	32%	33%
Cost of Supplies/Raw Materials	25%	31%
Workers' Compensation Costs	24%	49%
Legal Liability Costs	23%	17%
Borrowing Costs	20%	7%
Telecommunications Costs	18%	14%
Wages and Salaries Required by Workers	17%	32%
Cost or Availability of Land to Expand	17%	7%
Cost of Environmental Regulations	16%	8%
Cost of Other Regulations	16%	20%
Employee Recruiting/Turnover Costs	14%	23%
Unemployment Insurance Costs	12%	18%
Other	9%	8%
Employee Training Costs	4%	9%
Water and Sewer	1%	2%

priorities for cost reduction. As mentioned earlier, a comprehensive set of factors was included such as supply and raw material costs, utility and energy costs, labor costs, transportation costs, and taxes. Only 9% of responding businesses listed a cost factor not included among our 19 choices.

What are the priorities for cost reduction among Nebraska businesses? Health care costs were selected as a priority by more than half of businesses, a higher percentage than any other cost factor. This finding is not surprising, given that health care costs have been rising rapidly for several decades both in Nebraska and across the nation. Reducing the growth in health care costs has been a priority in both states and nationally for more than a decade. The survey reaffirms this business priority.

Energy prices and, to a lesser extent, transportation costs also are a priority for a large share of businesses. Most likely recent increases in gasoline and natural gas prices have made these costs a priority, particularly for businesses where fuel costs are important. Based on a separate question in the survey, 40% of businesses reported that recent increases in gasoline prices have led to a large increase in business costs. Will energy costs remain a cost reduction priority? Energy costs may decline over time due to natural market forces. Alternatively, if prices remain high but stop rising, businesses may adapt to the new price regime and begin to place a lower priority on reducing energy and transportation costs. Later

versions of the Nebraska Cost of Doing Business Survey can monitor whether energy and transportation costs decline as a priority. If these costs remain a top concern, however, there are limited state policy options available. One option would be reducing state fuel taxes but this would reduce revenue for road construction and repair.

Other than health and energy costs, tax reduction was most often among the top priorities for Nebraska businesses. Approximately 40% of businesses selected state or local taxes as a priority for cost reduction, and almost half of business selected federal taxes. Cutting state and local taxes is not an easy matter, of course, and would require a reduction in programs that benefit Nebraska households and businesses. Survey results, however, indicate that tax reduction is a high priority even relative to factors such as wage rates, the unemployment insurance program, and worker training.

Other frequently selected priorities were reducing the cost of supplies and raw materials (25%), workers' compensation (24%), and legal liability (23%).

Business with 20 or More Employees

Table 1 also presents results for businesses with 20 or more employees. These businesses, which employ roughly 60% of Nebraska workers, in general place a higher priority on factors and government policies that influence labor costs. Nearly all such

businesses placed a high priority on reducing health care costs. The percentage was large even compared to the all-business results, probably because larger businesses are more likely to provide health insurance to employees.

The workers' compensation program is also a high priority. Among businesses that employ at least 20 workers, reducing workers' compensation costs was a priority for about half of businesses (versus just 24% of businesses overall). Reducing workers compensation costs is the second priority of mid-size and large businesses, greater even than reducing state and local taxes or energy costs.

Wages also are a priority for mid-size and large businesses. Nearly one in three such businesses selected the wages and salaries of workers as a priority for cost reduction.

Survey Response by Recent Growth

Do cost reduction priorities differ among growing businesses and stable or shrinking businesses? To test this, we separated respondents into growing and stable/declining businesses based on recent growth. The survey asked questions about growth in sales and employment over the last three months. For both sales

and employment, businesses could select one of three responses: increased, unchanged, or decreased. For our analysis, we define any business that reported an increase in either sales or employment over the last three months as a growing business. All other businesses were categorized as stable or declining.

Table 2 lists reported cost reduction priorities for growing businesses and stable/declining businesses. The most striking feature of the table is that priorities are very similar for growing businesses and stable/declining businesses. Focusing on the priorities of all businesses also will help address the concerns of growing businesses.

The main difference worth noting is that the growing businesses more often place a priority on reducing employee recruiting and turnover costs (24%) than stable/declining businesses (10%). This is natural given the greater need of growing businesses to recruit additional employees.

Growing businesses also more often place a priority on reducing telecommunications costs (26% versus 15%) and the costs of environmental regulations (22% versus 13%). Stable/declining businesses more often prioritize reducing workers compensation costs (27% versus 16%).

