

# Georgia Business Economic AND Conditions

VOLUME 61, NUMBER 2

TERRY COLLEGE OF BUSINESS

MARCH-APRIL 2001

## THE IMPORTANCE OF CARD AND TRANSACTIONS PROCESSING IN GEORGIA

**Beata D. Kochut**  
**Jeffrey M. Humphreys**

**C**redit card processing appeared on the horizon of financial services in the Seventies, and has established itself at the center of the electronic economy in the late Nineties. Continued use of credit and debit cards by increasing numbers of customers around the globe provided a steady increase in credit card processors' customer bases. The advent of the Internet and electronic commerce provided an additional boost to the credit card processing industry, with credit cards becoming a preferred method of payment in online transactions.

Today, innovative business solutions together with cutting-edge telecommunications and computer software underpin the shift towards an electronic economy, with an increasing number of transactions and funds transfers taking place via the electronic media. Card and transactions processing companies expedite this move, and their technological and business expertise plays a pivotal role in electronic commerce.

Card processing—a service rendered to card-issuing companies—encompasses several stages, leading from

credit checks, card issuance, and transactions processing, to billing, reporting, customer service and backroom support. All of these services are performed by a branch of an institution that issues the card, such as banks or private label issuers, or by third-party processors.

In recent years, the volume of transactions handled by independent card processors has increased significantly, a demand largely generated by the increased demand for different forms of

payments. The introduction of new products, such as debit cards, gift cards, and pre-paid cards, also has heightened the demand for third-party credit card processing. Last, but not least, technological advances in information and data processing, telecommunications, and the Internet turned card processing into a field that is increasingly specialized, sharply competitive, and extremely dependent on technology and intellectual capital. All these developments sway more and more card issuers to turn to third-party processors for their credit card and related services needs.

Moreover, the burgeoning importance of the Internet as a venue for consumer and business purchases raises



the issue of how to expedite Internet transactions, which do not involve credit cards as a method of payment, and card processors are scrambling to cope. Georgia's Total System Services, Equifax, and First Data are spearheading these developments with a worldwide, flexible system of electronic funds transfers among individuals, businesses and public institutions as their ultimate goal. The industry leaders envision a combination of business solutions, software, and communications able to support transfer of funds and transactions over an integrated network of computers, telephones, hand-held electronic devices, and ATM machines.

Georgia's card processors are already world-wide industry leaders. As of January 2000, six out of ten leading credit card processors based their operations in Georgia, and the first four companies on the list are either headquartered, or operate major facilities in the state. Table 1 illustrates the scope and breadth of credit card processors' operations.

#### **GEORGIA BUSINESS AND ECONOMIC CONDITIONS**

**March-April 2001**  
Volume 61, number 2

#### **SELIG CENTER FOR ECONOMIC GROWTH**

**P. George Benson**  
*Dean*

**Jeffrey M. Humphreys**  
*Director*

**Lorena M. Akioka**  
*Editor*

**Beata D. Kochut**  
*Research Coordinator*

**Ian Armit**  
*Information Analyst*

GEORGIA BUSINESS AND ECONOMIC CONDITIONS (ISSN 0297-3857) is published bimonthly by the Simon S. Selig, Jr. Center for Economic Growth, Terry College of Business, The University of Georgia, as a service to the business and academic communities. Signed articles reflect the author's opinion but not necessarily those of the Selig Center for Economic Growth, Terry College of Business, or The University of Georgia. This publication is sent free of charge upon request.

Manuscripts and letters to the Editor should be sent directly to us. **Postmaster** send address changes to: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, Athens, GA 30602-6269.

Periodicals postage paid at Athens, Georgia

## **INFRASTRUCTURE**

By anticipating and utilizing the technological and organizational transformations in financial services, the credit card processing industry made the transition from a backroom operation in the 1980s into the forefront of the electronic economy in the 1990s. To perform efficiently, the industry must have advanced telecommunications systems, telephone, cable, and wireless connectivity, and state-of-the-art computer networks. The increased use of computers and computer-related equipment requires ample and uninterrupted energy supplies, which boosts demand for electricity. A qualified workforce, including system designers, computer programmers, telecommunications experts, business analysts, and highly-trained line employees, is essential.

Although expensive to establish, the industry's infrastructure adds to the geographic area's competitiveness in the long run, because these networks, connections, hubs, and other telecommunications and computer systems attract other businesses. The kinds of businesses attracted to the area also constitute an economic benefit. Industries such as business services and information and data processing pay higher salaries than most other industries, and attract highly-qualified workers. With this young, new economy-oriented workforce, comes a corollary benefit: the state and local areas are enhanced by the increased demand for better education, and services.

