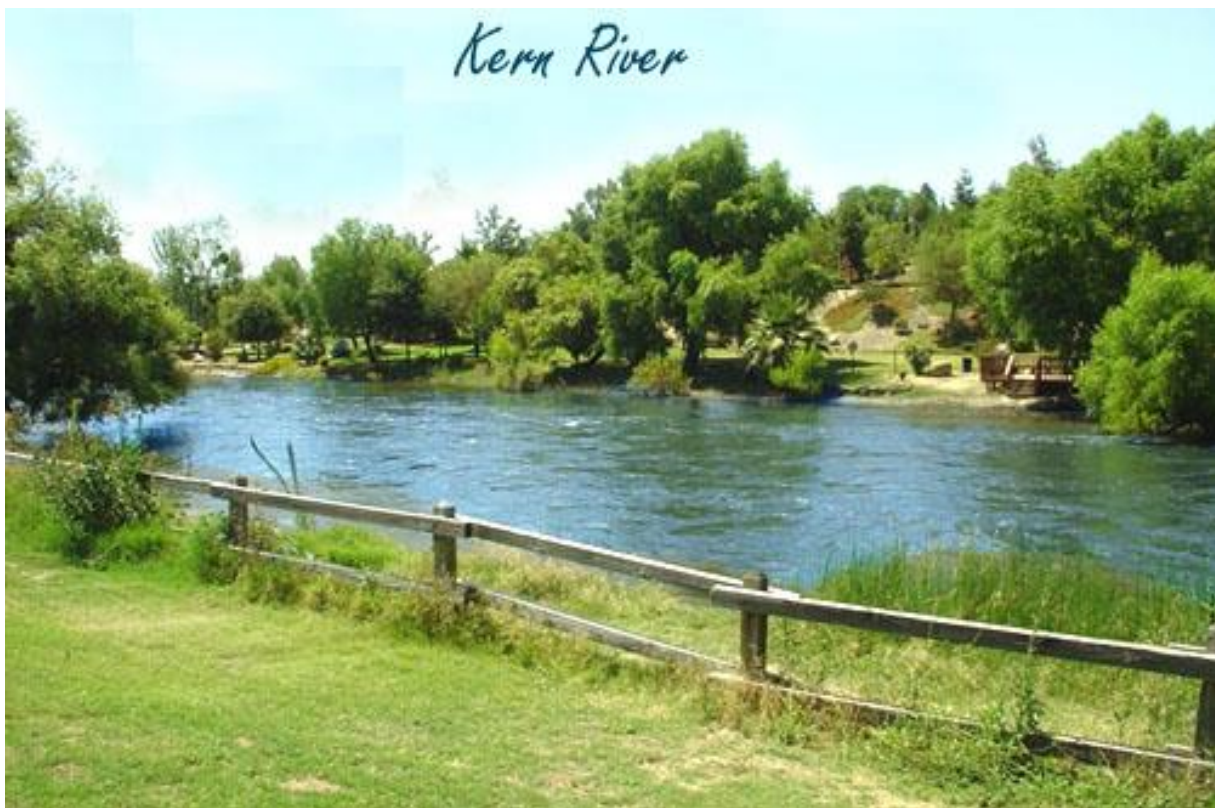




# KERN ECONOMIC JOURNAL

2015 Second Quarter

*Winner of the Award of Merit from California Association for Local  
Economic Development*



*KERN ECONOMIC JOURNAL* is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

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Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in electronic copy. Individual authors are responsible for the views and research results.

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*Kern Economic Journal*

## 2015 Second Quarter

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#### **A Tribute to our Predecessors**

Both Dr. Michieka and Dr. Gearhart would like to extend our heartfelt gratitude towards the outgoing editors, **Dr. Mark Evans** and **Dr. Abbas Grammy** (also the founding member of the Kern Economic Journal) for their expertise, guidance, and trust in allowing us to take over the Kern Economic Journal. In endowing us with this responsibility, we are grateful for the opportunity to connect with our new community and where we both call home: Kern County.

Through countless hours of work and dedication, they have managed to package information Kern County's economy in a journal that provides a reference point for many. This journal allows business owners, community leaders, and those with interest in the community to keep abreast of the trends, both micro and macro, and help improve where we live, one step at a time.

We would not be able to undertake such an important endeavor without the mentorship of both esteemed colleagues, and will continue to honor their dedication to the craft by providing the highest quality articles and analysis available, allowing all of us to better our home.

Thank you **Dr. Abbas Grammy** and **Dr. Mark Evans!**

# ECONOMY AT A GLANCE!

## 2015 SECOND QUARTER

NYAKUNDI M. MICHIEKA & RICHARD GEARHART III

### National Economy<sup>1</sup>

The world's largest economy of more than \$16.5 trillion, the United States, grew by 2.3 percent, but at a much faster rate than the real Gross Domestic Product (GDP) growth rate from the first quarter of 2015, where real GDP grew by 0.6 percent. Real GDP increased largely because of increases in consumer spending, durable goods (mostly vehicles and parts) and non-durable goods. This was boosted by increased spending by state and local governments. However, the growth rate was moderated by decreases in federal government spending, inventory investment, and business investment, as well as an increase in imports.

Real disposable personal income, which is adjusted for inflation and taxes, increased by 0.3 percent in the first quarter of 2015, highlighting improvements in the national economy. This is compared to a 6.3 percent increase in the first quarter of 2015. This stagnation in growth of real personal disposable income did not impede GDP growth, as the real personal savings rate fell from 5.5 percent in the first quarter of 2015 to 5.25 percent in the second quarter of 2015, while real consumer spending increased by 0.3 percent.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity – improved from 121.4 to 123.6. This improvement indicates continued economic growth over the next six to nine months. Conversely, the University of Michigan's Consumer Sentiment Index declined from 95.5 to 94.2, as consumers judged prospects for the national economy to continue to worsen. Most of the decline in consumer expectations occurred in May of 2015, while the outlook improved significantly in June of 2015, to 96.1 from 90.7 in May of 2015.

### State Economy<sup>2</sup>

In California, the unemployment rate went down to 6.3 from 6.4 percent. Among counties, San Francisco (3.5 percent), Santa Clara (4.0 percent), Orange (4.3 percent), San Luis Obispo (4.4 percent), San Diego (5.0 percent), and Sacramento (5.8 percent), had unemployment rates below the state average. In contrast, Riverside (6.6

percent), Los Angeles (7.3 percent), San Joaquin (8.6), Kern (10.1 percent), Fresno (9.5 percent), and Kings (10.2 percent) had unemployment rates above the state average.

