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Lone Eagles and High Fliers in Rural Producer Services

Producer service firms are growing rapidly in rural areas. Included in this expansion are “Lone Eagles”—export-oriented sole proprietors—and “High Fliers”—export-oriented companies with at least one employee. Interviews with 240 rural producer service firms located in a diverse sample of rural counties show that about 40 percent of the businesses are Lone Eagles or High Fliers. They are located in rural areas for quality-of-life reasons and are founded by highly educated people who have “niche” market business concepts that pay off in relatively high sales per worker. Face-to-face communication remains a very important means of delivering their services, but advanced information technologies are also important.

PRODUCER services—services sold primarily to businesses and government—are expanding rapidly in rural America, as well as in their more traditional urban locations. A growing proportion of these businesses sell a substantial amount of their services interregionally or internationally, bringing in earnings from outside the area which contribute to the economic base of their rural communities. In this age of networked computers, cellular telephones, fax machines, commuter airlines, and people wishing to take control of their lives through their choice of business and location, the growth of these companies in rural areas should come as no surprise.

The growth of rural producer services has been of great interest to those concerned with the fate of rural economies, which were often stagnant or declining relative to the Nation as a whole through the 1980's. With the rural population turnaround in the early 1990's, many

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have wondered about the contribution of these industries to this trend.

To look into the economic contributions of rural producer service firms, especially those exporting outside the area, we surveyed 240 producer service businesses in a national sample of rural counties (figure 1). We defined exporting producer service firms as those with at least 40 percent of revenues from outside their local market area. And, we further categorized the exporters as “Lone Eagles,” one-person proprietorships, or “High Fliers,” firms with one or more employees (see “Data Sources and Survey Procedures,” p. 10, for more details).

We found that 43 percent of the sampled rural producer service firms are Lone Eagles or High Fliers, and that their primary locational attraction to rural areas is a high quality of life. These businesses are founded by highly educated people, who typically have identified a “niche” market position in which they are able to make well-above-average sales per worker. These companies deliver their services through a combination of face-to-face meetings and the use of advanced information technologies.