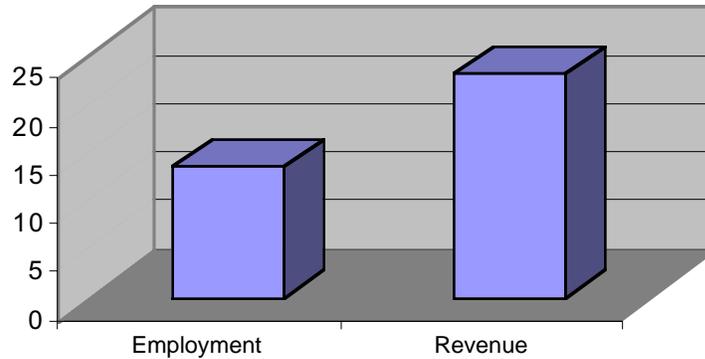
The electronic economy's infrastructure does not create unwelcome environmental impact. Also, as a result of increased productivity, employment is accelerating at a much slower rate than revenue, so the impact of increased population on the existing local infrastructure is not as severe as some critics have suggested.

## **ECONOMIC IMPACT OF THE CREDIT CARD PROCESSING INDUSTRY**

Under the new North American Industrial Classification System (NAICS), credit card processing falls within the finance and insurance sector; however, the companies in this industry often diverge into the areas of credit reporting, data processing, and information services. In addition, they are also involved in professional and business services, backroom operations support, card production, embossing, printing, mailing, and production of promotional materials. Thus, although the growth and importance of card and transactions processing in Georgia should be viewed within the context of the finance, information, and professional services sectors, the impact on other service industries and manufacturing should also be noted.

Since companies engaged in transactions processing form dynamic and changeable alliances that criss-cross the existing classification system, this study will exam-

**FIGURE 1**  
**Average Annual Rate of Growth in Employment and**  
**Revenue, Total System Services,**  
**1990-1997**  
**(Percent)**



Source: Selig Center for Economic Growth, based on Total System Services, Inc., Annual Report, 1990-1999.

**TABLE 1**

**Leading Card Processors**  
**Number of Transactions, January 2000 (Millions)**

	<u>Total</u>	<u>Merchant</u>	<u>Cardholder</u>	<u>Market</u>	<u>Headquarters</u>	
1	First Data Corp.(a-f)	10,000	6,300	3,700	International	Atlanta, GA
2	Vital Processing Services (a,c,f)	5,745	5,745	N/A	International	Tempe, AZ*
3	Total System Services Inc. (a-f)	5,300	2,000	3,300	International	Columbus, GA
4	NDC eCommerce (a-f)	3,160	N/A	N/A	International	Atlanta, GA
5	Paymenttech (a,c,f)	2,965	N/A	N/A	National	Dallas, TX
6	National City Processing Co. (a,c-f)	2,700	2,700	N/A	International	Louisville, KY
7	Concord EFS Inc./BUYPASS	2,240	1,300	N/A	National	Atlanta, GA
8	Alliance Data System (a-f)	2,105	1,759	N/A	National	Dallas, TX
9	Midwest Payment Systems Inc. (a-f)	875	613	262	National	Cincinnati, OH
10	Equifax Card Solutions (a-f)	618	49	568	National	Atlanta, GA

Ancillary Services:

- (a) Charge-back resolution.
- (b) Embossing/encoding.
- (c) Fraud protection
- (d) New account processing.
- (e) Customer service.
- (f) Back-office support.

NA = Not Available

\* Second major facility in Columbus, GA.

Source: Faulkner & Gray, Card Industry Directory, 2000; Total System Services.

ine developments in financial, information, and professional services as a general backdrop for the credit card processing industry. Most of the operations of firms involved in credit card or transactions processing fall within the constraints of these three major sectors. The discussion then will focus on industries identified by major credit card processors as their primary lines of business. An overview of Georgia's largest credit card and transaction processors will add yet another facet to the discussion.

**GENERAL LOOK:  
INFORMATION, PROFESSIONAL,  
TECHNICAL, AND FINANCIAL SERVICES**

Information, professional, and financial services form the backbone for the new economy in Georgia. Enterprises within these industry sectors provide the intellectual capital, resources, and services that facilitate the rapid communication and information exchange necessary to generate profits in today's business environment. Credit card and transactions processors belong to this group of industries.

Information, professional, and financial services provided 13.4 percent of the jobs and over 20 percent of the annual payroll in Georgia in 1998 (see Table 2).

Table 2 also shows that the information industry contributed a higher percentage of jobs in Georgia (3.3 percent) than in the U.S. (2.9 percent), and provided a higher percentage of annual pay (5.0 percent compared to 4.4 percent for the U.S.). Financial and professional

services provided relatively fewer jobs in Georgia than in the United States. In terms of pay, financial services contributed 1.8 percent more in annual pay in the U.S. than in Georgia. On the other hand, when compared to the rest of the finance and insurance sector, the very narrowly defined credit card processing industry shows twice as much strength in Georgia than in the United States.

The importance of information, professional, and financial services on Georgia's economy is best illustrated when compared to other industries. For example, retail trade, the second largest employer in the state, provided 13.5 percent of the jobs, but only 8.2 percent of the annual payroll in 1998. In other words, information, professional, and financial services together provide as many jobs as retail did, and more than twice as much in payroll.

**DETAILED LOOK:  
CREDIT CARD AND TRANSACTIONS  
PROCESSING INDUSTRIES**

Georgia's major card and transactions processing companies identify credit information, online information services, data processing services, and credit card processing as their primary lines of business. Although these industries as a group provide less than one percent of employment and salaries in the state, they follow the patterns established by the previously discussed new economy sectors.

