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# Business Priorities for Reducing the Cost of Doing Business in Nebraska: Recent Results and Industry Differences

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# *Business in Nebraska*

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## **Business Priorities for Reducing the Cost of Doing Business in Nebraska: Recent Results and Industry Differences**

By Eric Thompson and Cory Buland

### **Introduction**

The cost of doing business in Nebraska influences many Nebraska proprietorships, partnerships, and corporations operating throughout the economy. Four times a year, the Bureau of Business Research surveys Nebraska businesses about factors that influence the cost of doing business in the state. This report presents the results of a survey sent to 500 Nebraska businesses during July and August of 2005.

The survey presents businesses with a list of 19 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). Respondents are asked to select their five top priorities for reducing the cost of doing business in the state. Responses are aggregated to determine which business cost factors appear most frequently among the top priorities of Nebraska businesses.

In this report, findings regarding business priorities are reported for the current survey. In addition, data from the current survey are combined with data from the previous survey (the first survey of this kind was conducted in February and March 2005) to generate a large enough sample to report priorities in three industry groupings:

manufacturing, retail, and services. When a third and a fourth survey are conducted in the next six months, it will be possible to report priorities in additional industries and by region of the state.

Survey results, as always, should be viewed in context. Policy-makers should consider many other factors along with the priorities of businesses when making decisions. Another key point is that the survey asks businesses about their top priorities for reducing costs. A finding that a cost factor is a priority for business does not necessarily mean that this cost is higher in Nebraska than in other states. For example, businesses may choose reducing energy costs as a priority for Nebraska, even though some energy costs are low in Nebraska relative to the nation. The average price per kilowatt hour for electricity was 5.66 cents for Nebraska in March 2005 and 7.52 cents for the nation.<sup>1</sup>

Policy-makers, therefore, may want to focus on business priorities whether or not Nebraska is a leader or a laggard on those priorities. There may be as much gain from further expanding the state's advantage on certain cost factors as in addressing an area of disadvantage.

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<sup>1</sup> Nebraska Energy Office

## Survey Responses

The *Cost of Doing Business in Nebraska Survey* is sent to 250 state businesses with fewer than 20 employees and an equal number 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 businesses with fewer than 20 employees were given more weight, however, because more than 90% of Nebraska businesses (including proprietorships) have fewer than 20 employees. A more detailed explanation of the survey methodology is available in the March 2005 edition of *Business in Nebraska*.

The overall survey response rate was 51% (257), with a 50% response rate for businesses with fewer than 20 employees and a 52% response rate for businesses with 20 or more workers. Both are high response rates. Table 1 shows the cost reduction priorities as reported by business. Businesses were given a list of 19 cost factors and asked to select five as their highest priorities for cost reduction. The table shows the percentage of businesses that selected each cost as a top five priority.

**Table 1: Summary of Responses (%):  
Cost Reduction Priorities Businesses by Size**

Summary of Responses (%)	All	Mid-Size and Large
	Businesses	Businesses
Health Care Benefit Costs	62%	86%
Federal Taxes	49%	30%
State Taxes	48%	39%
Energy Prices (Electricity, Natural Gas)	43%	33%
Transportation Costs	38%	24%
Cost of Supplies / Raw Materials	37%	25%
Local Taxes	36%	26%
Workers Compensation Costs	25%	50%
Telecommunications Costs	20%	12%
Legal Liability Costs	19%	22%
Borrowing Costs	18%	12%
Unemployment Insurance Costs	17%	20%
Wages and Salaries Required by Workers	16%	37%
Cost or Availability of Land to Expand	12%	10%
Cost of Other Regulations	9%	14%
Employee Recruiting / Turnover Costs	8%	22%
Cost of Environmental Regulations	8%	7%
Employee Training Costs	7%	10%
Water and Sewer	5%	6%
Other	1%	3%

Nebraska businesses overwhelmingly listed health care benefit costs as their leading priority for cost reduction. The percentage was particularly high among large businesses, which more frequently provide these benefits. The high priority for health care costs is consistent with a recent report by the Kaiser Family Foundation which conducts an annual survey on health care costs. The foundation reported that health care costs continued to grow strongly; these health care costs have jumped 9.2% so far in 2005.<sup>2</sup> It is noteworthy, however, that that same report indicated that this increase is slightly less than the double-digit growth in previous years.

State taxes also were a top priority for cost reduction for both mid-size and larger businesses (with 20 or more employees) and for all businesses. Interestingly, local taxes were not among the top five priorities for either group. The emphasis was on state tax rates and, to a lesser extent, federal tax rates.

Relative to businesses overall, mid-size and larger businesses more often placed a priority on labor cost issues such as the wages and salaries of workers. This result is not entirely surprising, given that larger businesses have more employees. Further, half of the mid-size and large businesses indicated that workers' compensation costs are a top five cost reduction priority. As stated earlier, these results do not necessarily mean that the wages and salaries of workers, or worker's compensation benefits, are higher in Nebraska than in most other states. It simply means that these costs are a priority for mid-size or larger businesses.

Energy prices also frequently were reported by businesses to be high priorities for cost reduction. This result was found even though responses to this survey were received before Hurricane Katrina hit the Gulf Coast.

