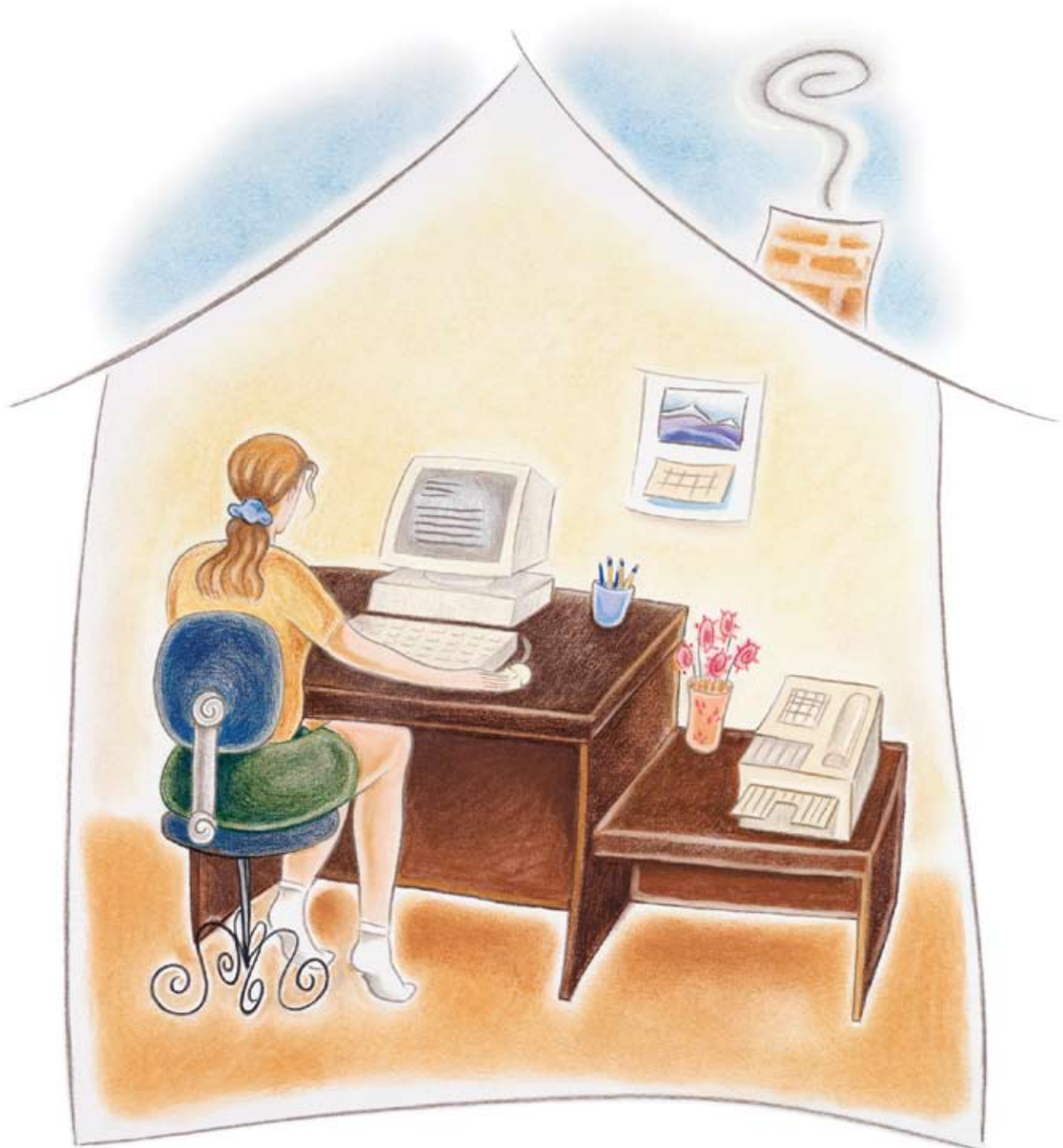


Berlin, New Hampshire

The NEW Bangalore?

by Katie Delahaye Paine
KDPaine & Partners



To say that Berlin, New Hampshire, has had a tumultuous economic history would be a major understatement. Founded in 1781 by Massachusetts farmers, Berlin by the 1890s was one of the fastest growing cities in New England. Abundant timber from the Great North Woods led to the construction of numerous mills, not to mention a railway line that also brought skiers who formed the nation's first ski club. Less than two decades later, though, the largest employer, Brown Paper Company, was struggling and needed federal help.