**TABLE 2**  
**Employment and Annual Payroll in the New Economy Sectors  
as a Percentage of Employment and Payroll in All Industries**

	Employment (Percent of All Industry Total)		Payroll (Percent of All Industry Total)	
	Georgia	United States	Georgia	United States
Professional, scientific & technical services	5.2	5.6	8.1	8.4
Finance & insurance	4.8	5.3	7.0	8.8
Information	3.3	2.9	5.0	4.4
Total	13.4	13.8	20.2	21.6

Source: Selig Center for Economic Growth, based on U.S. Department of Commerce, Bureau of the Census, *County Business Patterns*, 1998.

The group of credit card and transactions processing industries provides more pay per job than the all-industry average. The annual pay in these industries increases at a faster rate than employment, and the average annual pay is much higher than the state's average (Table 3). The group also shows growth in establishments, employment and pay by far exceeding the state's all-industry rates (Table 4).

## THE COMPANY VIEW

The importance of card and transactions processing in Georgia is best illustrated by the group of major companies involved in this industry. Although, in many cases, their operations and sales extend beyond the state's boundaries, their employment, and revenues make up a significant portion of Georgia's

**TABLE 3**

**Employment, Payroll and Establishments in Card Processing  
as a Percentage of the Finance and Insurance Sector**

	Establishments (Percent of Finance and Insurance)	Employment (Percent of Finance and Insurance)	Payroll (Percent of Finance and Insurance)
United States	0.3	1.1	0.9
Georgia	0.3	2.7	2.1

Source: Selig Center for Economic Growth, based on U.S. Bureau of the Census, 1997 Economic Census.

**TABLE 4**

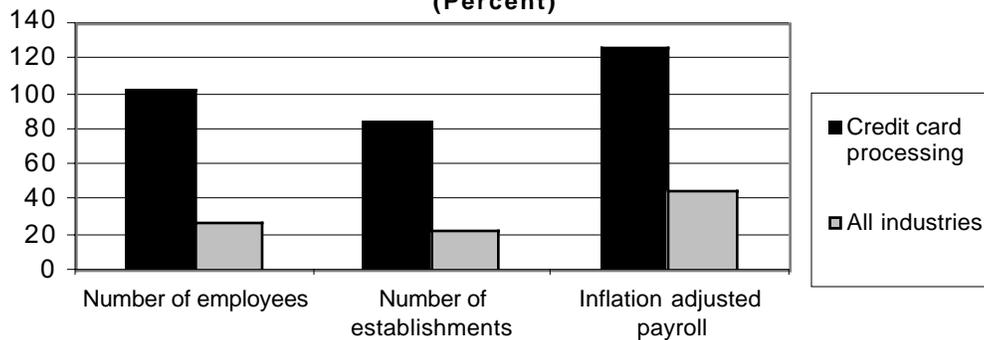
**Card and Transaction Processing Industries  
Compared to the All-industry Total,  
Georgia, 1990-1998**

	<u>1990</u>	<u>1992</u>	<u>1995</u>	<u>1998</u>
Card processing industries:				
Number of employees (number)	9,238	11,507	16,568	18,671
Annual payroll (thousands of \$)	269,301	349,766	586,647	756,454
Number of establishments (number)	264	288	354	483
Average annual pay (\$)	29,152	30,397	35,409	40,515
	<u>1990</u>	<u>1992</u>	<u>1995</u>	<u>1998</u>
Percent of all industry total:				
Number of employees (percent)	0.4	0.5	0.6	0.6
Annual payroll (percent)	0.5	0.6	0.8	0.8
Average annual pay (percent)	138.9	131.0	140.5	136.9

Source: Selig Center for Economic Growth, based on U.S. Department of Commerce, Bureau of the Census, *County Business Patterns*, 1998.

FIGURE 2

**Growth in Card Processing Industries, Compared to All Industries, Georgia, 1990-1998 (Percent)**



Source: Selig Center for Economic Growth, based on U.S. Department of Commerce, Bureau of the Census, *County Business Patterns*, 1990, 1998.

economy (see Table 5). The companies involved in credit card processing range from corporations that deal primarily with business and financial services consulting to companies that specifically handle card and transactions processing.

In addition to sales and employment size, the rate of revenue growth is a good indicator of the industry's

dynamics and growing importance. A look at the most recently reported revenue figures for the five major card and transactions processing companies in Georgia reveals rates of growth comparable to the high-technology firms, and exceeding those in the more traditional companies (see Table 6 and Figure 3).