The state's civilian labor force added 68,333 members, of whom 137,966 secured paying jobs (employed) and 69,633 fewer were left jobless (unemployed). While nonfarm industries hired 90,333 more workers, farming enterprises employed 3800 fewer workers. A wide range of industries added jobs, including construction, manufacturing, education and health services, leisure and hospitality, and federal and local governments. However, jobs were lost in financial services, mining and logging, and the state government.

### Local Economy

The sizable decrease in the unemployment rates, coupled with significant increases in employment (6,667 more workers, compared to the first quarter of 2015), coupled with 155 more new business permits and 609 more home sales, significantly expanded total personal income in Kern County, which increased by \$2.2 billion: an annualized rate of 28.9%. This increase in personal income in the second quarter of 2015 erased all of the income stagnation we have seen in the local economy since 2014. In 2012 dollars, real total personal income in the first quarter of 2015 was slightly more than \$32.75 billion.

Labor market conditions strengthened in the second quarter of 2015, perhaps unexpectedly. Though the labor force increased by 3,067 persons, the number of people unemployed decreased by 3,633 persons. This means that there were tremendous increases in the number of persons employed in the area, increasing by 6,667 people. This decreased the unemployment rate to 10.1 percent, a decrease of 1.0 percentage points from the first quarter of 2015. This comes amid a period of stagnating oil prices that continue to hover around \$60 a barrel. A large part of the decrease in the unemployment rate was due to massive increases in farming employment, where 10,300 more farm workers were hired this quarter, even during a drought with massive water restrictions. The rate of unemployment ranged from 4.9 percent in Inyokern to 24.8 percent in McFarland. McFarland was one of the few cities in Kern County to experience an increase in the city unemployment rate. In Bakersfield, 9.2 percent of persons in the labor force are unemployed, less than 1 out of 10 people in the labor force.

*(Continued on page 5)*

<sup>1</sup> U.S. economic numbers were obtained from the Bureau of Economic Analysis "U.S. Economy at a Glance". This is found at <http://www.bea.gov/newsreleases/glance.htm>

<sup>2</sup> The California economic numbers were obtained from the Bureau of Labor Statistics "Local Area Unemployment Statistics Map". This is found at <http://data.bls.gov/map/MapToolServlet>.

As the median sales price of houses continued to rise in Kern County to \$200,500, a level not reached since 2008, 903 more homes were sold in Kern County, compared to the first quarter of 2015. Thus, total sales increased from 2,422 homes to 3,325 homes. In Bakersfield, the median home price increased by \$12,000 as home sales increased from 1,726 in the first quarter of 2015 to 2,335 in the second quarter of 2015. The continued ups of the housing market showcased itself in the amount of foreclosure notices and in the issuance of new building permits. 615 new building permits were issued in the second quarter of 2015, compared to 460 in the second quarter of 2015. The number of loan default notices sent to homeowners continued to fall, declining by 19 in the second quarter of 2015 compared to the first quarter of 2015; compared to the second quarter of 2014, there were 147 fewer notices of mortgage loan default in the second quarter of 2015.

The weighted price index for the five publicly traded companies doing business in Kern County (Sierra Bancorp, Tejon Ranch Company, Chevron Corporation U.S., Granite Construction, and Wells Fargo Company) decreased from 96.8 in the first quarter of 2015 to 96.7 in the second quarter of 2015, a decline of 0.1 percentage

points. Chevron (a decline of 8.1 percent) and Tejon Ranch (a decline of 2.8 percent) saw a decline in their stock prices. Wells Fargo (an increase of 3.4 percent), Sierra Bancopr (an increase of 3.7 percent), and Granite Construction (an increase of 1.1 percent) all saw an increase in their stock price.

The price of gas surged in the Bakersfield metropolitan area even with the stagnation in the world price of oil, with the average retail price of gas increasing 59¢ per gallon to \$3.52 since the first quarter of 2015. Compared to the second quarter of 2014, gas prices are still down 63¢, meaning perhaps a movement back towards the post-recession high. The unit price of California’s Class III milk increased in the second quarter of 2015, after its significant decline in the first quarter of 2015, by 51¢ to reach \$16.24. The index of prices farmers received for their outputs increased by 8.4 points to 107.7, while the index of prices farmers paid for their inputs increased 1.4 points to reach 110.7. The gap between the output prices farmers received and input prices farmers paid increased substantially, improving the situation for farmers, and moving them back closer to where they were in the early quarters of 2014.

## TRACKING KERN’S ECONOMY<sup>3</sup>

### 2015 SECOND QUARTER

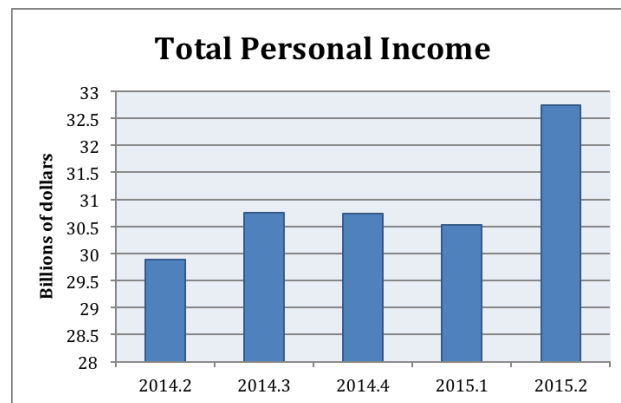
RICHARD GEARHART III & NYAKUNDI MICHIEKA

#### Economy

**Personal Income** – To be consistent with data on local area personal income published by the United States Bureau of Economic Analysis, we revised our estimation for Kern County’s personal income. We calculated personal income as the sum of wages and salaries, self-employment income, rental income, property income, business profit, dividends, interest income, rental income, and personal and business transfer payments. Next, we upgraded our base period for adjustment of inflation from 1996 to 2012.

