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Rocky Mountain Retail . . . Rocky Global Times

The following remarks were made at the 38th annual Colorado Business Economic Outlook Forum by keynote speaker Thomas Shane, President, Chairman, and Chief Executive Officer of The Shane Company.

When Dr. Wobbekind asked me to give this address, his sole request was that at least part of it would be relevant to the Colorado economy. Having heard him speak many times over the years, with his charts and graphs, typically comparing Colorado to the rest of the USA, I knew what he wanted. Dean Manaster asked me to discuss the "Evolution of Retailing in Colorado." Unfortunately in terms of accommodating the specific request of my hosts, but fortunately in terms of opportunity and growth potential for business, to focus retail on Colorado, or any other state, is not truly feasible any more.

By way of my background, I own a retail jewelry business, based here in Denver. We have 22 stores in 11 states; operating in 12 of the top 30 metro areas. Half are west of here, extending to the West Coast; and half are in the Midwest and South East. We are privately owned, Denver based, and professionally managed. Our corporate headquarters are here, and we are very centralized in our operations. To make sure our store managers focus on our customers, we try and keep as much noncustomer-related decision making from our store managers as possible by centralizing it.

Our merchandise mix is very narrow. We only carry diamonds, rubies, sapphires, and pearls; and our mountings are only 14K or 18K gold or platinum. This makes us a category killer, though that nomenclature is no longer in vogue! Our stores are the largest in America in the products that we carry, and we are the market leader in each of the dozen markets that we operate in. I believe this makes us the largest privately held jeweler in America.

We import our stones from the primary sources all over the world. This keeps our staff of full-time diamond buyers busy. I've been buying the rubies and sapphires myself in Bangkok, where I spend approximately three weeks each of three times per year. After over 30 years, I do have the benefit of a global perspective, from how we are perceived as Americans in different countries to what handicaps we as Americans must operate under. I also have been close enough to many of our foreign vendors that I understand their own particular problems—fiscal, political, and otherwise. My relationships are frequently very personal, and multigenerational, allowing me to have established a great deal of trust and confidence in an industry that transacts millions of dollars with only a handshake. You see, our industry uses no contracts, and recognizes no one country's laws. Our industry bases everything on a person's reputation, worldwide. It's a fast game of hardball, where your word is your bond; and you never go back on your word. Imagine a world of commerce without a place for lawyers! I guess that's what makes it fun!

As a retail jeweler, we have always operated differently from our competition. We operate a one-price house, and we never have a sale—in an industry infamous for phony pricing, special deals, and 70% off sales. Not just in jewelry, but in all fields of retail, this makes us the "odd man out" today. It seems that every business article we read this holiday season is discussing

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From the editor . . .

We usher in a new year with a summary of our 2003 Business Economic Outlook Forum, our annual forecast originally presented on December 16th at the Marriott City Center. Last year was the third time since the end of World War II that the state has shown negative job growth. You can find out how the economy will respond in 2003 by reading the sector highlights, the summary of the discussion sessions, and the text of the keynote address by Tom Shane. For further details, check out our Web site at leeds/colorado/brd or call me at 303-492-1147.

—Richard L. Wobbekind

bargains galore as the only way for the stores to get the consumer to respond. Most stores have educated their customers not to buy except when the merchandise is on sale, so it is no wonder that their customers respond as they do. I have little empathy for the retailers that complain about the pressure they feel on their margins, as they are "lying in the bed that they made." Zero percent financing, rebates, and other ways to hide actual costs is equally misleading . . . in retail, autos, airlines, and in other fields as well.

More to the issue is where any business's primary focus should be. I believe that retailers should exist to serve their customers, and in the way that is the most convenient to those customers. Phony pricing and subsequent sales forces the customer to buy when the retailer wants the customer to buy, which to me is backwards. Every day consistent low pricing allows the customer to buy when the customer wishes to purchase; and the tail should never wag the dog.

Everyone seems to want to know how we are doing this year, especially in Colorado. In truth, we are nicely up this year, both in Colorado and across the country. Assuming the bottom doesn't fall out in the next week, we should set a record this year, for our comparable stores. I think we're the exception in our industry, and therefore we've gained market share. For the jewelry industry, as for most of retailing, it's been a tough year. The fourth quarter, I must admit, has been our most challenging so far this year. The Arab attacks of September 11th resulted in many Americans buying sentimental and other stay-at-home types of gifts last Christmas; so we are up against those tragically inflated numbers in an overall soft retail environment this year.

But Colorado is hard to isolate, if one were desirous of doing so, for future planning or other purposes. The more our Colorado economy resembles the rest of the country's, the less erratic it becomes. The main industry in Colorado for the first 40 years after the Second World War was "growth," which I always viewed as a hot air balloon. Such is not the case today. Our Colorado stores typically fare about the same as the rest of the markets we're in, whether it is a rising or a declining period for us.

Indeed, I sense the same increase in stability with much of the world's economy, where I see a smoothing out of national issues as we become more global. National currencies, policies, and even national governments themselves are slowly becoming less relevant. I can only foresee a future where these trends will continue. To me, this is a very positive long-term prognosis for world peace and for world prosperity.

When I started my business, here in Denver back in 1971, things were different. In all fields of retail, there were strong local/regional players. Most of those have disappeared, as they have in every other major market throughout the country. Today, there has been such a tremendous consolidation amongst the retailers that most fields are left with two or three national dominant players. There is a second string of national or regional "want to be's" that is struggling to survive. I predict that they will soon disappear, and consolidation will leave us in each industry with the two or three big global players plus the local mom and pops.