By 1930, Berlin was booming again, with more than 20,000 French, Italian, Irish, and Russian immigrants drawn to the factories and mills. The city grew to the second most populous in the state. Then the Depression wiped out many of those factories, and by the end of the 20th century Berlin had the state's highest unemployment rate and a shrinking population. In 2006 the final blow fell when Canada's Fraser Papers Inc. closed the pulp mill and laid off its last 250 workers.

That final act may have been a blessing in disguise.

Winds of Change

Berlin is one of the last true company towns—communities in which young people go through school knowing they have a job waiting for them and town fathers believe that the tax revenues from their largest employer will always pay the bills. Company towns have a long history in northern New England. Dozens grew up around mills, which relied upon readily available natural resources and a native population of hard-working and pragmatic employees. But over time, under pressure from overseas competition, unions, rising transportation costs, and wage and benefit hikes, the conglomerates that owned those mills began to retreat.

Most towns were slow to understand what was happening. Hooked on high corporate taxes that kept budgets in the black, they failed to tighten their belts fast enough. Lacking alternative economic stimuli, residents moved south while local governments scrambled to find ways to keep them. Berlin's latest hope, for example, has been the prison industry. A state prison opened in 2002 and a federal prison is expected to begin construction in 2008.

Berlin's painful decline was prolonged by pressures to keep the mill open. In 2001,

The Reverse of Outsourcing

by Caroline Ellis, Federal Reserve Bank of Boston

New England companies that have found drawbacks to outsourcing overseas are looking for business-friendly environments closer to home. New York-based clothier Joseph Abboud is one example.

American Companies Try Insourcing

In 2006, according to an article in *The Boston Globe*, Joseph Abboud zeroed in on two critical needs: highly skilled workers and proximity to customers.¹ In a contrarian move, the company decided to expand its New Bedford, Massachusetts, factory and increase its local workforce 20 percent.

With the prospect of new jobs, the union got on board, agreeing to management's push for lean manufacturing, a Toyota-originated approach that eliminates waste in production processes through multitasking and small batches made to order. With lean manufacturing, the company expects to make up for not using lower-cost workers abroad. Made-to-order batches also mean Abboud can avoid hidden costs like foreign suppliers' demands for minimum orders. Moreover, suits that once took about five weeks to make, now take about one week.²

Other companies, too, are finding that New England workers have the quality they need. In Maine, Sitel Corporation expanded its call center at the former Loring Air Force base, and NotifyMD Inc. put a call center in Franklin County. Both are bucking the trend of sending call center jobs abroad, where training is sometimes a burden and quality can be disappointing.

Foreign Companies Come Here

While some American companies are expanding New England operations, foreign companies are insourcing to America, too.³ In Enfield, Connecticut, Eppendorf Inc., a German manufacturer, is upgrading its vacant complex and creating more than 100 new jobs. Boehringer Ingelheim Pharmaceuticals Inc. is expanding facilities on its Ridgefield campus and aiming to create hundreds of jobs over the next few years.

Meanwhile, in Massachusetts, pharmaceutical giant AstraZeneca is expanding in Waltham, and Swiss drug company Novartis has located its research and development operation in Cambridge. Schlumberger Technology Corporation and Schering Plough Corporation have also leased new research space in Cambridge. Philips Medical Systems, part of Netherlands-based Royal Philips Electronics, has moved its global headquarters to Andover. Straumann, a Swiss-based medical device manufacturer, put its first U.S. manufacturing plant in Andover, creating about 300 new jobs in manufacturing high-precision implants for tooth replacement.

As KDPaine found in Berlin, New Hampshire, the right kinds of workers can make areas of New England look better to employers than overseas alternatives.

Endnotes

¹ Jenn Abelson, *The Boston Globe*, January 7, 2007.

² See <http://www.lean.org> for more on the lean process.