In our estimation, Kern County’s personal income totaled \$30.53 billion in the first quarter of 2015. We found this amount to be \$211 million lower than that of the previous quarter. The decrease in personal income in the fourth quarter primarily reflected positive contributions from an increased number of employed workers in Kern County. However, these positive contributions were fully offset by

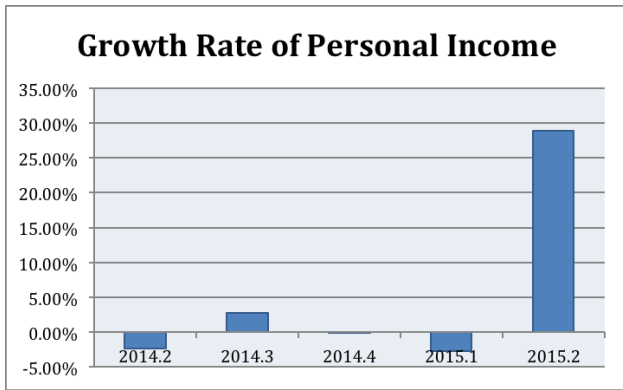
negative contributions from property income and profit income. Four quarters ago, personal income was almost \$30.6 billion, showing a secular stagnation in Kern County for almost a year.



**Growth of Personal Income** – With substantial increases in personal, labor, and property incomes, Kern’s economy showed a significant improvement. The increase of \$2.2 billion in personal income is translated to an annual growth rate of 28.9 percent. This substantial improvement in personal income represents substantial employment growth even during a period of stagnating oil prices, highlighting the improving robustness of the Kern County economy to oil price shocks.

<sup>3</sup> Source - Online databases: [labormarketinfo.edd.ca.gov](http://labormarketinfo.edd.ca.gov), [bakersfieldgasprices.com](http://bakersfieldgasprices.com), [dqnews.com](http://dqnews.com), [economagic.com](http://economagic.com), [bea.gov](http://bea.gov), [bls.com](http://bls.com), [gpoaccess.gov](http://gpoaccess.gov), [dairy.nu](http://dairy.nu), [msn.com](http://msn.com), [census.gov](http://census.gov), [kerndata.com](http://kerndata.com), and [bry.com](http://bry.com)

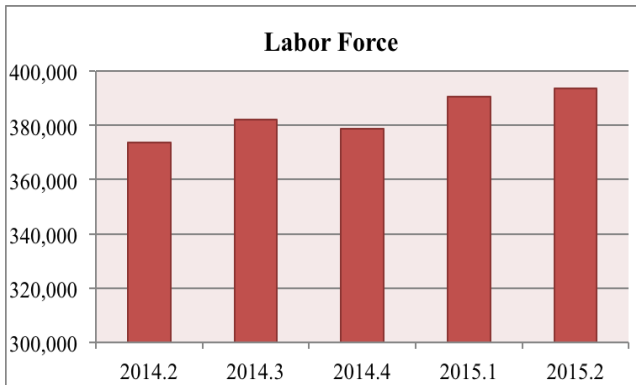
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#### Labor Market

We adjust published data in three ways. Firstly, we averaged monthly data to calculate quarterly data. Secondly, we recalculated quarterly data to take into account workers employed in the “informal” market (i.e., self-employed labor and those who work outside their county of residence). Finally, we adjusted quarterly data for the effects of seasonal variations.

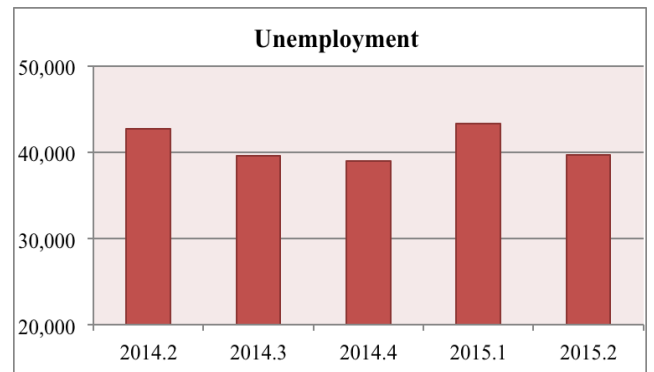
**Labor Force** - The civilian labor force increased by 3,067 members from 390,533 in the first quarter of 2015 to 393,600 in the second quarter of 2015. In addition, 20,070 more workers were available for work this quarter relative to the second quarter of 2014.



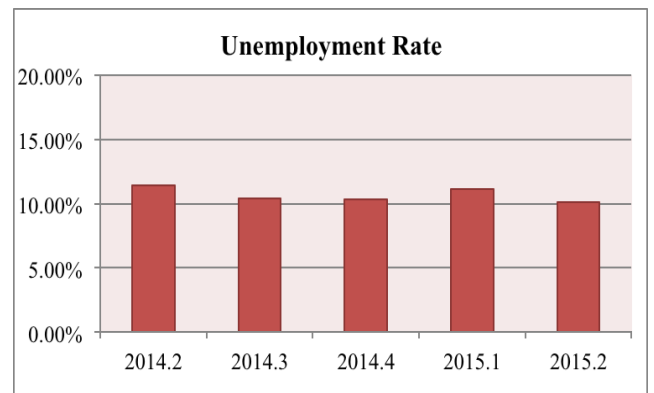
**Employment** – In the second quarter of 2015, Kern County hired 6,667 more workers as total employment increased from 347,233 in the first quarter of 2015 to 353,900 in the second quarter of 2015. Even better, the county employed 20,180 more workers this quarter than four quarters ago.



**Unemployment** – In the meantime, 3,633 fewer workers were unemployed as the number of jobless workers decreased from 43,300 to 39,667. Likewise, 3,053 fewer workers were unemployed this quarter than the second quarter of last year.



**Unemployment Rate** – Kern County’s unemployment rate decreased one percentage point to 10.1 percent. The county’s unemployment rate was 11.4 percent four quarters ago.