In every market, there is, and will remain, room for a couple of strong local entrepreneurs, who are excellent storekeepers, in each of their respective areas of expertise. In all 12 markets in which we operate, our toughest competitors are the one or two strongest local operators. But unlike even 10, much less 30 years ago, there are fewer mid-size players in the market. They have been squeezed out from both sides. Indeed, the strong national players are today rapidly growing global. One should not lose sight of the fact that, to compound the problem, there has been a general blurring of the traditional channels of distribution; with manufacturers opening their own retail stores to compete with their historical customers. Three days ago, I was in London to see the new DeBeers store. Here, the diamond miner is now also the retailer!

Some of the diamond manufacturers in Antwerp and in Tel Aviv own their own diamond Web sites, trying to sell worldwide to the general public. Yet, their historical customers are the biggest jewelers in the world. So everyone wants to be all things to all people, and this is a worldwide phenomenon. Clearly one cannot isolate Colorado, or even the United States, in discussing retailing any more; the world is just too global to allow for that.

There are many serious issues today that competent retailers face, both challenges and opportunities. One that everyone is curious about is the Internet versus bricks and mortar stores. My background is marketing (in case you couldn't tell that). Frequently I am asked to speak, or give guest lectures at various universities throughout the country to marketing groups. When I talk to marketing groups, I explain our e-store as a marketing cost. However, to a more diverse group, especially one with an economic focus, I shall explain our e-store using the traditional profit center versus cost-of-doing-business argument. First, we set up our Web site, ShaneCo.com, as a service to our existing customer base. Secondarily, we perceived an opportunity to expand that base. We wanted our present customers, as well as possible future customers, to have a similar experience on our Web site as they would in one of our stores. We admit

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Drought 2002: Implications for the Future

Julie Arnett

The drought of 2002 served as a reminder to all of us that Colorado is an arid, semi-desert climate where droughts will continue to happen because of Mother Nature's cyclical acts. The forum breakout session "Drought 2002: Implications for the Future" was moderated by Doug Jeavons of BBC Research and Consulting. Panelists Don Ament, Colorado Department of Agriculture; John Loughry, Denver Water Department; and Dan Luecke, Colorado Endangered Species Recovery Program, discussed lessons learned from the recent drought, what can be done if the drought continues, and how Colorado should respond to long- and short-term water shortages.

With agriculture the third largest contributor to the state's economy, more than 85% of the water in the state is used in that sector. According to Ament, people assume agriculture has more than enough water to fulfill its needs, causing the rest of the state to want to borrow water from this sector. It is very difficult, however, to reduce the amount of water needed by the agriculture industry, as we have seen this year. The majority of Colorado's water comes from a snowmelt system, where the spring runoff is collected in reservoirs to be used throughout the year. Ament believes the effects of the drought this year were not too bad because we used most of the water in our reservoirs. Consequently, we will be starting 2003 with almost empty reservoirs, leaving us no backup if the drought continues.

Although droughts have followed a cyclical pattern throughout history, this drought has been worse than anything we have experienced in Colorado, according to Loughry. The last severe drought was during the 1950s and did not reach the level of severity we are currently experiencing. Fires throughout the state have only complicated the situation. The Hayman fire, the largest fire in Colorado history, along with numerous other fires throughout the state, caused degraded water quality, erosion, and sedimentation throughout our rivers and reservoirs. Loughry believes improvements in forest management could reduce the risk of fire and damage to watersheds. He also thinks since the state has grown so much in the past 10 years we should conserve and recycle more water and increase our storage to keep up with our growing population.

Until we can see the full effects of the drought it is hard to estimate the total cost, but Luecke believes the early guesses of $1 million are too low. It's more likely to be around $2 million, with about half of that in agriculture alone and a higher concentration of damage in the southern half of the state. After experiencing costs this high, we would like to protect ourselves from this happening again in the future, but Luecke says it would just be too expensive to fully protect ourselves. One of the problems with estimating the severity of the drought is keeping a balance between crying wolf too often and doing it enough to preserve the water that is available. According to Luecke, if you cry wolf too much the customers won't respond when it is really needed, but if you don't do it soon enough a lot of water will be wasted until restrictions are set.

Julie Arnett is a senior at CU-Boulder and will be graduating in May 2003 with a degree in architecture. She has worked at the Business Research Division in the Leeds School of Business for the past two years.

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that, to computer savvy tech types, it is obvious that our site was designed by a bricks and mortar retailer. The site just feels that way, and for deliberate reasons. Also, our pricing is the same as our store pricing, and returns or purchases can be handled seamlessly in a showroom, or on the Web; whichever way the customer wants it. We own and therefore control our own fulfillment center, as well as our own call center. We want our customers to experience our own trained personnel, whether they chat, call, e-mail, or visit our stores. To us, our Web site is simply an extension of good customer service.

Financially, it is impossible to tell what our e-store really costs us. Sales generated on-line are of course credited to the e-store. But many of our bricks and mortar customers walk into one of our showrooms with a print-out from the e-store, or at least mention that they have surfed our site prior to coming into our showroom. Sure, some would have come in regardless of whether we had an e-store or not; but some of that business that the stores transact would not have been made were it not for our e-store. Those sales don't get credited to the e-store, so just how much good the e-store does our bricks and mortar stores we can't tell. I do know that there is some real benefit to the bricks and mortar stores, although it is impossible to quantify. We treat the losses generated from the e-store as a marketing expense, charging it to the bricks and mortar marketing budgets. If it makes a profit someday, it will be credit to our marketing budget. I'm not holding my breath for that day, however!