Moreover, the industry is important because of its

TABLE 5

**Overview of Major Companies<sup>a</sup>  
Involved in Card and Transactions Processing in Georgia**

Company Name	Location	Location Status	Sales	Total Employment
First Data Corporation	Atlanta,GA	Headquarters*	5,539,800,000	31,000
Equifax Inc	Atlanta,GA	Headquarters*	1,772,694,000	11,000
Total System Services Inc	Columbus,GA	Headquarters*	533,926,000	3,500
Nova Information Systems Inc	Atlanta,GA	Headquarters*	335,625,000	480
Global Payment Systems Llc	Atlanta,GA	Headquarters*	200,000,000	555
Bank of America	Atlanta,GA	Branch Location	36,700,000	N/A
Termnet Merchant Services Inc	Atlanta,GA	Headquarters*	26,093,000	67
Visa U S A Inc	Columbus,GA	Branch Location	10,400,000	N/A
National Data Payment Systems	Atlanta,GA	Single Location	7,800,000	200
Deutsche Financial Svcs Corp	Atlanta,GA	Single Location	3,200,000	75
Credit & Debit Solutions	Marietta,GA	Single Location	3,000,000	4
Power Marketing Stratagies Llc	Atlanta,GA	Single Location	1,000,000	15
			8,470,238,000	46,896

<sup>a</sup> Companies with sales total greater than \$1 million, or employees total greater than 20.

\*Note: Employment and sales include Georgia and out-of-state branches.

Source: Dun & Bradstreet, Million-Dollar Data Base, data as of February 2001.

TABLE 6

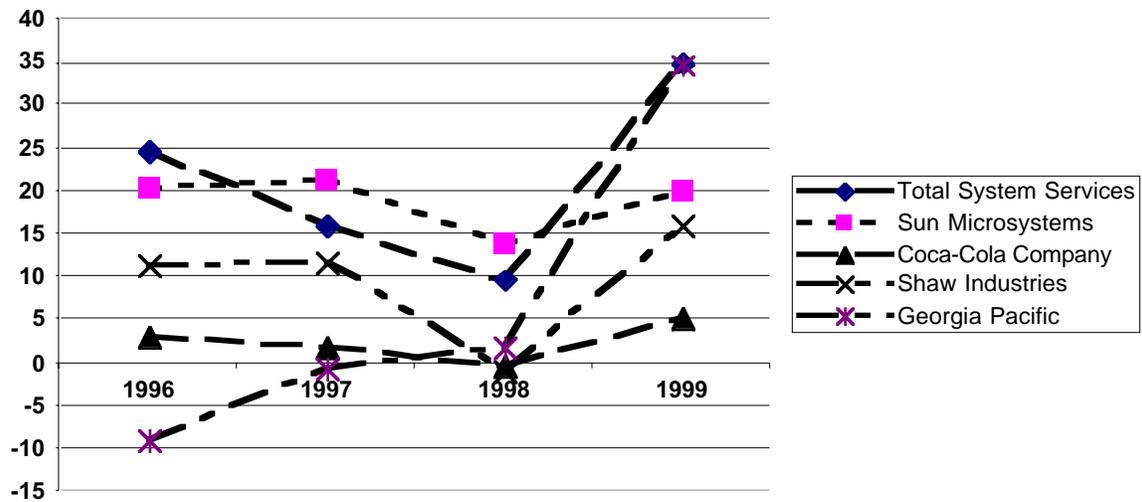
Revenues of Georgia's Major Card and Transactions Processing Companies  
(millions of dollars)

	1995	1996	1997	1998	1999
Equifax Inc	1,623	1811	1,366	1,621	1,773
First Data Corporation	4,186	4934	5,235	5,118	5,540
National Data Corporation	242	326	434	649	785
Nova Corporation	129	266	336	1,146	1,467
Total System Services Inc	250	312	362	396	534
Total revenues	6,430	7,649	7,732	8,930	10,099

Source: S&P online services, August 2000.

FIGURE 3

Percent Change in Revenues, Selected Companies, 1996-1999



Source: Selig Center for Economic Growth, based on data from S&P online services, August 2000.

transformative potential. The significance of industries that belong to the new economy sectors cannot be overstated. As the seeds of the new economy, they separate the winners and losers in today's business environment. States that are considered hubs for high-tech industries prosper and attract highly skilled, young professionals. This influx in turn raises the demand for new services and thus additional jobs are created for workers in ancillary fields. In addition, the arrival of highly educated young workers and their families creates demand for better schools. Improved education benefits the whole area, and makes it even more attractive to business.

Although the promise of the new economy has been fulfilled in some of the nation's metropolitan areas, high technology—together with improved communications—creates unique opportunities for rural areas. Demographics show that Georgia already has become one of the centers of the new economy. The state ranks second in the nation in the number of people migrating from other regions of the country between 1990 and 1998, with Atlanta serving as a magnet for high-technology workers.

Atlanta's growth will help smaller towns as the spillover brings companies that seek quieter areas (with less traffic, congestion, and lower cost of living) in which to conduct global business via high-speed communications. Many states, including Georgia, already have plans to make economic incentives available to rural areas. Good quality of life, state-of-the-art telecommunications infrastructure and improved schools are the very minimum necessary to attract high-tech companies.

## THE ROLE OF PUBLIC POLICIES

**P**olicymakers in Georgia have been long aware of the importance of the card and transactions processing industry. With the enactment of the Credit Card and Credit Card Bank Act in 1987, the Georgia Legislature authorized lenders and holding companies to organize, own, and control credit card banks, and defined terms and conditions under which this could occur. This legislation also provided legal grounds under which credit card banks entered into credit agreements with their clients.

The 1990s brought important tax legislation, which directly benefited credit card processors in Georgia. Most notably, the 1997 amendment to an existing legislation established a unique method of apportioning the corporate income of those credit card companies, which derive more than 60 percent of their gross receipts from card processing and related services. This legislation allows card processors, which conduct their business in several states, to be taxed on the income attributable only to their Georgia operations.