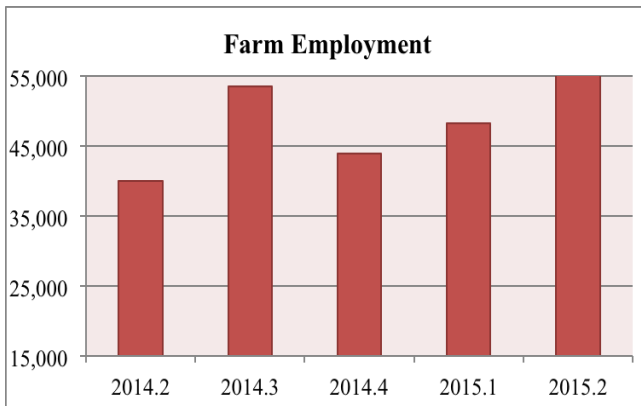
The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 4.9 percent in Inyokern to 24.8 percent in McFarland. In Bakersfield, the unemployment rate was 9.2 percent

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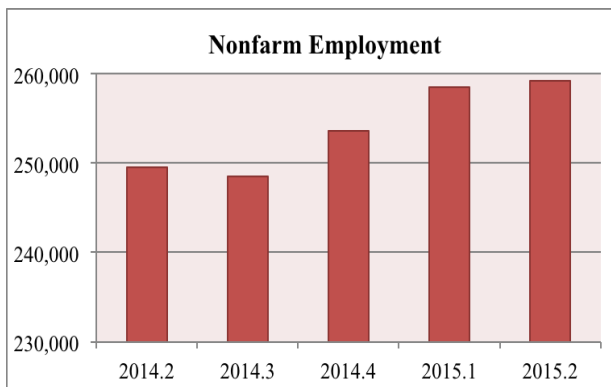
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Inyokern	4.9	Bakersfield	9.2
Taft	6.7	Arvin	12.1
Lamont	6.9	Delano	12.4
Ridgecrest	7.0	Oildale	13.3
Tehachapi	7.9	Wasco	13.7
Frazier Park	8.0	Edwards	17.8
Rosamond	8.6	Mojave	18.6
Shafter	8.9	California City	21.1
Lake Isabella	8.9	McFarland	24.8

Note: City-level data are not adjusted for seasonality and "informal" market workers.

**Farm Employment** – In the second quarter of 2015, Kern County hired 10,300 more farm workers. As a result, farm employment increased from 48,200 to 58,500. Similarly, the farming industry hired 18,520 more workers this quarter than four quarters ago.

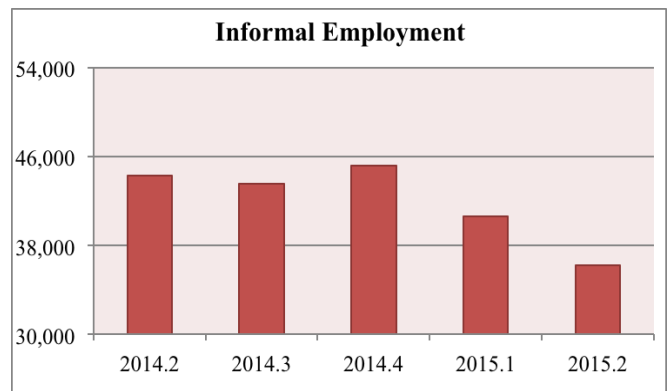


**Nonfarm Employment** – Local nonfarm industries employed 767 more workers this quarter. Hence, the number of nonfarm workers increased from 258,433 to 259,200. Likewise, nonfarm industries hired 9,730 more workers this quarter than four quarters ago.

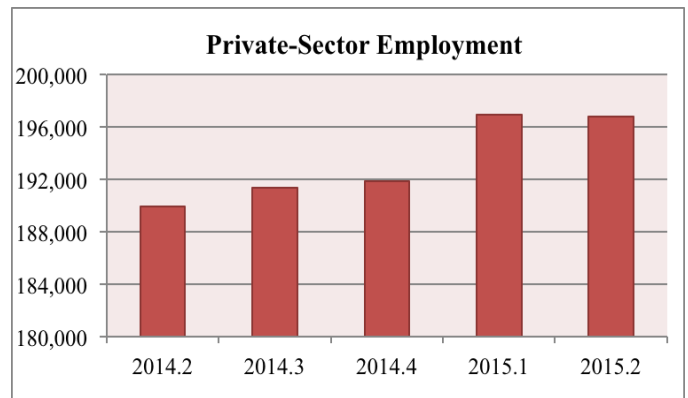


In Bakersfield, however, many nonfarm industries lost jobs: oil and gas extraction, construction, manufacturing, financial activities, clothing accessories stores, and professional and business services. However, jobs were added in state and local government, leisure and hospitality, education and health services, information, and service providing industries.

**Informal Employment** - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and workers employed outside their county of residence. In the second quarter of 2015, the number of informal workers decreased by 4,400 from 40,600 to 36,200. Likewise, the informal labor sector hired 8,070 fewer workers this quarter relative to the second quarter of last year.



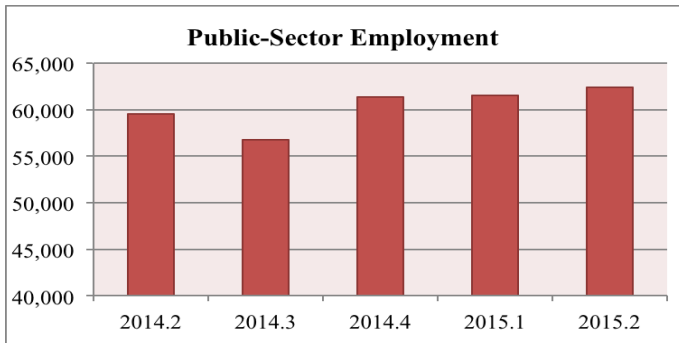
**Private-Sector Employment** - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the second quarter of 2015, private companies hired 133 fewer workers as their employment decreased from 196,933 to 196,800. Conversely, the private sector employed 6,900 more workers this quarter than four quarters ago.



**Public-Sector Employment** – The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city

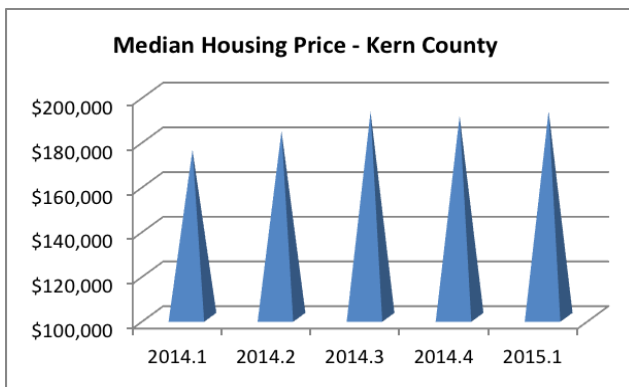
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agencies and public education. In the second quarter of 2015, government agencies hired 900 more workers as their employment increased from 61,500 to 62,400. Similarly, the public sector employed 2,830 more workers this quarter than four quarters ago.