Prioritizing other issues facing retailers is not as simple as identifying the "so-called Web challenge." It is obvious to most business people, bankers,

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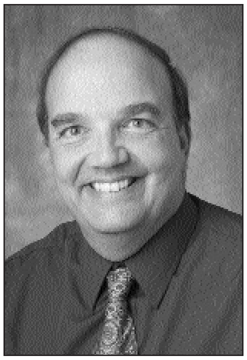
2003 Colorado Business Economic Outlook Forum Sector Highlights

Richard L. Wobbekind



Employment—The goods-producing sectors of the economy will again show negative growth in 2003, with job losses totaling 2,100. These declines will be offset by growth in all of the service-producing sectors. In 2003, 24,400 total new jobs are expected to be added.

Agriculture—Colorado is coming off the worst drought in recorded history and the impact may be felt more in 2003 than in 2002. Overall, the value of crop sales in Colorado established a record in 2002 as increased prices offset lower production. While 2002 appears to be a banner year for crop and livestock sales and net farm income, it came at the cost of selling off both millions of bushels of crops in storage and thousands of head of breeding livestock.

Oil, Gas, and Mining—This sector is projected to experience employment growth of 6.7%, or 1,000 jobs, reaching a total of 15,900 jobs in 2003. This growth will be driven by increased production of coal and natural gas, while crude oil and carbon dioxide production are expected to remain flat.

Construction—The curtailing of construction activity in 2003 will result in a drop in the average employment level to 159,000 workers, a 1.9% decline from 2002. Both single-family permits and multi-family permits are projected to decrease in 2003, by 17% and 27%, respectively.

Manufacturing—After losing 6% of the manufacturing workforce in 2002—12,000 jobs—Manufacturing Sector employment is expected to decline by an additional 100 jobs next year. Nondurable goods employment is anticipated to increase by 400 jobs on the strength of printing and publishing, while durable goods employment is expected to decline by 500 jobs.

Transportation, Communications, and Public Utilities—The TCPU Sector experienced a decrease in employment of 6.9% in 2002 as the sector lost 10,000 jobs. It is projected to gain 500 jobs in 2003. The combined transportation subsectors will gain 1,300 jobs, while the combined communications and utility subsectors will decline by 800 jobs. The bankruptcy filing of United Airlines could potentially lower the forecast.

Finance, Insurance, and Real Estate—Historically, this sector has accounted for about 6% of total Colorado employment and contributed about 9% of total wages. After experiencing a decrease of 2,500 jobs in 2002, employment growth is expected to remain flat in 2003. Slight increases in real estate and the other financial subsectors will be offset by declines in insurance subsectors. Employment in the depository institution subsector is expected to remain unchanged.

Wholesale Trade and Retail Trade—The Trade Sector will continue to be a driver of the economy in 2003, adding 9,100 jobs, an increase of 1.8%. This growth will be driven by a 3.9% increase in retail trade sales, a rate slightly more than one point above the metro area CPI-U (2.6%), and the employment effect of Colorado Mills.

Services—After losing 18,000 jobs in 2002, Colorado's largest sector is expected to rebound in 2003, showing growth of 1.5%, or about 10,000 jobs. Approximately 4,300 jobs will be added in the health services and 900 jobs added in business services.

Tourism, Outdoor Recreation, and Conventions—The combination of drought, wildfires, and the lasting impact of the terrorist attacks of September 11 have negatively impacted tourism, both nationally and in Colorado. Overall, it is anticipated that Colorado's travel, tourism, and outdoor recreation economy will grow 1 to 2% during the first half of 2003 and as much as 3 to 4% in the second half.

Government—As the state's population has grown, so has the need for government services. This sector was one of two sectors to increase in 2002 as 11,100 jobs were added. It will increase by 1.3%, or 4,700 jobs, in 2003, with most of the jobs added at the local level.

International Trade—Colorado's economy is greatly affected by such factors as the stagnant global economy, terrorism, and regional conflicts. The struggling economies of Europe and Japan impact manufacturers and agriculture producers who export to these countries. The global slowdown in the technology sector has continued to negatively affect Colorado exports in 2002 as the top eight exports from Colorado in 2002 were all technology related. Combined with decreased commodity prices and lower demand for agricultural products, Colorado exports are expected to decline for the second year in a row. Despite the fact that economists are not forecasting a major turnaround in the global economy next year, Colorado exports are forecast to increase by a modest 2% in 2003.

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Will High-Speed Internet Speed High-Tech Growth in Rural Colorado?

Erin Hickey

Will broadband Internet fuel economic growth in the many small, rural communities throughout Colorado? There have been many different opinions (and dollars) thrown around in the past few years regarding this issue. A discussion session at the recent Colorado Business Economic Outlook Forum addressed the question, "Will High-Speed Internet Speed High-Tech Growth in Rural Colorado?" Karen Eye, director of the CU Business Advancement Center, moderated the session. Panelists included Jeff Richardson, Colorado Commission on Higher Learning; Kevin Bommer, Colorado Municipal League; and Cathy Ewing, Colorado Software and Internet Association.