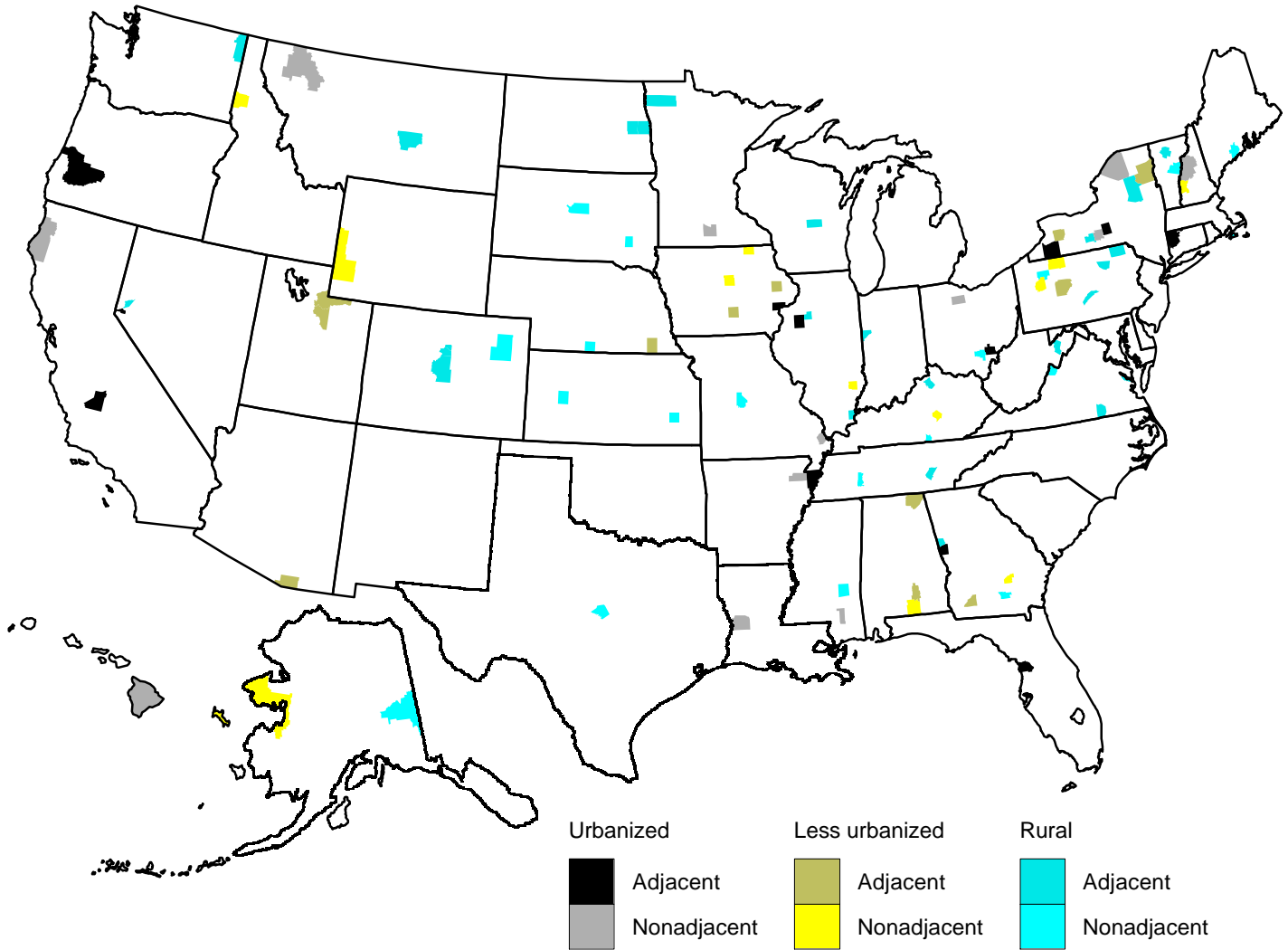
Lone Eagles and High Flyers Contribute to All Sizes of Nonmetro Areas

Of the 240 producer service firms surveyed, 13 were Lone Eagles, 89 were High Fliers, and the remaining 136 were locally oriented firms (table 1). The Lone Eagles averaged 85 percent nonlocal sales and the High Fliers aver-

Figure 1

Nonmetro counties in which producer service firms were surveyed

Counties were selected to broadly represent regions, levels of urbanization, and adjacency to metro areas



aged 70 percent. In striking contrast, the other firms averaged nonlocal sales of only 10 percent. Thus, there are two very distinct groups of rural producer service businesses—those almost entirely focused on local markets and those strongly tied to nonlocal markets.

Lone Eagles and High Fliers are evenly distributed across the types of counties in which we interviewed, as were the locally oriented businesses. The share of strongly export-oriented producer service businesses we found in rural areas is similar to the share we found in a survey of metro areas. But, both of our surveys found higher percentages of exporters than those reported by Porterfield and Pulver in 1991. However, in the time since

Porterfield and Pulver's survey, there have been major advances in the development of information technologies, networks of low-cost courier service in rural areas, and expanded air commuter service, enhancing the likelihood of increased interregional trade in producer services.

Why Do Lone Eagle and High Flier Businesses Locate in Rural Areas?

We asked respondents in an open-ended manner to volunteer factors they considered to be highly important in their location decision. Quality of life is cited by much larger shares of the High Fliers and Lone Eagles than of the other rural firms (table 2). Among all three groups, proximity to residence was important. Eight of ten Lone

Table 1

Nonmetro producer service firms surveyed, 1994*About 40 percent of the producer service firms surveyed were Lone Eagles or High Fliers*

Size of firm	Lone Eagles	High Fliers	Locally oriented firms	Share of firms that are Lone Eagles or High Fliers	Share of production exported by Lone Eagles or High Fliers
				Number	Percent
All firms	13	89	136	43	72
Lone proprietor	13	NA	20	39	85
Proprietor/manager with:					
1-10 employees	NA	74	106	41	69
11+ employees	NA	15	10	60	75

Source: Authors' survey.