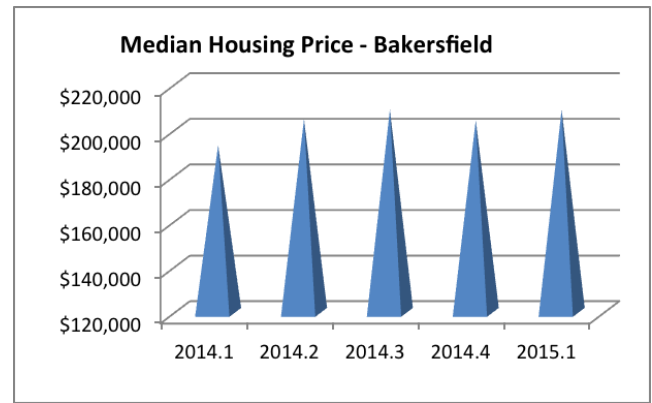


### Housing Market

**Housing Price** - In the second quarter of 2015, Kern County's housing prices continued to strongly increase, reaching a level not seen since the second quarter of 2008. The median sales price for all residential units increased \$8,167 (or 4.2 percent) from \$192,333 in the first quarter of 2015 to \$200,500 in the second quarter of 2015. Similarly, the county's median sales price appreciated \$17,150 (or 9.4 percent) between the second quarter of 2014 and the second quarter of 2015.



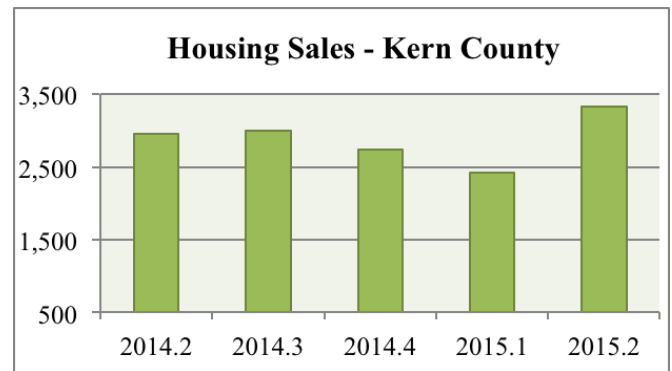
In Bakersfield, the median housing price appreciated \$12,000 (or 5.7 percent) from the first quarter of 2015, to reach a similar level not seen since the first quarter of 2008: \$221,000. Similarly, the city's median sales price has appreciated \$16,300 (or 8.0 percent) since the second quarter of 2014.



Housing price varied across the county. Within previous four quarters (2014 second quarter to 2015 second quarter), the median sales price appreciated in all the major cities of Kern County without exception. In dollar value, California City had the largest appreciation of \$26,000. Likewise, California City recorded the largest appreciation rate of 40.0 percent, though the median sales price for California City declined between the first and second quarter of 2015.

Location	Median Price 2015.1	Median Price 2014.1	Price Change 2014.1 to 2015.1	Price Change 2014.1 to 2015.1
Kern County	\$200,500	\$183,350	17,150	9.4
Bakersfield	\$221,000	\$204,700	16,300	8.0
California City	\$91,000	\$65,000	26,000	40.0
Delano	\$159,667	\$138,200	21,467	15.5
Ridgecrest	\$150,167	\$139,700	10,467	7.5
Rosamond	\$180,667	\$161,250	19,417	12.0
Taft	\$103,000	\$91,300	11,700	12.8
Tehachapi	\$218,167	\$197,300	20,867	10.6

**Housing Sales** - In the second quarter of 2015, price appreciation was accompanied by significant sales increases. In Kern County, 903 more homes were sold as total sales increased from 2,422 to 3,325. Compared to four quarters ago 369 more units were sold.

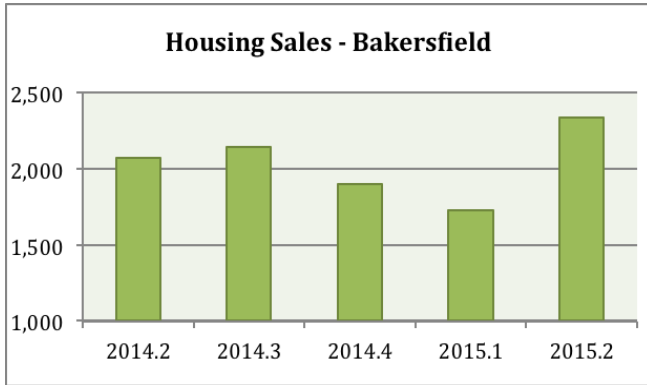


In Bakersfield, sales of residential units increased, but at a slower rate than in Kern County, as 609 more homes were

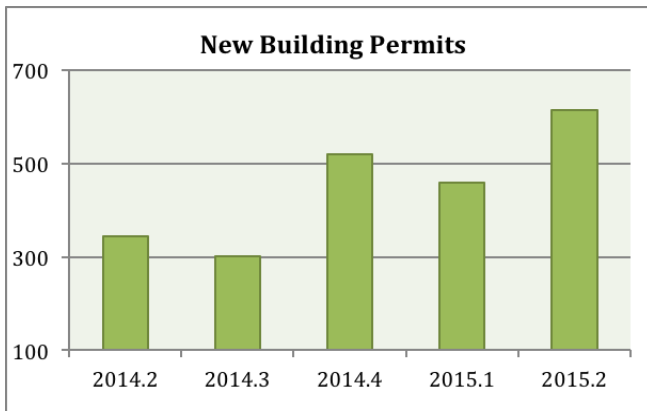
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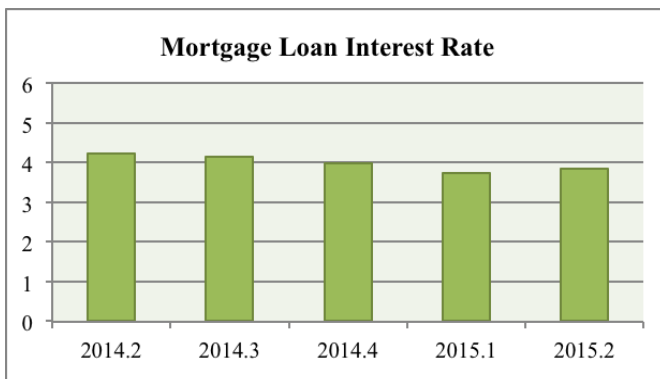
sold. Total sales increased from 1,726 to 2,335. Sales were up by 263 units this quarter relative to the second quarter of last year.



