

Welcoming Volkswagen



Applying Lessons Learned from Upstate South Carolina to the Tri-State Valley

One hundred Chattanoogaans traveled to Greenville, South Carolina, October 14-16, 2008 to learn more about what that community had done in the early 1990's to prepare for, welcome and integrate the BMW auto assembly plant. The intent was to have the group return with a clearer understanding of what regional governments, businesses, educational institutions and others need to be doing to prepare for the integration of Volkswagen into the Tri-State Valley area of Southeast Tennessee, Northwest Georgia and Northeast Alabama.

The trip was conducted by the Chattanooga Area Chamber of Commerce, and the invitation was co-signed by Mayors Ron Littlefield and Claude Ramsey. The attendees represented Chattanooga area business, government, and non-profits.

The group was divided into four study tracks: K-12 Education; Higher Education & Workforce Development; Industrial Development & Physical Infrastructure; and

Relocation Marketing, Community Assimilation & Quality of Life.

On the final morning of the trip, the track groups spent two hours discussing what they had heard and learned and distilling the key lessons into draft action plans. The results of those sessions are included in the appendix of this report.

This report is not intended to be an exhaustive list of steps necessary to assimilate Volkswagen. Rather, it represents directional suggestions from a group of interested citizens who based their comments on the important lessons learned by another community facing a similar opportunity.

Many of the suggestions, including those regarding education and workforce training, apply not only to Volkswagen, but to other manufacturing companies – such as McKee, Alstom and Aerisyn – expanding their operations in the Tri-State Valley area.

The Greenville trip was packed with informative presentations and practical lessons, some of them specific to the individual study tracks and others with a wider application. If nothing else, the Chattanooga delegation learned that an automobile assembly plant is not garden-variety economic development. The South Carolina BMW plant required massive incentives and other investments on the part of cities, counties and the state, and the investments continue to this day. On the other hand, the returns are astonishing, from job growth to educational attainment to downtown redevelopment to overall civic self-esteem and prosperity.

It is true symbiosis – the community investing in a robust economic generator that continues to improve the fortunes of the community 16 years after it was first announced.

The numbers tell the story:

9 billion	Value in dollars of the estimated annual economic impact from the BMW plant.
5,400	Number of employees at the BMW plant today.
3.9	The BMW job multiplier, according to a University of South Carolina study.
20	Number of BMW suppliers in the U.S. in 1992.
140	Number of BMW suppliers in the U.S. today.
300+	Number of auto-related companies in South Carolina.
45,000	Number of South Carolina jobs currently associated with the automotive industry.
75,000	Starting salary in dollars of a technical worker in the BMW plant.
600 million	Dollar value of BMW's initial plant investment in 1992.
1.9 billion	Dollar value of BMW's total plant investments to date.
10 million	Dollar value of BMW philanthropic contributions since the plant opened.
2	Number of BMW-endowed chairs in automotive engineering at Clemson.
37,000	Attendance at the BMW Zentrum and Gallery at the plant in Greer.
157,000	Number of BMWs assembled at the Greer plant in 2007.
60	Percentage of those cars exported out of the U.S.
500	Number of international media who came to Greenville/Spartanburg to cover the introduction of the BMW X6.
30	Number of days those media reps visited South Carolina.
68	Percentage population growth in Greer SC from 1990 to 2000.

40/2030	Numbers associated with the Upstate initiative to have 40% of the population holding a four-year degree by 2030.
5/50,000	Respectively, the number of school districts and students in Spartanburg County.
1/56,000	Respectively, the number of school districts and students in Greenville County.
5:1	Current ratio of percentage growth in land development to percentage of population growth in the Upstate region.
0.5:1	Ratio of percentage growth in land development to percentage of population growth prior to arrival of BMW.

Viewed from any angle, BMW has been an economic juggernaut for the cities of Greenville, Spartanburg and Greer and the area known as Upstate, which comprises the 10-county area surrounding the plant. The presenters who shared their experiences with the Chattanooga group were unanimous about that. But... they are 16-year veterans of the BMW-Upstate partnership, and they had a lot of practical advice for Chattanooga preparing to enter a similar partnership with Volkswagen.

That advice can be distilled into eight major lessons:

1. Think and act regionally.
2. Prepare for changes in education and workforce training.
3. Be transparent in hiring.
4. Pay attention to minority involvement.
5. Create effective communication channels.
6. Bridge the cultures.
7. Prepare for growth.
8. Calibrate community expectations.

Given lesson number one, there is work enough for everyone. This report is a road map to get us started.