Table 2

Factors cited by nonmetro producer service firms as highly important in location decision*High quality of life and the ability to do business from home or near it were important location factors for all types of producer service firms*

Factor	Lone Eagles	High Fliers	Locally oriented firms
	Percent of respondents citing factor		
Personal:			
High quality of life	73	66	44
Owner/founder/manager's residence nearby	82	56	62
General costs:			
Low cost of living	18	7	4
Lower local taxes	0	2	0
Lower land/energy/occupancy costs	9	2	0
Convenience/expense of doing business:			
Proximity to major clients	9	27	25
Presence of complementary firm whose services assist you	9	3	1
Presence of educated/skilled labor force	0	3	1
Presence of low-cost labor force	0	2	0
Prestige location/high-quality space	0	2	2
Government assistance	0	1	1
Other reasons	45	42	48

Source: Authors' survey.

Eagles reported that their residence being nearby was an important location factor and most of those actually run their businesses from their homes.

Large numbers of "other" location reasons were cited by all three groups. These included factors such as "weather," "communication links," "born there," "purchased existing firm," "came to area to join an existing firm," and "retiring CPA asked him to take over." Some of these responses could be considered an elaboration upon the high quality-of-life response. As was the case in Johnson

and Rasker's work in Montana, traditional business location factors, such as access to a skilled or low-cost labor force, lower local taxes, or government assistance, were cited by few, if any, firms in each group.

Respondents were asked to elaborate upon reasons for their locational choice, and table 3 contains a selection of these responses. The High Fliers' and Lone Eagles' responses show a degree of footlooseness that is not present in the responses of the other firms. A number of the High Fliers even indicated that they plan to move. For

Selected Open Ended Location Comments*Lone Eagles and High Fliers offer more "footloose" reasons for location***Lone Eagles**

SIC 737 (Computer programming, data processing, and other computer related services), Akron, CO "Location is virtually irrelevant to the operation. Does all business from production to delivery using the 'information highway.' All but one of the people he has collaborated with live in other States, and all of his clients are outside the region."

SIC 737 (Computer programming, data processing, and other computer related services), Stowe, VT. "He doesn't 'plan' anything - just responds to opportunities. Had a vacation property in Stowe and decided to make it his year around residence. Mentioned lots of people live there and do financial newsletters, work out of their homes."

SIC 8711 (Engineering services), Athens, OH. "College town. Spinoff of local university. Former professor ran place. Liked the peaceful rural setting. Originally from Cleveland."

SIC 621 (Security brokers, dealers, and flotation companies), Lebanon, NH. "Chose the location based on quality of life after exploring the whole State on his motorcycle."

High Fliers

SIC 8742 (Management consulting services), Sierra Vista, AZ. "He moved to Sierra Vista because he was restless and wanted a change of scenery. He wanted to be 'somewhere rather than nowhere.' They were 10 miles from the nearest stoplight in Gasburg and 30 miles from the nearest grocery store."

SIC 8734 (Testing laboratories), Randolph, VT. "They moved from NY to CT to VT - slower pace/quality of life."

SIC 8712 (Architectural services), Sikeston, MO. "Likes peaceful rural area. His family is in the area. Worked in Vegas before coming back to Sikeston - didn't like the big city."

SIC 8111 (Legal services), Patagonia, AZ. "Retired from Washington, DC firm and moved to AZ. Got bored and decided to start local firm. He is still associated in some way with previous firm. Likes laid-back rural atmosphere."

SIC 737 (Computer programming, data processing, and other computer related services), Wicasset, ME. "He had the money to buy a home by the ocean and geographic location is irrelevant to his business so they chose to live in Maine - he likes to sail. All their clients are on the West Coast."