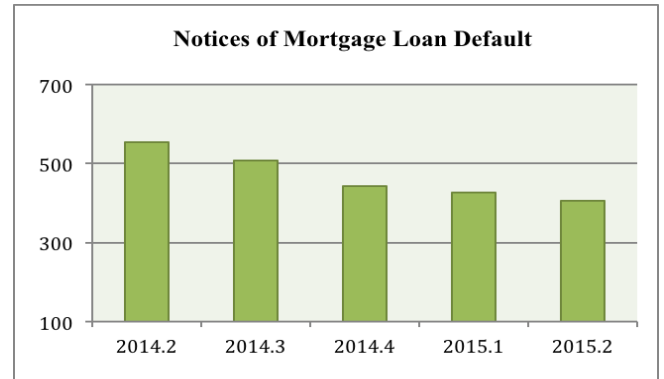
**New Building Permits** – In the second quarter of 2015, Kern County issued 615 permits for construction of new privately-owned dwelling units. The county issued 460 new building permits last quarter and 345 four quarters ago, showing a significant uptick in the housing market that was coupled with increases in both number and median prices of sales.



**Mortgage Interest Rate** – In the second quarter of 2015, the interest rate on thirty-year conventional mortgage loans increased from 3.72 percent to 3.83 percent. Four quarters ago, the mortgage loan interest rate was 4.23 percent.

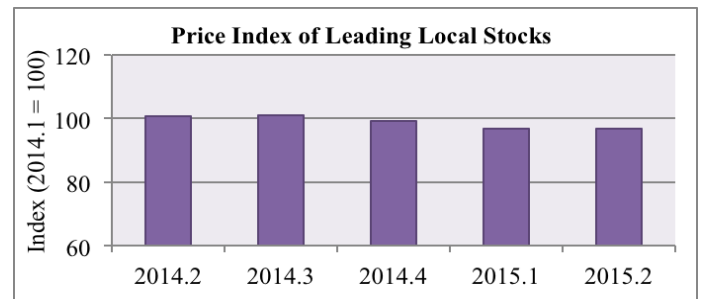


**Housing Foreclosure Activity** – Kern County’s foreclosure activity continued to slow in the second quarter of 2015. The number of homeowners receiving notices of loan default from their mortgage bankers declined from 426 to 407. Similarly, the number of default notices has gone down by 147 since the second quarter of last year.



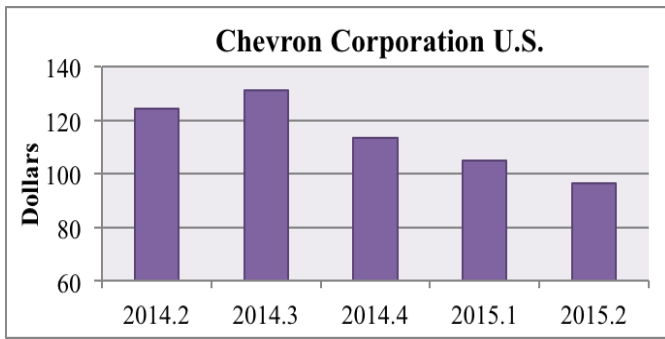
**Stock Market**

In the first quarter of 2015, the composite price index (2014.1=100) of the five publically traded companies doing business in Kern County decreased 0.1 percentage points from the previous quarter, from 96.8 to 96.7. The index was also 4.1 percentage points lower than that of four quarters ago. Average “close” prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.

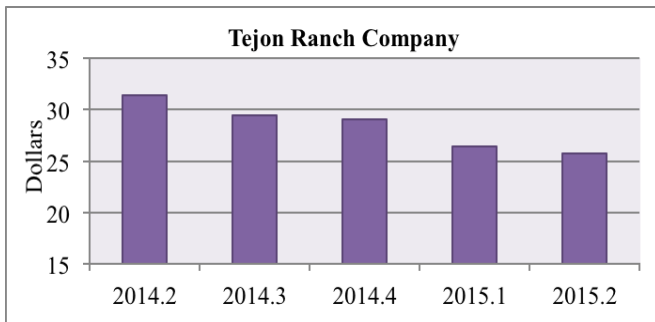


**Chevron Corporation U.S.:** CVX lost \$8.51 (or 8.1 percent) per share as its price decreased from \$104.98 to \$96.47. Relative to the second quarter of 2014, CVX was down \$27.89 (or 22.4 percent).

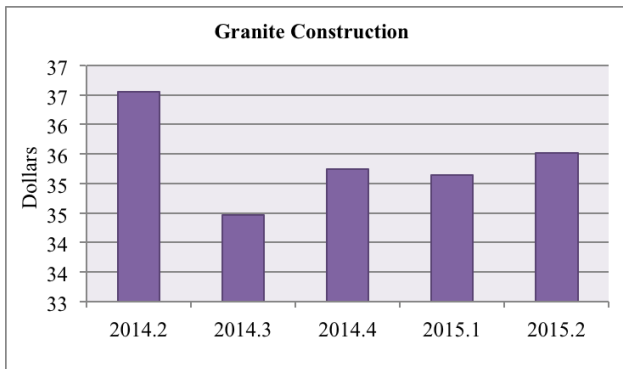
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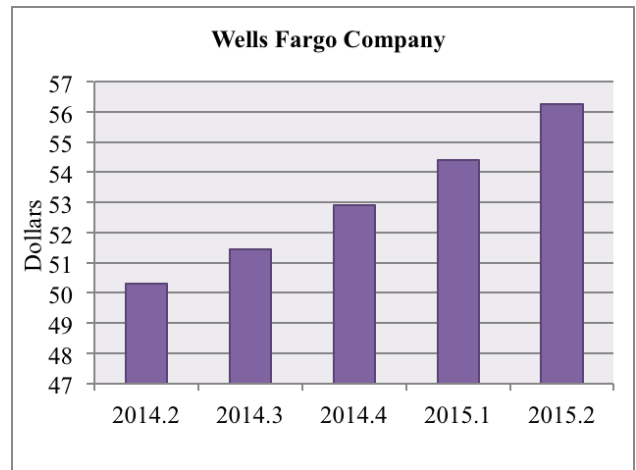
**Tejon Ranch Company:** TRC lost \$0.74 (or 2.8 percent) per share as its stock price dropped from \$26.45 to \$25.71. Likewise, TRC was down \$5.68 (or 18.1 percent) relative to the second quarter of 2014.