Richardson started the discussion by describing the Multiuse Network (MNT) project, a high-speed, multiuse network for the public sector in Colorado. He proposed a few key elements that contribute to the overall vision of the project:

- Rural broadband access would benefit residents, as well as small businesses and local governments.
- High-speed access would foster cooperation between firms.
- The network would contribute to grassroots economic development.

Richardson argued that achieving this vision would create "a progressive rural economic development strategy." He believes that with the help of the Colorado state government and a grassroots commitment from the local communities these programs can, and will, become a necessary means for rural economic development.

Bommer discussed the current challenges facing some of these broadband initiatives. He pointed out that many rural communities lie outside of the service area of the MNT. This means that in order to get connected the towns would be forced to purchase very expensive, "last mile" connections. Of course, some communities would be able to afford this and some would not. This could create "haves" and "have nots."

Despite these potential shortcomings, Bommer maintained that the state must make extra efforts to fund these projects and eventually get every Colorado city and town connected. The possibility of major economic development is just too important to pass up.

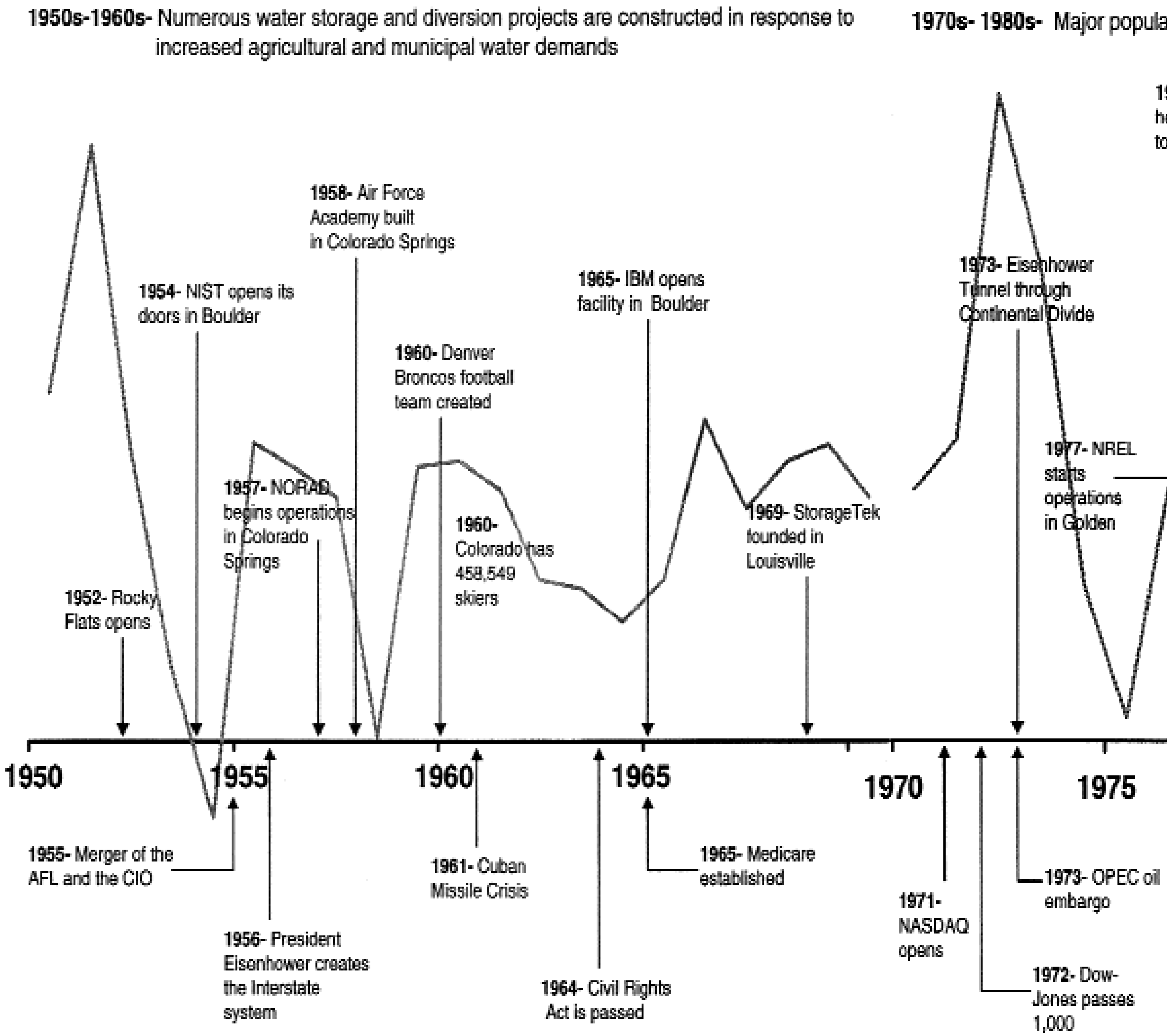
Ewing specifically addressed some of the opportunities high-speed access presents. First, she noted that it would provide individuals with better health-care information, stronger educational opportunities, and increased communications to/from the local governments. More importantly, though, high-speed access will spur economic development in these communities. Some examples of programs that have sprung up already as a result of high-speed access include:

- Research and development centers in resort communities,
- Call/help centers in communities with access to some specialized education, and
- Internet-based solutions providers for agriculture.

In addition, Ewing noted that Colorado's high concentration of entrepreneurs creates another opportunity to develop the idea of high-speed access even further. These entrepreneurs could identify strengths and discuss additional opportunities, as well as bring in leaders of companies looking to locate secondary, or possibly primary, operations in smaller communities. She strongly agreed with the rest of the panel members that the idea of high-speed access in rural communities is something that cannot be ignored.