**Table 2: Primary Energy Cost Driver for Businesses by Size**

Energy Cost Driver	All	Small	Mid-Size and Large
	Businesses	Businesses	Businesses
Transportation	48%	49%	39%
Process/Manufacturing	7%	7%	10%
Building	37%	37%	40%
Technology/Electronics	7%	7%	10%

Note: columns may not total to 100% due to rounding.

<sup>2</sup> "Employer Health Benefits Survey 2005." The Kaiser Family Foundation.

**Table 3: Selected Survey Responses (%): Previous Survey and Current Survey**

<b>Summary of Responses (%)</b>	<b>All Businesses</b>	<b>All (Last Quarter)</b>	<b>Mid-Size and Large</b>	<b>Mid-Size and Large (Last Quarter)</b>
Health Care Benefit Costs	62%	64%	86%	88%
Energy prices (Electricity, Natural Gas)	43%	49%	33%	41%
Transportation Costs	38%	33%	24%	32%
Cost of Supplies / Raw Materials	37%	26%	25%	31%
Wages and Salaries Required by Workers	16%	17%	37%	31%
Employee Training Costs	7%	4%	10%	9%
Unemployment Insurance Costs	17%	12%	20%	18%
State Taxes	48%	43%	39%	30%

To explore energy costs further, we asked a follow-up question about the main energy cost driver for each business. We asked whether the main energy cost driver was transportation costs, manufacturing (or processing) costs, building costs, or technology/electronics. About half of businesses indicated transportation costs, but almost 40% indicated building costs (see Table 2). This result suggests that many Nebraska businesses are affected most by energy costs associated with operating a building such as heating, air conditioning, ventilation, and lights. Efforts to lower these building-related energy costs can make a substantial contribution to lowering the cost of doing business in Nebraska.

### Current and Past Responses

Are the priorities reported in Table 1 temporary, or have they been priorities throughout the year 2005? Table 3 compares the findings of the current survey with the survey conducted during February and March of this year. Results changed relatively little in the period. While many responses were similar to the last survey (published March 2005), Table 3 shows the most significant differences. The priority on state taxes rose, but energy costs and transportation costs were less likely to be a priority in the current survey, which was completed before Hurricane Katrina.

**Table 4: Summary of Responses (%) from Previous and Current Survey Combined by Sector and for All Businesses**

<b>Summary of Responses (%)</b>	<b>All Businesses</b>	<b>Services</b>	<b>Retail</b>	<b>Manufacturing</b>
Health Care Benefit Costs	63%	60%	56%	68%
Federal Taxes	49%	47%	40%	51%
Energy Prices (Electricity, Natural Gas)	46%	38%	42%	52%
State Taxes	46%	43%	36%	43%
Local Taxes	37%	33%	29%	42%
Transportation Costs	36%	22%	40%	47%
Cost of Supplies / Raw Materials	33%	22%	38%	57%
Workers Compensation Costs	24%	27%	32%	16%
Legal Liability Costs	22%	24%	18%	20%
Telecommunications Costs	19%	22%	19%	0%
Borrowing Costs	18%	14%	18%	20%
Wages and Salaries Required by Workers	17%	26%	18%	19%
Cost or Availability of Land to Expand	15%	10%	7%	0%
Unemployment Insurance Costs	15%	15%	22%	2%
Cost of Other Regulations	11%	14%	7%	13%
Cost of Environmental Regulations	11%	9%	5%	19%
Employee Recruiting / Turnover Costs	11%	12%	13%	6%
Employee Training Costs	5%	9%	3%	2%
Other	5%	6%	3%	1%
Water and Sewer	3%	7%	0%	1%

## Sector Differences

Do the results in Table 1 apply to all businesses, or are there substantial differences in priority based on the industry of a business? Through combining survey responses from the previous survey and the current survey, enough results are available to explore differences between industries. Responses from 42 manufacturing companies, 146 service companies, and 87 retail companies were available to compare the top five priorities for cost reduction between industries. The results, presented in Table 4, were weighted for large/mid-size and small companies to reflect the actual mix of companies by size in each industry in Nebraska.

Table 4 shows the percent of each industry listing specific cost drivers as one of their top five priorities for reduction. Mirroring Table 1, health care benefits costs were listed most often by all companies, especially manufacturing. There are clear differences, however, between the business cost priorities of manufacturing firms and services and retail businesses.

Raw material, transportation costs, and energy costs all were more frequently priorities with manufacturers. As might be expected, the cost of environmental regulations was a much greater concern for manufacturing firms. On the other hand, manufacturers were less likely to place a priority on some labor cost issues such as employee recruiting costs, training costs, and unemployment insurance costs.

Unemployment insurance and recruiting and training costs were more likely to be priorities of service and retail firms. Telecommunication costs were listed by 19% to 22% of service and retail firms, but by no manufacturing firms. Service firms often use telecommunications to work with customers, while retail firms must maintain their supply chains efficiently and process transactions. A final result was that workers' compensation costs were much more likely to be a priority for retail and service firms than for manufacturing firms (or all firms).

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