An elaboration of the lessons are presented here along with some of the starter suggestions for addressing them in our region as proposed by our participants in the working sessions.

1. Regional Cooperation is Imperative

Throughout the trip, across the learning tracks, from presenter to presenter, we heard about the regional cooperation that was required to successfully accommodate and assimilate BMW into the Upstate. Whether it was on job training and hiring or roads and pipes, three cities, numerous counties and myriad state departments and legislative members had to work together.

The cooperation among three cities in three counties the ten counties composing the Upstate region, and the state itself wasn't perfect, nor is it now. Our presenters spoke of "fiefdoms" and "egos" and other

nagging remnants of provincialism. Carl Flesher, who was BMW's first North American employee and who now serves as the Director of Global Initiatives for the International Center for Automotive Research (ICAR) at Clemson University, said cooperating as a region was one thing the local community could have done better. Our hosts urged us at every turn to avoid the kind of turf protection so often associated with industrial and economic development.

Furthermore, when it came to hiring, Mr. Flesher felt the company should ensure that the residents of South Carolina, who had underwritten the incentives associated with the BMW project should receive the benefits from that investment. "South Carolinians put up the money, South Carolinians ought to get the benefit," Mr. Flesher said. This led to the decision that the first class of hires for the plant would come from people who were residing within 50 miles of the plant on the day it was announced.

Unlike South Carolina, Chattanooga's political jurisdictions also include multi-state considerations. The Georgia line is less than ten miles from the VW plant site, and when Alabama lost the plant to Chattanooga, officials there were quick to say it would still have an economic impact on their state. Obviously, there is an expectation that the economic impact will transcend political boundaries.

Starters:

With so many issues to be addressed regionally, the Tri-State Valley should identify a mechanism with appropriate and duly appointed leadership to begin tackling regional matters, including those related to education (K-20), supplier recruitment, workforce training and hiring, private investment and development, and marketing.

2. Brace for Changes in Education and Training

There were important messages conveyed about education and workforce training. First and most obvious, well-prepared workers are imperative to the long-term success of BMW. Local communities have faced numerous challenges in meeting BMW's workforce expectations. To begin with, there are six school districts in the area immediately surrounding the plant (Greenville County has one, Spartanburg County has five). To meet the demand for highly-skilled workers, superintendents and school boards have had to work across the lines of their districts to find common ground. That, coupled with what Spartanburg Chamber President David Cordeau called "a deep culture of low expectations in education" presented a stiff challenge. But the

combination of BMW's expectations and the desire of locals to qualify for the plant jobs have made a difference. "Now, the bar for education and work force training gets raised every day, and corporate expectations are pretty high," Mr. Cordeau said. As previously noted in this report, there were strong messages about educational attainment. Mr. Cordeau took Carl Flesher's message ("BMW does not hire high school graduates") one step further, stating regional businesses now share the opinion that "without a high school diploma, we have no use for you," and "with *just* a high school diploma, you are nothing more than a commodity."

The school systems are doing their part. With a two-year degree being the threshold achievement, every middle school and high school in the region supplements a traditional, college-oriented counselor with a full-time career counselor who has a background in business.

Preparing technically proficient workers has become a focus for the state's technical community colleges. Five colleges and the South Carolina State Technical College System have created *TechReadySC*, a collaboration to promote *mechatronics*, which is defined on their website as "a flexible, multi-technological approach in the integration of Mechanical Engineering, Computer Engineering, Electronics, and Information Sciences."

This interdisciplinary approach to the pursuit of high-tech knowledge is especially prevalent in Germany, which helps explain why BMW employs 200 mechatronic technicians. They earn \$28 an hour plus overtime, which they consistently get. David Just with *TechReadySC* told the Chattanooga group that there is not a mechatronic technician in the Upstate that is not working.

Math and science are the foundations for these jobs, and South Carolina has made a new commitment to providing K-12 students with the curricular emphasis necessary to provide the knowledge base they need.

These skill sets are not exclusive to either Volkswagen or other auto assembly plants. They are the same kinds of skills that Chattanooga's existing businesses and industries have been looking for, and as Alstom, McKee and others contemplate major expansions, they will also be looking for well-educated, technically skilled workers.

Starters:

Regional cooperation will be important here in order to create articulation between high school and higher

education programs; to create the appropriate business partnerships among business leaders, school boards and elected officials; and to guarantee the efficiency in the delivery of training programs and the elimination of duplication where it presently exists.