Despite the current budget cuts and general economic slowdown, broadband access is something all four panelists insist must be seriously considered by the State of Colorado. The opportunities for major growth on both residential and commercial levels are quite intriguing. However, without the financial support of the government, the project is likely to fall apart faster than you can say "fiber."

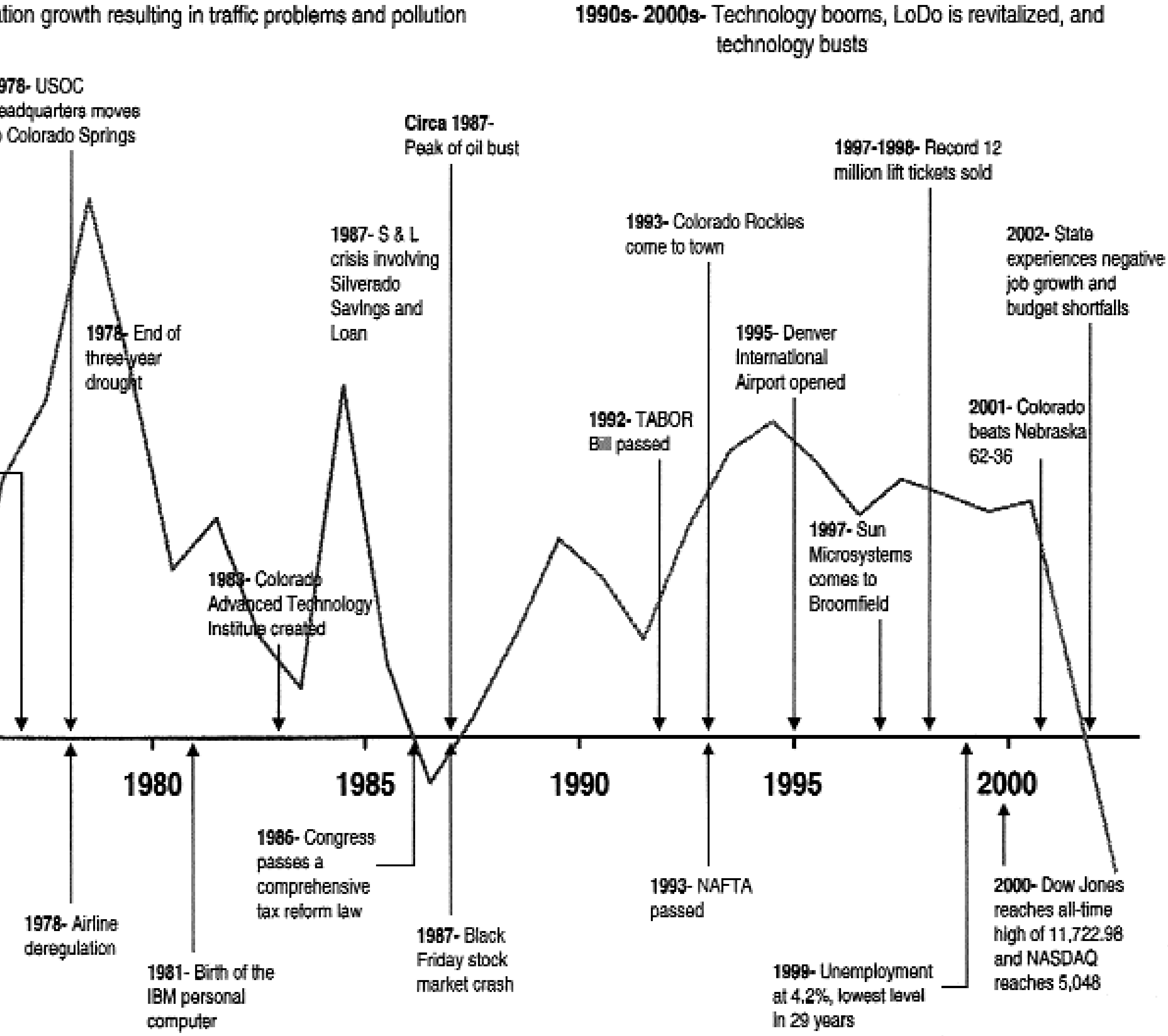
Erin Hickey is a student research assistant with the Business Research Division in the Leeds School of Business at CU-Boulder.



Colorado Then and Now

In 1950, the population of the United States was about 151 million, and approximately 1.3 million people resided in Colorado. Since then the U.S. population has almost doubled, while the population of the state has increased about three times. The United States has experienced wars in Asia, the Cold War, and now the war on terrorism, along with periods of relative peace. The state has endured floods and droughts and economic booms and busts, and basked in the glory of two Denver Bronco NFL Super Bowl championships.

This timeline provides a glimpse of the social, economic, educational, and political changes that have occurred in the last 50 years. These landmarks have laid the foundation for events that will impact our economy in the years ahead. Colorado events are listed on the top half of the page, with the U.S.



events listed on the lower half. The percentage change in employment, shown in the background, illustrates the highs and lows of the Colorado economy since 1950. While there was strong growth during the 1990s, the peaks of growth occurred in 1951, 9.9%; 1972, 10.2%; 1978, 8.7%; 1950, 5.8%; and 1984, 5.7%. During this period the U.S. economy has shown negative job growth seven times while the Colorado has shown negative job growth only three times. In each of the first two instances of negative job growth (1954, -1.2% and 1986, -0.7%), positive job growth followed in the subsequent years. Similarly, the state is expected to show positive job growth of 1.0% in 2003.