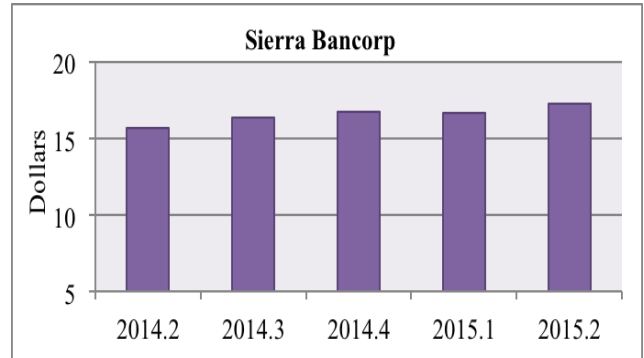
**Granite Construction:** GVA gained \$0.37 (or 1.1 percent) per share as its stock price increased from \$35.14 to \$35.51. Conversely, GVA has declined \$1.05 (or 2.9 percent) since the second quarter of 2014.



**Wells Fargo Company:** WFC made \$1.84 (or 3.4 percent) per share as its stock price ascended from \$54.40 to \$56.24. Relative to one year ago, WFC was up \$5.93 (or 11.8 percent).

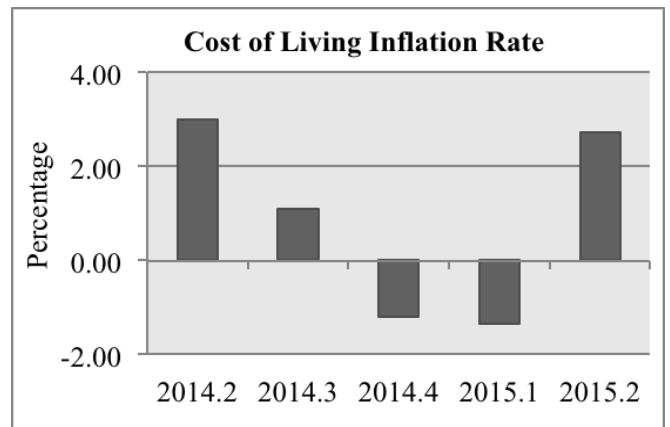


**Sierra Bancorp:** BSRR gained \$0.61 (or 3.7 percent) per share as its price increased from \$16.70 to \$17.31. Similarly, BSRR has gained \$1.60 (or 10.2 percent) since the second quarter of 2014.



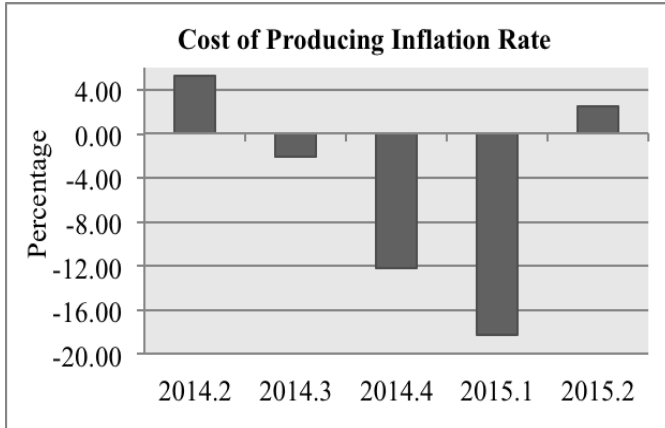
**Inflation**

**Cost of Living** – In the second quarter of 2015, the Consumer Price Index for all urban areas (1982-84 = 100) increased from 236.1 to 237.7. As a result, inflation for the cost of living accelerated at an annual rate of 2.71 percent. The cost of living inflation rate was -1.35 percent last quarter and 3.0 percent four quarters ago.

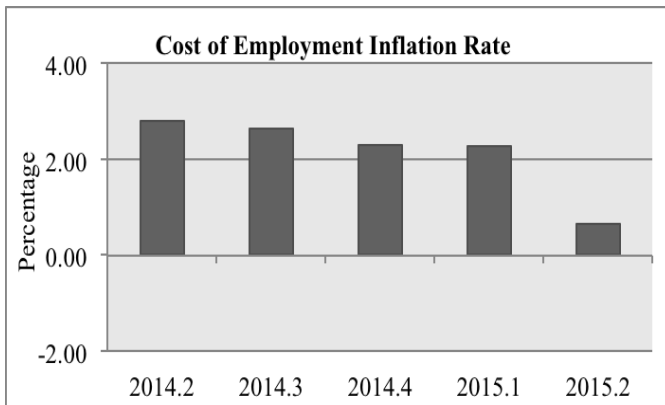


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**Cost of Production** – The Producer Price Index for all commodities (1982 =100) increased from 191.6 to 192.8. As a result, the cost of production accelerated at an annual rate of 2.51 percent. The cost of production inflation rate was -18.33 percent last quarter and 5.3 percent four quarters ago.

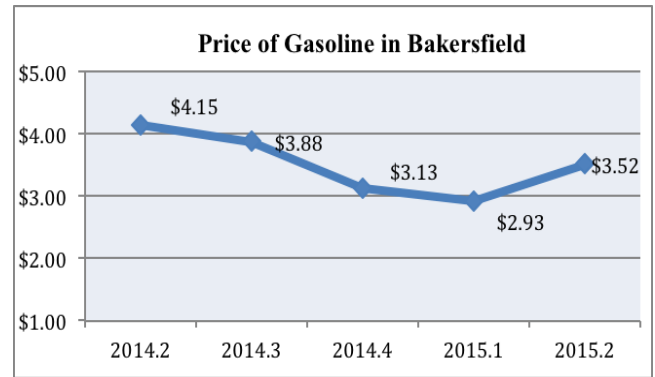


**Cost of Employment** - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 123.6 to 123.8. As a result, the cost of employment grew at an annual rate of 0.65 percent. The cost of employment inflation rate was 2.3 percent last quarter and 2.8 percent four quarters ago.