3. Be Transparent in Hiring and Vendor Contracting

A lot of people wanted to work at BMW. It was a cause of some anxiety for existing small- and mid-size businesses, who were convinced that the plant would lure their best workers away with high wages and extraordinary benefits. The first round of hiring attracted 60,000 applicants for 1,000 jobs.

To be honest, our Greenville hosts were not consistent about this story. Some said there was no cannibalization of smaller companies, while others indicated that there was some gravitation to the new jobs at BMW.

There was also concern the plant would generate an influx of out-of-state workers. BMW addressed this concern by adding a prerequisite that employees would have to have established residency within 50 miles of the plant location at the time of the announcement.

In any case, BMW took the step of convening regional CEOs to explain the company's intentions for hiring and recruiting. That element of transparency helped.

Starters:

Again, the community will look to the company to communicate its hiring intentions – whom they will be hiring, in what numbers, with which skills and at what pay. The business community can assist by creating appropriate forums in which to discuss the intentions and the opportunities they can create for area workers.

4. Pay Attention to Minority Involvement

African-American members of the Chattanooga delegation were straightforward in questioning the host presenters about minority inclusion in the BMW opportunity. Bobby Hitt, Director of Communications for BMW, reported that the creation of a minority advisory board comprising representation from education, construction, banking, law and other sectors was one of his first jobs. Working together they set a goal to make the BMW workforce resemble the Upstate population: 80% white, 20% black. They achieved their goal and

subsequently exceeded it when the plant moved to double shifts.

Carl Flesher of ICAR stressed the importance of inclusiveness, noting that state incentives meant diversity had to be applied in principle and practice, and it began with construction, the first and most visible opportunity to engage a diverse group of local businesses.

Starters:

The region should work with Volkswagen to establish an advisory group, comprising representatives from both the company and the region, to promote and monitor diversity in recruitment, hiring and contracting. This should be a two-way street, with the local business advocates providing opportunities for businesses to achieve requisite certifications and to form inclusive, mutually beneficial networks.

5. Create Effective Communication Channels

Bobby Hitt, the BMW communications chief, was hired at the outset because, in his words, he “spoke South Carolina.” Beyond that simple fact, though, he also knew the community, and, as a former newspaper editor and lobbyist, he knew the workings of the state legislature.

Mr. Hitt became BMW's “man on the ground.” He became the face and the voice of the company on boards and in civic settings, and he gave the community a person to approach on BMW-related matters before the management team was in place.

It was Mr. Hitt who sat down with regional CEO's to explain BMW's hiring practices and reassure them that the company would not be out to steal their employees. He made it one of his first jobs to create a minority advisory board to inform decisions about hiring and other diversity issues, and he was the one who fielded early philanthropic requests. (At the end of the first year – before the plant was completed and manufacturing automobiles, before they had a payroll – those requests totaled \$18 million.)

ICAR's Carl Flesher stated that BMW did not understand local political jealousies and were unprepared for egos and territorialism that came along. Mr. Flesher told the story of carefully vetting a 3,000-person invitation list for a BMW event and then receiving an angry three-page letter from one person who got left off the list.

To hear him tell it now, Mr. Hitt sounded like he was a critical part of the development in the first few

months. He gave Upstaters a constant, identifiable BMW representative to whom they could take their cares and concerns; second, it gave BMW employees and families a knowledgeable point of entry into the community.

Starters:

The Chamber is committed to the establishment of Team VW, a collaboration with the State to create a local office to address all issues related to the opening of the Volkswagen plant. Slated to be located in the Chestnut Towers, the office will be the clearinghouse for questions from the community to the company. Obviously, the hiring of a Volkswagen employee rests solely with the company. Once that person is in place, Team VW will work with VW to develop a community relations plan and, at the direction of the company, and in accordance with their guidelines, create appropriate clearinghouse positions to field philanthropic requests and other community solicitations.

6. Bridge the Cultures

Greenville's experience indicates that the marriage of cultures presents challenges beyond the obvious language barriers. Specifically, they spoke of the trailing families and the challenges of integrating them into the community during their stays, which can be as brief as three years. Many of the spouses are professionals who, lacking domestic licenses and credentials, are unable to practice in the United States. However, they make great volunteers, and those who are parents are, of course, intensely concerned about their children and the education they are receiving.

South Carolina has hired German Culture teachers whose role is to prepare the students for their return to the homeland. Volunteers created an International Center to help newcomers in a variety of ways, including assistance in obtaining a driver's license, information about getting utilities turned on, translation services and business referrals. One of the Center's most successful activities is an International Women's Club, which provides a social and volunteer portal into the larger community. Many of the volunteers in this peer group are traveling spouses who never went home.