This timeline emphasizes the importance of learning from the past. A historical perspective of past events can help businesses make more effective decisions today and in the future.

Health Care: Economic Impacts

Brendan Hickey

Imagine if the cost of groceries increased 15% each year. In a few years, many people would not have the means to purchase groceries, and this would be a serious problem. As implausible as this scenario might sound, we are currently facing a very similar situation. With health-care costs rising at an annual average rate of 15% nationally, and some people experiencing much higher increases, medical care—a service that is perhaps equally essential as buying groceries—is quickly becoming unaffordable.

During the health-care session at the 2003 Colorado Business Economic Outlook Forum, a diverse panel of experts discussed the major issues we are facing in this sector and offered possible solutions to the problem. Terri Evans, StorageTek; Jim Hertel, Managed Care Newsletter; Tim Jackson, National Federation of Independent Business; Bill Lindsay, Benefit Administration and Design; and Chris Watts, Mercer, formed the panel. Donna Marshall, Colorado Business Group on Health, moderated the discussion, which began with an overview of the health-care crisis.

Today, the cost of health care is the number one problem facing small businesses in Colorado and across the nation. In 2002, 98% of small business owners in Colorado experienced increased health-care costs compared to the previous year, while 69% encountered an increase of more that 20%. Amazingly, 75% of these small business owners are still offering benefits to their employees. However, if the cost of health care continues to rise at such an accelerated rate, this number will decrease drastically.

Pulling the plug on health-care benefits altogether is one possible response to rising costs, but it is probably the least appealing to employees. Evans listed several other options for businesses struggling to provide health benefits to their employees. The most important thing, she said, is to educate and empower your employees. Let them know what is happening, and how they can help. Once this is done, the employer has several choices. It can absorb the entire increase, a plan which is infeasible for most employers, or it can pass the costs onto its employees. Increasingly, this is becoming the most popular response for business owners. In a recent survey, 88% of employers said that they would pass costs onto their employees. This is done either entirely or partially by increasing premiums, copays, and deductibles, and by changing the cost-sharing design.

Basically, the panel agreed that the cost of medical services will inevitably continue to rise, and suggested that a fundamental change in behavior may be needed to mitigate the increase. An estimated 50% of medical care in this country is unnecessary. As costs continue to rise, it is essential that employers educate their employees on this matter, redesign the plans they offer to focus on those who do not rely heavily on health care, and perhaps even financially reward those who use these services with moderation. A reduction in the number of unnecessary doctor visits, procedures, and other excessive uses of health-care services will partially offset rising costs.

But why is the cost of health care rising so rapidly in the first place? The panel pointed to several key factors. First, with the government cutting payments to Medicaid patients, hospitals are adjusting pricing to make up for this lost revenue. This burden is falling on commercial payers. Additionally, a serious local and national nursing shortage enables nurses to demand high pay. These costs are also shifted over to the consumers. As Watts pointed out, increasing hospital costs account for 51% of the overall rise in health-care costs. Higher costs for prescription drugs further add to the problem, along with rapid technological advances. New drugs, tests, equipment, and supplies come out every day, and while this greatly improves the quality of medical care, it also makes it increasingly expensive.

The panel concluded that the outlook is not a bright one. Health-care costs are a leading contributor to unemployment, they are the number one cause of personal bankruptcy, and they are draining the profits from many local businesses. In addition, high costs prohibit many individuals from having health-care benefits; hence, they remain dangerously outside of the system. Costs are expected to continue to rise, but there are some bright spots within this service subsector. The panelists agreed that technology is leading to a higher quality of medical care. In the future we can look for further technological advances to increase quality and efficiency, and possibly even lower costs. The positive effect of consumers' involvement with their health care also contributes to the cautious optimism held by industry experts. In the end, the future of health care is unknown. We can only be sure that it will continue to play a definitive role in determining the direction of the Colorado economy.

Brendan Hickey is a student research assistant in the Business Research Division in the Leeds School of Business at CU-Boulder.

Population, Labor Force, and Personal Income

Mary Banks

The panel presentation population, labor force, and personal income brought together four Colorado-based economists, two of whom specialize in demographics with the other two working in the specialty area of labor force/market issues. James Chivers, Colorado Department of Labor and Employment, moderated the panel and began his outlook by stating that the "recession is now over." He further stated that the double dip was "doubtful." Chivers delivered more good news when he pointed out that the United States as a whole has historically had a higher unemployment rate than Colorado, and that trend continues. Colorado's employment growth is predicted to be 1% for 2003, with growth localized in mining and government services.

Joe Winter, Colorado Department of Labor and Employment, discussed labor market issues, unveiling a new classification system—NAICS (North American Industrial Classification System)—designed to keep up with new industries and sectors. The new system will support 358 new industries and 20 broad sectors. Developed cooperatively with the North American Free Trade Agreement (NAFTA), this system will allow comparative data analysis that should eventually expand into a worldwide classification system. NAICS is process based, not product based, and will reflect the economic landscape more clearly as it redefines manufacturing, trade, and services.