SIC 8742 (Management consulting services), Homer, NY. "Planning to spend winters in Martha's Vineyard and summers in Montana - health and financial reasons. Currently serves clients in 38 States."

Locally Oriented Firms

SIC 8721 (Accounting, auditing, and bookkeeping services), West Liberty, PA. "She grew up there. She opened an office in town when a local attorney asked her to do his taxes."

SIC 8721 (Accounting, auditing, and bookkeeping services), Idaho Springs, CO. "Moved to the area to be near mountains and take over practice for sale."

SIC 8712 (Architectural services), Falls Village, CT. "Main factor in location is that it is the place where he wants to live. He likes the quiet beauty and friendly community."

SIC 6411 (Insurance agents, brokers, and service), Kalispell, MT. "She has elderly parents in the area and was offered the job of starting up the division. She was living in Port Angeles."

SIC 8721 (Accounting, auditing, and bookkeeping services), Thomaston, CT. "Located there because there were no other CPA's. New financial statement requirements created new demand for services. Nice area with good commercial/industrial mix. Lower travel costs. May have to move because the bank owns the building."

SIC 6282 (Investment advice), Sikeston, MO. "Grew up in area. Returned to help out when his mother got cancer. His largest clients are in his family. Likes small town atmosphere - knows most folks."

SIC 8721 (Accounting, auditing, and bookkeeping services), Dighton, KS. "Moved to the area because he anticipated purchasing an existing firm in the area, but when the deal fell through, he started his own firm in the same town."

SIC 8111 (Legal services), Andalusia, AL. "Moved to the area from Birmingham, because he wanted to get out of the city. Andalusia is about 20 miles from the beach and is a popular recreational area with good fishing and hunting."

Source: Authors' survey.

example, one respondent planned to move from New Hampshire to North Carolina where the family had bought a new home in an area they considered to have a higher quality of life. Another planned a move from New York to a winter residence in Martha's Vineyard and a summer residence in Montana, for quality-of-life and health reasons. Many of the Lone Eagles' and High Fliers' detailed responses elaborate upon quality-of-life factors, environmental conditions, and desires to get away from urban settings. In contrast, locally oriented firms make frequent reference to family ties in the region, growing up in the area and returning to run a business, or being pulled there by family conditions.

Who Started the Companies and Why?

The average age at startup for Lone Eagles is 41 years, while the average age at startup of founders of High Flier and the locally oriented firms is 33 years. The educational profile of all three groups is quite similar, with over 85 percent holding a college degree. Men dominate as founders in all three groups, although women founded a higher proportion of the locally oriented than of the export-oriented firms.

Motivations for starting new producer service businesses were varied. Lone Eagles cite a combination of "push" and "pull" factors, such as "get out of big city," "avoid boredom of retirement," "leave conflict-ridden environment of previous job," and "so that she could spend more time with son." After these factors, the most common citations were related to the desire to be one's own boss or to make more money either through the identification of a

market opportunity or the feeling that they could increase their personal income by starting the businesses. These motivations are relatively consistent across the Lone Eagles, High Fliers, and locally oriented businesses.

Lone Eagles and High Flyers Go After Niche Markets Over Wide Areas

Many businesses in the producer services develop "niche" market specializations in their service offerings which help them gain clients. Lone Eagles and High Fliers have more specialized visions of their market niches than do the other firms. The development of these specialized niches helps gain clients in a wider geographic market and relates to faster firm growth and higher performance measures, such as sales per employee (Beyers and Lindahl, 1996a). The selected business concepts shown in table 4 reflect very specific niche activities among Lone Eagles and High Fliers and much more generalized activities among the locally oriented firms.