Another important legislation, passed into law in 2000, and effective beginning January 1, 2001, exempts

sales and lease of computer equipment from the sales and use tax, if the fair market value of the equipment exceeds \$15 million for a calendar year. The provisions of this act stipulate that the thus-exempted equipment is purchased or leased by a high-tech company for use in a facility located in Georgia.

While the Credit Card and Credit Card Bank Act opened the door for credit card processing operations in Georgia, the ensuing tax legislation translated into increased capital reinvestment and business expansion. It also encouraged keeping plant expansions within Georgia, and contributed to bringing new card and transaction processing companies into the state. For example, the sales and use tax exemption for computer purchases by high-tech companies provides a powerful stimulus for high-tech companies to choose Georgia as their home base.

ICAPP, or the Intellectual Capital Partnership Program, is another example of Georgia's policymakers taking action to ensure the state's economic development. ICAPP is an initiative aimed at utilizing the state's higher education resources to meet industry's training and personnel needs. Total System Services, one of Georgia's largest card and transaction processors, is one of the companies that benefited from the program already. Equifax, which also has a sizable credit and transaction processing section, is another one. In the case of Total System Services, ICAPP, responding to the shortage of qualified labor, educated 1,200 computer programmers over three years, with specific TSYS needs in mind. Valued at \$11,107,200, this ICAPP initiative not only made it possible for Total System Services to stay in Georgia, but it also resulted in the expansion of the company's operations in this state, the \$100 million capital investment in the TSYS corporate campus, and, eventually, total employment reaching 5,000. The initiative also benefited Columbus by offering local workers an opportunity to get training and find employment in the area's rapidly changing economy.

Georgia's efforts to promote, and attract high-tech industry are now bearing fruit. From initiatives aimed at directing the state's educational efforts toward needs expressed by the business community, to tax programs and incentives aimed at retaining existing and attracting new ones, Georgia's policies have been an effective tool in fostering the growth of high tech industries here. The benefits of the state's policies extend far beyond their immediate effects. As noted previously, high-tech industries, such as the card processing industry, provide highly paid jobs, and produce a multiplier effect in job creation and personal income. As such, they expand the state's tax base by creating new jobs, increasing personal income, raising property values, and providing fertile ground for creating new businesses. Future-oriented high-tech also benefit the state by fostering and attracting the highest rate of entrepreneurial talent, which, in turn encourages further investment in the state's economy.

**Deluxe Edition****Buying Power Time Series on CD-ROM**

The Selig Center announces the debut of its new CD-ROM, which includes the entire buying power time series for 1990-1999, and projections for 2000-2001. Estimates of racial and ethnic purchasing power are available for the nation and all fifty states. Georgia data are delineated by county. The CD also includes the electronic version of the 2000-2001 *Georgia Statistical Abstract*.

The CD is available for purchase exclusively from the Selig Center for \$50. To order your copy, use the order form on page 15.

## FUTURE GROWTH

The card and transactions processing industry is an indispensable element of the new economy, with electronic commerce as its main ingredient. As the volume of electronic funds transfers between businesses, individuals, and governmental institutions grows, so will the credit card and transactions processing industry.

The increasing volume of purchases over the Internet provides a major source of future growth for the transactions processing industry. Leading industry analysts expect e-commerce to boost the credit card industry, with the volume of credit card charges to increase by 15 percent between 2000 and 2001, a 4 percent jump compared to previous years. While credit cards will remain the preferred method of payment in the electronic economy, other forms of payments, such as e-cash, smart cards, and online debit cards will also grow in popularity, which will further expand the market for transactions processors.

Electronic commerce, by its very nature, is destined to transcend national boundaries and currency zones. Major software manufacturers and finance companies

are already negotiating global e-commerce protocols that will allow seamless expansion into foreign markets that, in turn, will provide yet another major source of revenues for local transactions processors.

Deregulation of banking in the United States also adds potential for future growth in the credit card and transactions processing industry. With deregulation, passed into law earlier this year, financial services are poised for major shifts. Bank holding companies, for instance, are now free to engage in all activities that are "financial in nature." Transactions processing, already an integral part of the finance sector, is likely to benefit from the expanded client base resulting from deregulation. Another likely result is the establishment of new services, which will also become an additional source of revenue for transactions processors.

Card and transactions processing in Georgia has already established itself as a leading, electronic-economy industry. Because of tax and other business incentives, Georgia competes successfully with other states in the Southeast. The state is also well regarded for its business-friendly environment, and the existing infrastructure—especially the highway system—is among the best in the country. The 1998 Development Report Card gave Georgia the highest scores (A) in Economic Performance and Business Vitality. In contrast, however, the state scored poorly (C) in Development Capacity, primarily due to its poor record in education, which indicates a potential shortage of qualified workers.