Jim Weskott and Richard Lin, both with the Colorado Division of Local Government, presented a demographic-based analysis of the Colorado economy, noting that net migration is driven by our economic climate. They estimate that 20,000 people will enter the state, with most of our current population located in the Front Range. This area will experience 1.3% growth. Because of the influence of Denver International Airport, Greeley will grow by a whopping 3.1%, with no provision for improvements to Interstate 25 or other infrastructure issues. Due to worsening economic conditions, Colorado will experience the least amount of population growth among the western region.

The downturn in the stock market was especially painful to the state inasmuch as it had enjoyed a 9% contribution from capital gains and home sales, which is now all but dried up, reducing our economic power considerably. Both presenters agreed that median income is flat and declining as the outlook for the economy is "very tenuous."

The question and answer period revealed a number of things not discussed in the above presentations:

1. Personal income does not include capital gains.
2. Personal income is derived from the census.
3. The state will start spending for roads in 2012.
4. Thirty percent of Weld County commutes to the Denver metro area.
5. Inflation will be lower—in the 3.5% range.
6. Earnings will be lower or flat with the "worst employment environment in a long time. . . ."
7. New jobs will be up 1% in 2003, with entrepreneurship a strong force in the economy, but never showing up in any economic indices. We have 50,000 sole proprietors operating in Colorado who are basically not accounted for in wage and salary employment statistics.
8. Areas of growth include health care, government, and mining. Health care is strong because of increased population and changing demographics. Government employment will continue to grow at the local level. And there is always mining, which will grow by an expected 9%.

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and economists alike that America is over-stored. The square footage dedicated to retail makes no economic sense, when compared by what dollars of sales must be generated per square foot of real estate to make for a viable business. Needless to say, the Web doesn't help this issue, as it takes revenue from the total retail pie without decreasing the square feet dedicated to bricks and mortar retailing. In a nutshell, there are too many players chasing too few retail dollars, resulting in an overall weakening (by this defacto dilution) of all the retail players.

There are many factors that cause this phenomenon to exist. Before a consensus will take place to deal with the problem, the overall feeling in America must shift to at least acknowledge that it is a problem. If one were to argue that this over-storing is good for the consumer by keeping costs of goods down because of keen competition, then most Americans would suggest that it is only the retailers that have a problem of tough competition; and thus the consumer not only has no problem but indeed may be a direct beneficiary of over-storing. I don't subscribe to that theory, however.

Many of the American laws and policies, both domestic and foreign, are designed by well-intended people for societal reasons. Helping the most number of people, while hurting the fewest, has been a politically popular concept, which gets votes. In fairness, it is not unique to America, if I correctly recall my reading of Robin Hood.

In an ever globalized economy, we need to think who we want our laws to help, if it is indeed the purpose of our laws to achieve societal goals (not that I espouse that they should). In other words, who really lives in Sherwood Forest, or where are the true borders of this forest?

In my simplistic, and perhaps naive world, capitalism was based upon survival of the fittest. It seems Adam Smith has been out of favor for quite some time, at least in terms of the U. S. bankruptcy laws. Notions of minimizing the pain and preserving jobs seem to have usurped what used to be known simply as acknowledging failure. Without going so far as to advocate debtor's prisons, there are many reasons to argue that a legal system which forces failed companies to close down is a superior system. Besides affording the surviving companies more opportunity to prosper, and besides further opening the way for new start-ups to have a fair chance, the general public may well benefit as well.

I do advocate that we take a fresh look at our bankruptcy laws, using common sense. Preserving failed businesses, with debtor-in-possession management, is inherently unfair. These losers get a judge to award them effectively free inventory to compete with those of us who still have to pay for our goods. These losers get to selectively vacate their poor leases and other contracts, while we have to live with our mistakes. To add insult to injury, our cost of inventory actually goes up, as our industry's vendors must raise the costs to us to cover the bad debt losses that the courts have forgiven. Thus, the strong get weakened, or averaged down to mediocrity. One jewelry chain we compete with in many cities is operating under Chapter 33 (and for you nonlawyers, that means Chapter 11 for the third time)!

I would suggest that were the weak stores forced to close, the strong stores would be stronger, and in fact then be able to lower their prices to the consumers by competing with other strong stores. Our real estate costs would be lower, as well as marketing and other costs of operations, thus making us more efficient. American consumers would benefit! The good people that became displaced would find jobs, either with us or even by starting their own businesses, where they would stand a chance of surviving, as the overall environment would not be so over-stored.

The U.S. bankruptcy system also needs to assess what really is the proper way to define "societal goals," if it is determined to seek to base its actions upon them. The world has shifted in the last couple of decades to a global arena, yet our laws have not changed. Do we want to consider the impact upon American companies operating in the world arena with our laws? If one assumes that most retail players in America are American, we're hurting our own chances of strong American companies competing globally by being weakened at home. Thanks to our bankruptcy laws, one of my major competitors is British today. They were able to buy an American jeweler out of bankruptcy (and indeed have turned it around). I have no problem competing with the British, here or anywhere else for that matter. I only hate to think that my tax dollars, not to mention operating acumen, has allowed this competitor to get a free ride at my expense.

Of course, I never asked the folks at General Motors or Ford how they like competing with what is now Daimler's Chrysler unit after Lee Iacocca was so successful in getting us to bail it out.

I am sure it would not be popular for me to speculate about the wisdom of us entrusting $1.8 billion of our taxpayer dollars to United Airlines. I admit that I do have a problem with the concept of employee owners in general, much less employee owners that remain unionized, and then turn around and vote themselves outrageous salaries that no company can afford to pay. Again, where is the common sense? If yet another Chapter 11 prevails over a Chapter 7, I can envision the day when a Lufthansa would wind up buying United; after United gets rid of their bad business decisions that they have made over the past decades, and thus wind up with an unfair advantage over other still American owned airlines.