Although both the Lone Eagles and High Fliers are niche marketers, they differ in the types of firms to which they sell their services. Lone Eagles have relatively strong manufacturing markets, while High Fliers show a more diversified market base (table 5). The locally oriented firms show strong household markets, followed by agricultural and natural resource based industries. Although the survey screened out firms that sold predominantly to households, the locally oriented firms do mix household marketing with industrial marketing more often than the export-oriented firms. Nationally, the producer services' largest markets are other service industries (Beyers). All

Table 4

Niche market concepts of selected nonmetro producer service firms

Lone Eagles and High Fliers tend to have developed much more narrowly defined jobs

Industry	Market concept
Lone Eagles	
SIC 6282 (Investment advice)	Growth-oriented equity portfolios
SIC 8742 (Management consulting services)	Helping U.S. manufacturers locate in Mexico
SIC 8742 (Management consulting services)	Creative market positioning
SIC 8711 (Engineering services)	Mechanical engineering software
High Fliers	
SIC 8734 (Testing laboratories)	Organic analysis—hard-to-analyze stuff
SIC 8748 (Business consulting services, NEC ¹)	Detailed design reviews for small manufacturers
SIC 8733 (Noncommercial research organization)	Historical and environmental parts of environmental impact statements
SIC 8713 (Surveying services)	Boundary disputes
Locally Oriented Firms	
SIC 8713 (Surveying services)	General surveying work
SIC 8721 (Accounting, auditing, and bookkeeping services)	A little of everything
SIC 8111 (Legal services)	Can't really specialize in rural area
SIC 6282 (Investment advice)	Fee-based investment strategies based on computer models

¹NEC=not elsewhere classified.

Source: Authors' survey.

three types of rural producer service firms rely more on nonservice industries for markets than producer service firms do nationally, perhaps suggesting that even the rural Lone Eagles and High Fliers are somewhat different types of firms from those located in urban areas.

Along with differences in whom they sell to, the firms also differ in where they sell their services. While the export-oriented groups both sell most of their services outside the local area, Lone Eagles have a much more extensive spatial market than the High Fliers (table 6). High Fliers tend to have regional markets and much more modest national or international markets than the Lone Eagles. Locally oriented firms obviously sell most of their services nearby, with modest amounts of export sales concentrated within the States in which they are located.

Lone Eagles and High Fliers Use Both Old and New Service Delivery Methods

Differences in markets are also reflected in the ways in which the groups of businesses deliver their services to their clients. Writers such as Bonfante, Rasker, and Richards make the “information superhighway” seem like a “vehicle of choice” for the delivery of producer services, compared with traditional means of delivery such as conversations or written documents. We find that delivery of producer services is more complex than this view, with use of multiple communication means being the most common form of delivery. Half of the Lone Eagles report face-to-face meetings in the client’s office as a highly important method of conversing with clients (table 7). High Fliers and locally oriented firms appear to prefer that customers come to their offices to converse—about three-quarters of both of those groups cite that method as

very important. Of course, the telephone is cited by all three groups as an important method of conversing with clients.

Methods of delivering work in written/graphical documents differ in importance among the three groups. The largest share of locally oriented firms report face-to-face meetings in their offices as a highly important means of delivering this information while the largest shares of the export-oriented firms report transmission by fax machine as a highly important means. At least a quarter of the firms in each group cited each of the four methods of delivering written/graphical documents to clients as important. Lone Eagles and High Fliers cite computer transmission modes as very important methods of service delivery much more frequently than locally oriented firms do. The wider markets for the export-oriented firms’ services undoubtedly make mail, courier, fax, and computer transfers much more efficient means of delivering their services to clients.

Why Do Producer Service Clients Buy Services from Producer Service Specialists Rather than Producing Them Internally?