Initiatives such as ICAPP, which utilize existing higher education resources to train local workers and provide them with incentives to stay in Georgia have proven to be an effective way of dealing with local shortages of qualified labor. Continued efforts to improve the state's schools and ensure an adequate supply of qualified labor, combined with other business incentives, will ensure the prosperous future of the card and transactions processing industry in our state. ■

---

*Beata D. Kochut is Research Coordinator and Jeffrey M. Humphreys is Director of the Selig Center for Economic Growth, Terry College of Business, The University of Georgia.*

# SAVANNAH'S ECONOMIC OUTLOOK FOR 2001

**Barbara D. Bart**



Current business conditions in Savannah are better than they were a year ago, expectations for the future are positive, current employment conditions are steady, future employment is expected to increase modestly, and personal income is expected to increase. Although not as gloomy as the national media portend, the fact is, the local economy is slowing, but there is still positive economic growth in this local area. If Savannah continues to build on its strengths, it will be very well positioned for a prosperous new year.

The local economy was very healthy last year, and although all of the numbers are not final for 2000, it is safe to say that the Savannah Metropolitan Statistical Area, which includes Chatham, Effingham, and Bryan counties, had a very good year. As of the third quarter of 2000, the U.S. Department of Labor's Bureau of Labor Statistics reports that there were 138,500 people employed in nonagricultural jobs in the Savannah MSA. This represents an increase of 2,300 workers over last year, or a growth of 1.7 percent over the number employed for the same period in 1999. What makes this impressive is that this gain is on top of the additional 21,200 jobs added since 1990.

Indeed, the Savannah area economy grew in 2000, but the growth was somewhat slower than anticipated. The fastest growing sectors were services, which includes health care, up 2.5 percent; wholesale and retail trade, up 2.9 percent; and government, up 12.3 percent last year after several years of very low growth. Construction employment, which was expected to increase, actually declined. Building permits in 2000 also declined compared to 1999. The total number of residential building permits issued through September 2000 for the Savannah MSA was 1,253 compared to 1,455 for the same period in 1999. The total value for the permits, however, increased. One explanation is that 1999 was an unusually strong year in the construction sector, so, next to fabulous, very good seems disappointing. Two years ago, local construction workers were busy finishing the

Trade Center, several new hotels, and a big addition at the airport. This year, these workers were just not as busy, although they made tremendous advances in real estate development in Pooler and on the westside of Chatham County. Higher mortgage rates also discouraged some people from purchasing homes, so fewer were sold than originally anticipated. This may explain the decline in the growth rate of residential construction in the three-county metro area.

Moreover, although service sector employment grew by 2.5 percent in 2000, the growth was less than projected. Apparently, what limited the growth in this area was the shortage of workers to fill the jobs that are available. Both the Columbus and Macon MSAs grew faster than Savannah's; however, their unemployment rates were higher. So, service sector employment growth was good in 2000, just not as good as originally expected because of the already low levels of unemployment that varied between 3.6 percent and 3.9 percent.

## What about 2001?

Estimates are that employment growth will be a more modest 1.2 percent, with another 1,600 workers added. Despite the persistent shortage of workers, the 1,600 new employment opportunities are projected to occur as follows: 800 new jobs in services, including professional services, technology, health care and tourism; 500 new jobs in wholesale and retail trade, which encompasses port-related distribution businesses as well as retail stores; 100 new jobs in transportation, communication, and public utilities (a big increase for this sector); 20 new jobs in construction (this is actually just to regain some of those lost in 2000 once interest rates decline); 50 new jobs in finance, insurance and real estate; 0 new jobs in manufacturing (the gains from new manufacturers will offset the losses expected in some of the more established industries); and 150 more in federal, state, and local government. Growth is expected in almost every sector except manufacturing, where zero local growth should actually be

considered good news next to a national decline.

In addition to employment growth, the Savannah area will experience modest economic growth in most of the leading indicators including population, up 1.5 percent; wholesale and retail sales, up 4 percent; and personal income, up 4 percent. These projections are underpinned by four factors—economic infrastructure, population, a diverse economic base, and consumer spending.

## INFRASTRUCTURE

The Savannah Economic Development Authority (SEDA) continues to open new location opportunities for business expansion, simplifying the permitting process for manufacturing and distribution businesses as well as facilitating trade fairs and seminars to brainstorm new growth prospects in technology and research. As expected, last year brought huge gains in the number of port-related distribution businesses and in the number of suppliers that local new and existing manufacturers would attract. At the beginning of 2000, for

experienced increases in tonnage for the twelfth consecutive year and the new James D. Mason Intermodal Container Transfer Facility is almost complete. This facility will create even more cargo opportunities for existing and new shipping carriers. Other improvements that are expected to have a positive impact on growth include a dock extension at the Ocean Terminal, computer and information systems improvements, and road improvements throughout the facility. Future expansion of the facility is also planned and progress is being made on the economic and environmental impact studies for a proposed harbor-deepening project.