³ See Organization for International Investment, <http://www.ofii.org/insourcing>.



KDPaine & Partners courtesy photograph

With office space often at less than \$2.50 per square foot, Berlin, New Hampshire, is a tempting location for insourcing.

the then owner, American Tissue, filed for bankruptcy, leaving millions in unpaid taxes. In a bid to salvage something, officials encouraged Fraser Papers to take over. Nevertheless, five years later the plant closed for good. That final hiccup delayed Berlin's entry into the 21st century economy. After all the previous bailouts, many residents were convinced the powers that be would find another mill. However, other factors were at work.

Even before it closed, some visionary local leaders and entrepreneurs were already seeing beyond mills. Carol Miller at North Country Internet Access had the vision to start a business that brought high-

speed Internet access to the area. Political leaders in Concord, New Hampshire, and Washington, D.C., put in place economic and tax incentives for prospective employers.

At the same time, companies in New England were running out of workers and land they could afford, and other businesses were finding that outsourcing work processes to low-income countries had drawbacks. For them training and transportation costs were erasing some of the advantages. In southern New Hampshire, business owners began to ask themselves, "Why not outsource instate and move work to Berlin?"

Outsourcing In-State

KDPaine & Partners asked that question. A media research company that hires analysts to read media stories about clients, the company relies on readers who can scan hundreds (sometimes thousands) of electronic files of newspaper, print, blog, and online news sources. The analysts code those articles for information about the client and its competitors to determine the efficacy of its public relations programs and to demonstrate the impact that the media is having on its corporate reputation. The work is labor intensive and requires a high degree of training and attention to detail.

Up until 2006, the company was located

entirely in Durham, New Hampshire, a small college town on the seacoast. But with a 51 percent growth rate, it was having trouble finding qualified local staff and was loath to draw new workers to an area where the average house price was still climbing at double-digit rates. Competitors were moving work to India, but that seemed like too big of a quality-assurance risk.

Meanwhile, two hours north, there were workers who needed jobs. A quick tour in summer 2006 showed that all the ingredients for success were in Berlin. The area is ideal for a headquarters, with stunning views of mountains in all directions and 13 miles of beautiful, clean, navigable riverfront just begging for a kayak or a rowing shell in leisure time. Moreover, after a century of mills and foul air, the sky today is clean and clear. A large, dedicated, and educated workforce is eager to use its skills, and a good Internet infrastructure is in place.

The firm had the office up and running in a month. It believes that whatever additional talent is needed will likely be supplied in part by two local colleges—New Hampshire Community Technical College and Granite State College—both of which are geared to the trades and professions that 21st century employers need.

Besides workers, a small business needs space. Berlin offers considerable choice, and the company selected an older building on Main Street with beautiful views from the third floor, easy access to municipal parking, and room for expansion. The cost was less than \$2.50 per square foot.

Berlin benefited KDPaine & Partners not only with lower production costs (within two months those costs went down by about 80 percent), but with enthusiastic employees who infused the company with a new spirit of excitement.

Still to Come

The one thing lacking in the Berlin area is incubator space. There are many big buildings that can be purchased for a reasonable price, but comparatively few small offices for rent. That situation may improve in the near future because local economic development organizations such as the Business Enterprise Development Corporation (BEDCO) and the Northern Community Investment Corporation (NCIC) are working to make space available. Alternatively, a business

small enough to fit into a house could tap the current oversupply of housing.

Financial incentives have helped, too, with the state of New Hampshire offering up to \$20,000 in tax credits for each job created. The formula is based on the pay scale of each full-time job relative to minimum wage. Also available are training grants through the Work Force Opportunity Council and low-interest loan programs through Citizen's Bank.¹ The tax incentives are in place indefinitely, and the low-interest loans are available until the funding runs out.

Clearly, the solution for a town like Berlin is not finding one more large corporate godfather, but rather attracting a large number of entrepreneurs to create jobs in a variety of industries that will diversify the economic base and provide a permanent foundation for the town's future.

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Endnote

¹ See http://www.nhworks.org/employers.cfm?page_number=44 and <http://www.egov.nh.gov/jobbank/info/about.htm>.

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