A common perception is that the cost of a service is lower when it is procured externally, and that the producer services have expanded due to downsizing and outsourcing on the part of their clients (Harrison). The producer service firms reported that the reasons for their clients using their services included a lack of technical expertise on the part of the client, an infrequent need for the service, the client being too small to produce the service internally, the service is not considered a strategically central function by the client, and increasing client needs for services due to

Table 5

Average share of products/services sold by industry of purchaser

Lone Eagles sell more of their services to manufacturers; High Fliers and locally oriented firms sell more to households

Industry of purchasers	Lone Eagles	High Fliers	Locally oriented firms
		Percent	
All industries	100.0	100.0	100.0
Agriculture and natural resources	6.5	14.5	14.1
Construction	6.7	6.2	5.2
Manufacturing	32.2	11.9	3.4
Transportation, communication, and public utilities	7.8	3.3	2.1
Wholesale and retail trade	5.8	5.6	5.7
Finance, insurance, and real estate	11.4	9.4	7.4
Producer services	10.5	6.7	3.8
Households	11.2	21.0	39.5
Consumer services	5.5	6.7	9.6
State and local governments	2.5	10.5	8.4
Federal Government	0	3.0	.7
Foreign governments	0	1.3	0

Source: Authors’ survey.

Table 6

Average share of products/services sold by location of purchasers*Lone Eagles have the widest area of sales*

Location of purchasers	Lone Eagles	High Fliers	Locally oriented firms
		Percent	
All locations	100.0	100.0	100.0
Local area	15.2	29.1	89.8
Elsewhere in State	21.9	38.1	9.1
Elsewhere in the region	20.9	17.2	.7
Elsewhere in the United States	24.9	9.9	.3
Canada	8.1	.3	0
Mexico	4.6	1.9	0
Other foreign countries	4.4	1.3	.1

Source: Authors' survey.

Table 7

"Highly important" methods of delivering services to clients*More Lone Eagles and High Fliers use fax and computer transfer of information than do the locally oriented firms*

Methods	Lone Eagles	High Fliers	Locally oriented firms
		Percent citing method	
Conversations:			
Face-to-face at client's office	54.6	35.6	28.9
Face-to-face at establishment office	27.3	72.5	73.3
Telephone conversations	50.0	57.4	58.5
Written/graphical documents:			
Face-to-face at client's office	45.5	27.6	24.5
Face-to-face at establishment office	27.3	25.9	51.1
Via mail/courier	45.5	38.8	34.8
Via fax	54.6	54.1	42.2
Computer file transfer:			
Via modem (direct to client)	16.6	16.3	2.3
Via information network (such as the Internet)	8.3	3.5	1.5
Via wide area network	0	1.2	0
Via mail/courier (mailing of discs/tapes)	16.7	5.9	4.6
		Number	
Cases responding to questions	11	85	133

Note "Video conferencing," "Satellite," "Telex," "Local Area Network," and "Other" were also listed in the survey questionnaire, but no firm cited them as highly important means of delivering services to clients.

Source: Authors' survey.

changes in government regulations. These factors are cited by all types of producer service businesses. An important finding in this study is that the firms do not believe that low cost is a factor in their clients' demands for their services. This result is consistent with interviews we conducted in urban areas (Beyers and Lindahl, 1996b), and it does not support the downsizing argument. Moreover, we did not find strong evidence of changes in where these services have been purchased over time.

Most producer service firms indicate that their clients have never performed their service.

How Well Are the Lone Eagles and High Fliers Doing?

One indicator of the health of firms is the level of sales per employee. We find that Lone Eagles' median sales were \$75,000, while High Fliers' median sales were \$50,000 per employee. The locally oriented firms had

median sales of \$40,000 per employee. Thus, the export-oriented Lone Eagles and High Fliers do show superior levels of revenue per employee.

How Important Are Lone Eagles and High Fliers to Rural Economies?

A careful accounting of the importance of Lone Eagles and High Fliers would attempt to weight survey observations by their frequency of occurrence in a known population. However, we have not found a good measure of producer service proprietorships in rural areas. The 1992 Census of Service Industries reports that nationally 25 percent of the people working in producer services are sole proprietors. The Bureau of the Census reports in its County Business Patterns data for 1993 that 1.2 million of the 14.3 million rural private nonagricultural wage and salary jobs were in producer services. If rural areas have the same proportion of proprietors in producer services as the country does overall, about 400,000 producer services proprietors would be added to the wage and salary jobs, for a total of 1.6 million producer services jobs in rural areas. Our survey results suggest that 40 percent of these jobs are held by Lone Eagles or persons in High Flier businesses, a substantial and growing level of jobs underpinning rural economies.