While I don't profess to be an expert on the airline industry, I can't help but assume that with enough liquidations of existing carriers, thus lowering the cost of both used aircraft and trained labor; there would be ample room for start-ups to follow in the path of Southwest, JetBlue, and our own Frontier.

With the Boston Archdiocese now threatening to use the bankruptcy laws to avoid some of its liabilities, I think a reasonably rational person must call into question our overall bankruptcy system. I mean, churches don't even pay taxes!

The issue isn't the airlines, the churches, or even the Kmarts of this great country of ours. As a country, we need to decide if our laws should try and help American interests get stronger, first at home; and thus be in a better position to expand globally. If that concept is a societal goal, then we must let those companies that have failed shut down and disappear. Others will rapidly take their place, if there is an economic need for them. The long-term displacement of workers and physical assets will be minimized by keeping the road-kill clear of the highway.

America offers the greatest opportunities in the world for any field of business. We must all take pains to keep it that way. Risks of doing business must be reasonably predictable. Our tort laws must provide reasonable punishment to discourage wrong acts by any business. On the other hand, awards to disgruntled ex-employees must be limited to some factor of reasonableness. Jury awards to dissatisfied customers must make common sense. The notion of certain plaintiff's attorneys thinking they have a chance at the Irish Sweepstakes by going after deep pockets is fundamentally wrong. These attorneys who have nothing better to do, and therefore feel they have nothing to lose by taking some of the frivolous contingency cases that we've all read about, must be controlled. I know the argument about not causing the plaintiffs a chilling effect. On the other hand, when the risks of being in business where people are trying to play tag with you, for millions of dollars of your money, becomes too great there will be another chilling effect . . . fewer businesses wishing to continue to operate in America. And that risk, I would suggest, would have more of a negative impact on our overall society. Serious tort reform must be initiated in all of our states, including Colorado!

I consider myself a very fortunate person. I both have a successful business and the good fortune that I truly love operating it. I love the challenge and most importantly find it fun. But more than that, it is a truly international business. I have learned about people on almost all continents of the earth. I work with Buddhists, Hindus, and Muslims, as well as Christians and Jews. I work primarily with other entrepreneurs in Europe, the Middle East, and Asia. They are typically second, third, or fourth generation in the same business, and we have a lot in common. This allows me to get to know them on a very intimate basis. And because every stone I buy has to be individually negotiated, I will make tens or even hundreds of separate business transactions with each of these people over a period of a few days, so to say that I get to know them well is an understatement! Like me, they are interested in long-term relationships. They want to make a profit, and they want me to make a profit. I go out of my way to leave enough meat on the bone for the relationship to be mutually beneficial. And I find that people all over the world are the same . . . good people want good things, for themselves and for their business partners. Respect is earned over time, as is trust. I sometimes wish that our American diplomats, in dealing with the diplomats of other nations, could experience a few weeks buying diamonds in India or rubies in Bangkok.

Thank you, and I am glad to entertain questions.

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Grow Your Own: Bottom Up Approaches to Economic Growth in Colorado

Cindy DiPersio

Economic growth has always been a big issue in Colorado, and it is especially critical in this period of budget deficits, employee layoffs, and drought. Moderated by Jesse Silverstein of Development Research Partners, this discussion session at the Colorado Business Economic Outlook Forum examined ways to tackle economic issues at the local level.

Joe Snell, Growth Capital Alliance, reviewed "Innovative Approaches to Economic Development." A 501 C6 nonprofit organization founded in March 2002, Growth Capital Alliance's mission is to promote the use of growth capital as a new economic development tool. He outlined the Certified Capital Company Program (CAPCO), a method of funding new local businesses. A national program, CAPCO Colorado makes capital available to small companies in the state. Funded companies use the capital to start, grow, and expand, resulting in a bigger tax base for the state. Traditional economic development strategies, which often focus on recruiting, must be balanced with new approaches; CAPCO is one such approach.

Tony Chacon, City of Westminster, discussed Westminster's plan to revitalize older neighborhoods in his presentation entitled "Infill and Redevelopment: A Sustainable Approach to Economic Development." A redevelopment/sustainability approach to development facilitates small business development and retention; focuses on small lot infill and/or land assemblage rather than large parcel development; regenerates developed areas, not virgin land consumption; and views housing as an essential element. Chacon reviewed the Lowell Boulevard and 73rd Avenue Redevelopment Project, which, when completed, will include 20,000 to 30,000 square feet of commercial space, 30 to 40 loft condominium units, and 50 to 60 town homes. Benefits of the development include higher wages, enhancement of the economic base, and increased revenue generation and property valuation.

Hazel Hartbayer, Arvada Economic Development Association, outlined the association's approach to business retention. Funded operationally by the City of Arvada and governed by a private-sector board of directors, the association is responsible for providing vision and direction to Arvada's overall development efforts. Key elements of these efforts include (1) being passionate about what the association does and what the area's businesses do, (2) responding quickly to questions and concerns, (3) working as a partner with other groups in the area, (4) genuinely appreciating businesses, (5) identifying community leaders, and (6) acknowledging greatness.

These difficult economic times make it even more critical to examine new approaches to stimulate economic development at the local level. The speakers at this session provided examples of development tools that can be used to grow our businesses and help our small business entrepreneurs.

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