Table 2: Cost Reduction Priorities for Growing and Non-Growing Businesses Based on Growth in Sales and Employment over the Last Three Months

	Growing Businesses		Stable/Declining Businesses
Health Care Benefit Costs	67%	Health Care Benefit Costs	63%
Federal Taxes	49%	Federal Taxes	50%
Energy Prices (Electricity, Natural Gas)	43%	Energy Prices (Electricity, Natural Gas)	51%
State Taxes	42%	State Taxes	42%
Local Taxes	35%	Local Taxes	40%
Transportation Costs	32%	Transportation Costs	32%
Telecommunications Costs	26%	Telecommunications Costs	15%
Employee Recruiting/Turnover Costs	24%	Employee Recruiting/Turnover Costs	10%
Legal Liability Costs	23%	Legal Liability Costs	24%
Cost of Supplies/Raw Materials	22%	Cost of Supplies/Raw Materials	27%
Borrowing Costs	22%	Borrowing Costs	19%
Cost of Environmental Regulations	22%	Cost of Environmental Regulations	13%
Wages and Salaries Required by Workers	22%	Wages and Salaries Required by Workers	16%
Workers' Compensation Costs	16%	Workers' Compensation Costs	27%
Unemployment Insurance Costs	15%	Unemployment Insurance Costs	11%
Other	12%	Other	8%
Cost or Availability of Land to Expand	15%	Cost or Availability of Land to Expand	18%
Cost of Other Regulations	9%	Cost of Other Regulations	18%
Employee Training Costs	8%	Employee Training Costs	2%
Water and Sewer	4%	Water and Sewer	0%

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Methodology

The Nebraska Cost of Doing Business Survey was designed to include the broadest cross-section of Nebraska businesses. The survey was sent to 500 Nebraska businesses of all sizes and in all industries. The survey included family proprietorship businesses with no employees, businesses with a few employees, as well as businesses with thousands of employees. The survey included businesses in all industries, although primary and secondary schools and government agencies were excluded.

The survey was sent to a sample of 250 businesses with fewer than 20 employees and to a sample of 250 businesses with 20 or more employees. The first 250 were drawn from a population of more than 90,000 Nebraska businesses (including sole proprietors) with fewer than 20 employees. The second 250 were drawn from a population of 6,300 Nebraska businesses with more than 20 employees. As these population numbers suggest, simply drawing a random sample of 500 businesses from the population of all Nebraska businesses would have produced a sample with few businesses with more than 20 employees. The stratified design allows mid-size and large employers with at least 20 employees to be well represented. This is important because these businesses account for roughly 60% of Nebraska employment. The business lists for businesses with fewer than 20 employees came from Dun & Bradstreet. The lists for businesses with 20 or more employees came from Harris InfoSource.

To encourage participation, the survey: 1) asks only six questions and takes fewer than five minutes to complete; and 2) was sent to businesses up to two times, so that businesses that did not respond to the first mailing were given a second opportunity. Of the 500 businesses chosen in the sample, surveys for only 42 were returned due to an incorrect address, business closure, etc. This attests to the accuracy of the business lists. Of the 458 surveys received by businesses, 212 usable surveys were returned. This is a 46% response rate. This overall response rate was lower for businesses with fewer than 20 employees (41%) than for business with 20 or more employees (51%). Nonetheless, this is a strong response rate for a mail survey and is sufficient to generate the results

presented above. In particular, the number of returned surveys also is sufficient to present separate results for all businesses and for businesses with 20 or more employees (Table 1).

The principal question in the survey asks about business priorities for reducing the cost of doing business in Nebraska. Five other questions are asked. Four of these are categorical in nature, distinguishing businesses by recent growth in sales and employment, by industry, and by size as measured by employment. Categorical questions on recent growth make it possible to distinguish between the priorities of growing and stable/declining businesses (Table 2). There are also enough returned surveys to distinguish between these two groups.

The survey also asks industry and employment classification questions. The industry and employment reported by responding businesses matched what was stated in the Dun & Bradstreet data sources more than 90 percent of the time, further verifying the accuracy of the business lists. Having information on the industry of respondents also could make it possible to distinguish business priorities by industry. This will require a large sample of returned surveys and should be possible after the survey is conducted again in mid-2005. The survey again will be sent to 500 Nebraska businesses; when results are combined with those of the current survey, it should be possible to disaggregate results both by industry and region of the state.

Weighting

Results from a stratified sample can be used to estimate priorities for all Nebraska businesses, regardless of size, by calculating a weighted average of the responses of businesses with fewer than 20 employees and the responses of businesses with 20 or more employees. The weights are the share of Nebraska businesses with fewer than 20 employees and the share of businesses with 20 or more employees. Our databases reveal a total of 97,316 Nebraska businesses including proprietorships and 6,318 businesses that employ 20 or more workers. Based on these data, a weight of 93.5% is assigned to the businesses with fewer than 20 employees.

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