Jobs in the export-oriented producer service industries also have a multiplier effect through the earnings they bring in from outside the area that are then spent in the local economy. If we assume that an average rural economy has an economic base multiplier of three, then the Lone Eagles and the High Fliers and their employees would each generate two additional jobs in the local economy.

These estimates suggest a large role for High Fliers and Lone Eagles in the economic base of rural economies. If the definition of High Fliers and Lone Eagles were broadened to include sectors other than the producer services and businesses catering to households outside the local area, even more would be found in rural areas. We could imagine writers, artists, actors, and others involved in the production of culture, people specializing in marketing activities classified in wholesaling or retailing, and small firms giving investment advice solely to households also being located in rural America.

The producer services are projected to continue growing rapidly. Although not every rural community may attract a large population of Lone Eagles and High Fliers, we found them to be present in all parts of the country in every type of county we studied. With continued advances in information technologies and low transportation costs for people and information, we anticipate these industries will play an increasingly important role in the development of rural economies.

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Data Sources and Survey Procedures

The results reported in this paper are based on a survey of 240 rural producer service businesses conducted in 1994. Counties in each of the six nonmetro rural-urban continuum groups (ERS' classification of counties based on their adjacency to metro areas and their level of urbanized population) in the four Census regions were randomly selected for inclusion in the survey. Counties in 44 States were included (see fig. 1, p. 3).

We obtained an estimate of the number of producer service businesses in these counties by searching the 1992 County Business Patterns compact disc for the SIC codes shown in the table below. It should be noted that proprietorships without employees are not included in County Business Patterns, so more businesses in the sectors were actually located in the selected counties than defined in County Business Patterns. Within a given Census region and continuum type, we randomly drew additional counties until we reached a target establishment population in each sector. Thus, multiple counties in each continuum type were selected in most Census regions.

After selecting the counties, we purchased a list of company names and other key information from a private supplier of namelists. This list was constrained to include no more than a certain number of legal service firms in each continuum type and region because the population of rural legal service firms was so high that our potential interview sample would have contained far more law firms than needed. We requested the names of all establishments in the other sectors. This list included about 25 percent more names than we expected, given the County Business Patterns establishment counts; many of these were proprietorships without employees.

We randomly selected samples of businesses within each SIC group to survey and sent each selected firm a letter asking for their cooperation with the research project. Approximately one week after mailing the letter, a telephone contact was made with these establishments. We verified the nature of their business and checked to see if their markets were largely with businesses and/or government. Those whose business was dominated by sales to households were not surveyed. Some firms had gone out of business, changed business type, or simply could not be reached. Of the firms we reached and that were suitable for the purposes of the survey, approximately two-thirds participated in a telephone interview; the typical interview lasted about 45 minutes.

The principal objective of this survey was to gain an understanding of forces surrounding the development of producer service businesses, evaluating the importance of factors such as vertical disintegration as a basis for business formation, the role of information technologies in delivering and producing producer services, the role of flexible production systems, issues surrounding changes in services offered and the technology of service production, the geographical and industrial markets of producer service firms, the use of specialist subcontractors and engagement in collaborative activities, and dynamics of the employment structure of these businesses.

Industries included in the sample

SIC code	Industry description	All firms	Lone Eagles	High Fliers	Locally oriented firms
62	Security brokerages	24	2	9	13
737	Computer services	15	3	9	3
81	Legal services	58	0	19	39
871	Architecture and engineering	39	2	16	21
872	Accounting	62	2	11	49
873	Research and testing	12	0	9	3
874	Management consulting	29	4	8	17