While growth in the distribution/supply business is exciting, it's old news compared to what's happening at the Crossroads Technology Campus. The technology campus is expected to have a research focus that encourages alliances between universities and the private sector: At a recent forum sponsored by SEDA, the Savannah College of Art and Design, and Georgia Allies, forty top executives from computer businesses met to learn more about Savannah. Georgia Tech already has established a regional civil and computer science engineering pro-

---



---

**❖ Savannah is a reasonably priced vacation spot for families, a comfortable and entertaining locale for conventioners, and a culturally rich community for those enjoying festivals in art, music, and history. ❖**

---



---

example, total distribution and manufacturing inventory was over 25.2 million square feet. About one-third of this was in the manufacturing sector and the vacancy rate was 4.6 percent. The end of 2000 added an additional 2 million square feet for new distribution businesses and the vacancy rate declined to 2 percent. Dollar Tree Stores, Wal-Mart Distribution, and Michael's represented over 80 percent of the increased space utilization. But, the list of new distributors from SEDA reads like a calendar with a new warehouse/distribution business added almost every month. Many of the new businesses are supplying existing manufacturers (such as Custom Woodworking/National Warehousing for Gulfstream and Philidas, Infast and Sampson Industrial for JC Bamford), but the list includes a total of 21 new distribution and supply businesses with additional expansions in at least four existing businesses.

The truth is, Savannah is poised to capitalize on advances in a variety of infrastructure improvements. For example, all locations of the Georgia Ports Authority

at the Crossroads Campus that builds on the foundations learned at Savannah State University, Armstrong Atlantic, and Georgia Southern. The program is planning an enrollment of 600 students and expanded graduate degree offerings within five years. This is the real jewel in Savannah's future economic development—not only because it represents a clean business, but also because it will provide new career opportunities for college-educated young adults.

Infrastructure improvements, particularly the Trade Center and resort development on Hutchinson Island, also help to boost tourism. These facilities have brought significant increases in airline passenger travel at the Savannah Airport, up 16 percent in 2000, major increases in the number of new hotel rooms, up 1,600 rooms in 2000, and a groundswell in the number of visitors, up 40,000 and in the amount of their spending, up \$30.5 million. But, tourism development is not limited to downtown. The westside of Chatham County, with the airport, the Air Force Museum, the new Cross-

winds golf course, and the Crossroads Business Center, has also spurred the construction of guest rooms, restaurants, and other commercial enterprises. The eastside of the county will get its share of improvements, too. The four-laning of U.S. 80 will make Tybee Island more accessible to travelers coming from I-95 and I-16, and Tybee experienced a 117 percent increase in hotel and motel tax revenue last year. This may explain why other forecasters call I-16 a 'river of cash' from Atlanta to Savannah and why Savannah State University's College of Business received a grant last year to study the addition of a hospitality and tourism management training center in Savannah.

The fact is that Savannah is a reasonably priced vacation spot for families, a comfortable and entertaining location for conventioners, and a culturally rich community for those enjoying festivals in art, music, and history. Publicity continues to be a major factor contributing to the area's success, especially with national tourism magazines giving Savannah high marks for appeal and with movies such as *The Legend of Bagge Vance* generating new interest and curiosity. Visitors are discovering not only the history and charm of the city, but the wonderful cultural events planned by area art organizations including the Telfair Academy and Savannah Onstage. The Savannah area is capitalizing on growing national trend in cultural tourism and eco-tourism and efforts to lure new tourist-type businesses are underway. Particularly promising is the National Oceanic Atmospheric Administration's interest in placing an interactive museum in Savannah. This is in addition to the State of Georgia studies about a future aquarium.

The education and research efforts of the Marine and Environmental Science programs at Savannah State University as well as the research programs at the Skidaway Oceanography Institute can serve as a catalyst to new growth in tourism as well as new growth in technology education and research. Savannah State has been extremely successful in seeking external funding for its marine and environmental science programs. In 1998 a \$0.7 million Department of Education Title III grant was used to establish a Center for Marine, Environmental Science, and Biotechnology Research. Since then, the Center has received more than \$4 million in funding from a variety of sources. In addition, undergraduate and graduate courses, as well as faculty research in other areas of environmental science, molecular biology, biotechnology, and chemical analysis, have received more than \$17 million in support for the next three years.

## POPULATION

**N**ext to infrastructure, the second positive factor is population. The Savannah area is growing in numbers, and not just from births but also from an in-migration of people from all over the country. The MSA has grown 11.8 percent over the past nine years,

from about 257,000 in 1990 to 288,000 in 1999. That's 31,000 more people. Adding the other counties in the local trade area, namely Liberty, Beaufort, and Jasper counties, the increase is 16 percent with 66,000 more people. It is precisely this increase in population that is driving our economic growth. More people means more stores, more small businesses, more schools, more teachers, more policemen, more everything.

## ECONOMIC DIVERSITY

**T**he third factor—a diverse economy—is particularly important when one considers the effect of a "slower" national economy on local companies. A decline in one area is balanced by a rise in another. The decline in paper and chemicals was offset by a rise in trucks, planes and automobiles (especially the ones that are imported through the ports). A drop in banking and insurance was offset by a rise in real estate like Hutchinson Island and the new developments in Pooler and Port Wentworth. In addition, although there was some disappointing news on the manufacturing employment front with some layoffs at Kerr McGee (formerly Kemira) and Gulfstream, Williamette Industries came in to reopen the former Stone Container paper manufacturing facility. Each of these businesses is making sizable investments to improve quality, safety, and environmental standards—all of which are expected to have a positive impact on future employment.