Because many of the managers were career-building, there was a keen interest in their children receiving German grammar as well as math instruction in their native language.

Starters:

The regional conversation should lead to the creation of, among other things, an international relocation initiative to welcome and assimilate executives and their families. It should also provide an effective mechanism for working with regional school systems to incorporate multi-cultural elements into their curriculum to ensure the appropriate education for German students who will be re-entering the German school system in a few years.

7. Prepare for Growth

BMW spurred growth throughout the Upstate region, though it did not happen as fast as some predicted. Because of the dictate that the first round of hires would come from within a 50-mile radius of the plant, most of the first 1,000 employees were already residing in the region. As hiring continued and as suppliers moved in, however, the population in the region began to grow at a rapid rate. In Greer, the city in which the plant is located, the population has grown from 10,000 to 25,000, and the area of the city has grown from seven square miles to 27 square miles.

Brad Wyche, director of Upstate Forever, the regional smart growth agency, presented a study by Clemson University projecting the Upstate region's growth rate through the year 2030. The study showed the region is currently experiencing a growth rate ratio of 5:1. That is, for every ten percent increase in population, the region sees a 50% increase in developed land. The current rate at which the region is being "paved over" is equal to 86 acres a day, the equivalent of a major regional mall.

If growth continues as this rate, the amount of developed land, which stood at 222,745 acres in 1990 (two years before the BMW announcement) and 576,336 acres in 2000, will increase to 1,522,891 by the year 2030. There is little disagreement that this represents an unsustainable rate of development for the region, the Upstate Forever is diligently working to implement smart growth strategies to reduce the growth rate ratio from 5:1 to something closer to 1:1. (Mr. Wyche pointed out that the region's growth rate ratio in 1990 was 0.5:1.)

Much of Upstate's growth management work is being done in hindsight. As Chattanooga prepares for the welcome growth that will come with the Volkswagen investment, we will do well to begin planning sooner rather than later to manage that growth in a manner that ensures our quality of life is sustained throughout the region.

Starters:

Managing growth is always a potentially controversial subject, so communication will be critical. Growth planning should be central to the regional discussion with a shared goal of increasing the economic prospects of the entire Tri-State Valley while preserving the quality of life that played such an important role in attracting Volkswagen here in the first place.

8. Calibrate Expectations

The announcement that an auto manufacturing plant is coming to a community is a source of tremendous pride and excitement. It also brings almost instantaneous hope and expectation that economic prosperity is just around the corner. People from all walks of life envision new, higher-wage jobs, whether at the assembly plant or with a supplier.

The non-profit community gets amped up, too, perceiving that any company willing and able to pump a billion dollars into an assembly facility will surely be able to pump significant charitable dollars into the region's institutions of arts and culture, education and social services.

The reality can be something different, as was the case in South Carolina. BMW came to the philanthropic table slowly. Mr. Hitt advised the Chattanooga delegation that "there is no philanthropy in Germany," where taxes fund education, health care and the arts. Hence, BMW started slowly, working "to figure out its place in the community." It took the company about eight years.

As for jobs, an auto manufacturing plant comes with those "jobs of the future" we often hear about – manufacturing jobs with far greater training prerequisites than traditional factory jobs. But remember what Carl Flesher, who played a critical role in BMW's startup and continued to be one of the plant's principal leaders for more than a decade, stated forthrightly: "BMW doesn't hire high school graduates." The company places a premium on experience, insisting on a minimum of three years experience along with a strong preference for workers with some kind of post-secondary training up to and including two- and four-year degrees.

There is also the challenge of ingrained misperceptions about the kinds of jobs BMW and its suppliers have to offer. Many people (parents especially) picture the plant jobs as "dirty" and "low-paying." Part of the community's challenge is redefining terms like "vo-tech education" and

learning new ones like *mechatronics*. The fact is that these jobs pay well, they happen in clean, well-lit environments, and they require a whole lot more education and training than similar jobs did in the past.

Mr. Hitt also noted that Germans do not intuitively understand minority supply chain issues, and that this, too, must be carefully worked into the corporate culture from the beginning, with patience and understanding on both sides.

Starters:

Creating realistic expectations is primarily a communications issue. Businesses and aspiring job applicants need to know how the company will be working and what skills they will be seeking. Once those guidelines have been established, we need to train appropriately and position local and regional businesses to provide their goods and services to VW and its suppliers.

Amid the presentations and discussions, there were other moments of enlightenment, but these eight lessons provide a framework within which to conduct more targeted conversations with more specific objectives and tasks.

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