## CONSUMER SPENDING

**T**he fourth factor is consumer spending, which has increased dramatically, year after year, for ten straight years in the Savannah MSA. It will increase again next year as well, but at a significantly slower pace with growth expected to be between 4 and 5 percent. Spending is related to several factors, but personal income and consumer confidence are crucial. One very important leading indicator—the Conference Board's national index of consumer confidence—has dropped for three straight months, the first month-over-month decline in over a decade. This is what the Federal Reserve is most concerned about now. The economy's greatest strength—its overpowering confidence—could become its biggest vulnerability. Although tax cuts will make people feel richer and may increase consumer spending to some extent, the better policy choice to stimulate spending is to reduce the interest rate. Many leading economists expect these to decline another 1 percent or more before the year is out. So the rate of spending growth will slow, and this may retard the rate of growth in the retail sector, particularly for cars and other big-ticket durable goods, unless interest rates decline and/or income tax rebates become a reality.

Even though personal income may be rising, it may

not offset the negative mood. In 2000, personal income in the Savannah MSA was 5.8 percent higher than in 1999. Over the past ten years, the compound annual rate of growth in income was 4.4 percent. Next year, personal income is expected to grow 4 percent, which will be higher than the national rate of growth, but incomes in the Savannah MSA are still far behind the national average—currently, local residents earn only 92 percent of the national average.

## THE HOT ISSUES

**W**hat's "hot" in the "cool" economy? Productivity, information technology, biomedical engineering, and the Internet still top the list. This year, the unglamorous but very essential, energy and water are hot issues. "Out" are the soft landing, (not so soft as it turns out), the stock market (disappointing earnings), and NASDAQ (the realization of irrational exuberance).

First and foremost, the Internet and information technology have combined to improve productivity all

price over the past year. The entire country is paying more for natural gas (gasoline is expected to follow) and when consumers pay more for energy, they have less to spend on other items.

On the electricity front, fortunately Georgia is not California. Recognizing that it takes years to approve and build power plants and that future demand cannot be met overnight, the regulated investor-owned utilities maintain and regularly update an Integrated Resource Plan that forecasts electric demands for a 20-year horizon.

Energy is also an "in" topic because it can bring new jobs and investment to the region. Raleigh, N.C.-based Carolina Power and Light, and GenPower of Needham, Massachusetts are betting they can find wholesale customers throughout the Southeast who will buy power from the generation facilities they hope to build in Effingham County. This is very forward thinking on the part of the Effingham County Industrial Development Authority; however, power generation can be very controversial. The proposed plants are gas burning and are cleaner than coal-based fuel generation, but they still require a lot of water to generate steam and they're not

---



---

### **So, what's "hot" in the "cool" economy? Productivity, information technology, biomedical engineering, and the Internet still top the list.**

---



---

over the world and that productivity has even more room for improvement. This is particularly true for the distribution businesses and technology businesses that local leaders have targeted to grow. There are huge improvements in the effectiveness and efficiency of new distribution and logistics systems made possible by improvements in information technology and the Internet. Small and large businesses specializing in information technology are booming, and there is exciting growth in biotechnology, especially bio-engineered agriculture and medicine.

Energy is also a major topic for 2001. As the regional economy and population grow, so too does the demand for energy. As far as natural gas is concerned, former Atlanta Gas Light Company customers have seen the supply of commodity gas deregulated at the retail level. While Atlanta Gas Light still owns and operates the pipes in the ground, a number of gas marketers can sell the commodity in Georgia. Changes in pricing policies as well as problems with billing have led to mixed reviews from consumers; however, the real story in natural gas is the unprecedented run-up in commodity

beautiful or charming facilities. Consequently, all parties must work together to develop a solution to appease the demands of consumers and businesses.

The same is true for water. Although Savannah sits on and next to many significant sources of water, increasing demands may require additional treatment facilities to assure continued quality. One of the most interesting side benefits from the Carolina Power and Light power plant development project in Effingham County is that their plan also includes treatment of 1 million gallons of river water a day to produce drinking water for residential use. But water throughout the Savannah MSA and larger coastal region is an important issue. Here again, there are opportunities for new technologies and new solutions, not only because clean drinking water is vital but also because industries depend on huge amounts of water in their daily operations. There are also newly funded research grants in water quality and technology at Savannah State University. So, the water is hot.

The final item on this list is the theory of creative destruction—the process by which new products and

production methods render old ones obsolete. The Austrian-born economist, Joseph Schumpeter, proposed this theory 50 years ago. He placed technological change at the core of economic growth and argued that technological change revolutionizes the economic structure from within. He said that bad ideas and unprofitable companies have to get buried for innovations to take place and that growth is often interrupted by failure. This is an interesting and increasingly popular explanation for what happened this year to many of the Internet companies on NASDAQ. Growth has been interrupted by

failure, but the firms that prevail are the ones based on solid ideas that provide real value to their customers and shareholders. ■

---

*Barbara D. Bart is professor of marketing in the College of Business Administration at Savannah State University in Savannah, Georgia. She thanks Jeff Humphreys from the Selig Center for Economic Growth, Michael Toma from the Economics Department of Armstrong Atlantic State University, and Ray Wood and **The Business Report** for their help.*