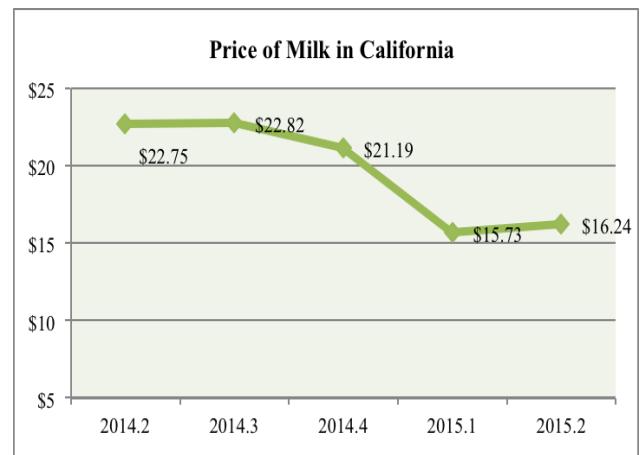


**Commodity Prices**

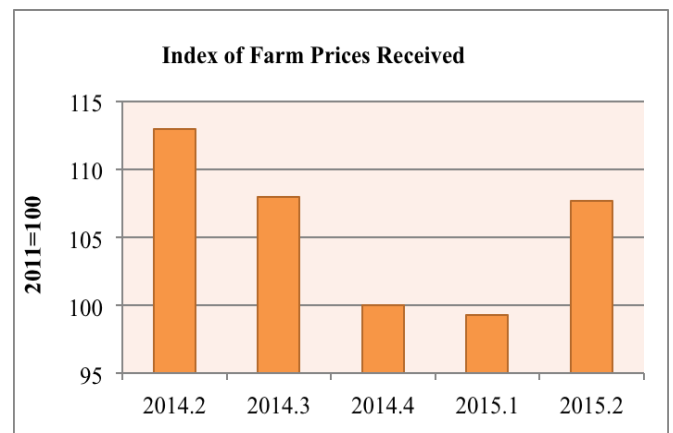
**Price of Gasoline** - In the Bakersfield metropolitan area, the average retail price of regular gasoline increased \$0.59 per gallon from \$2.93 to \$3.52. Compared with the second quarter of last year, the average gasoline price was down \$0.63.



**Price of Milk** – The unit price of California’s Class III milk increased \$0.51 (or 3.2 percent) from \$15.73 to \$16.24. Noticeably, the price increased in each month of the second quarter of 2015, increasing by \$0.53 in June. Even more noticeably, the price is still down \$6.51 (or 28.6 percent) relative to the second quarter of last year.

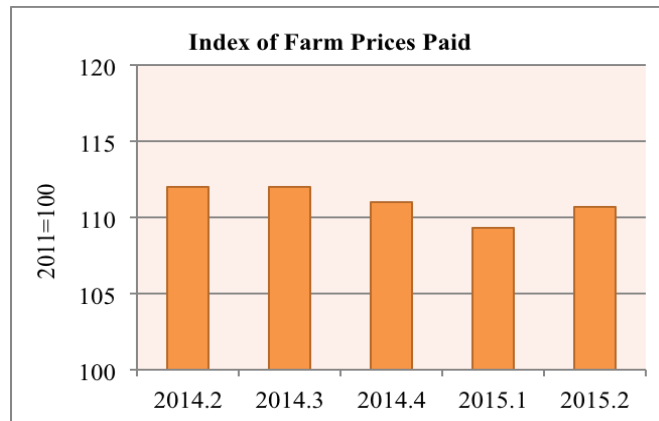


**Farm Prices** – In the second quarter of 2015, the national Index of Prices Received by Farmers for all farm products (2011 = 100) increased 8.4 points from 99.3 to 107.7. The index was 113 four quarters ago.

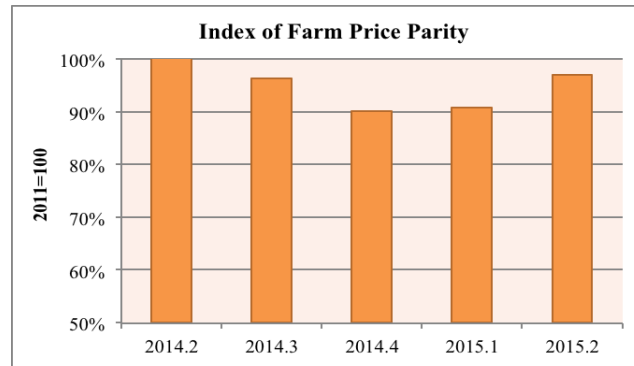


(Continued on page 12)

Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents increased 1.4 point to reach 110.7. The index was 112 four quarters ago.



We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the first quarter of 2015, the gap between prices paid and prices received increased substantially as the Index of Farm Price Parity increased from 91 percent to 97 percent. Four quarters ago, the price ratio was 101 percent, meaning that conditions for farmers are improving to what they were.



## The Minimum Wage: Let's Be Careful About What We Think We Know

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The minimum wage debate has been rekindled. Following long-term increases in the minimum wage in Seattle and Los Angeles, New York City has followed suit, proposing to raise the minimum wage to \$15 over several years. There have been both critics and proponents of features of this increase (the minimum wage increase will apply only to fast food restaurant chains, with more than 30 locations). Lawrence Katz, a prominent economist who has advocated, in the past, for a higher federal minimum wage, notes that very targeted minimum wages can lead to undesirable behavioral changes; firms may choose to operate less than 30 establishments, and workers may choose to endure longer

spells of unemployment to gain one of these coveted jobs. Others, such as Dean Baker, have noted that chain owners likely enjoy “rents”, excess profits beyond what a competitive market would lead to, so that they can afford these changes.<sup>4</sup>

But, in what follows, I attempt to address the impacts of a broader minimum wage at the national level, and lay the groundwork for the evidence surrounding its impacts, both positive and negative. I attempt to show that the debate is not yet settled as to the benefits and downsides of a higher federal minimum wage.

There are two camps about the relative effects of an increased minimum wage. One, led by economists David Card and Alan Krueger, have estimated that increases in the minimum wage have no discernible

<sup>4</sup> [http://www.nytimes.com/2015/07/29/upshot/a-15-minimum-wage-but-why-just-for-fast-food-workers.html?\\_r=0&abt=0002&abg=1](http://www.nytimes.com/2015/07/29/upshot/a-15-minimum-wage-but-why-just-for-fast-food-workers.html?_r=0&abt=0002&abg=1)

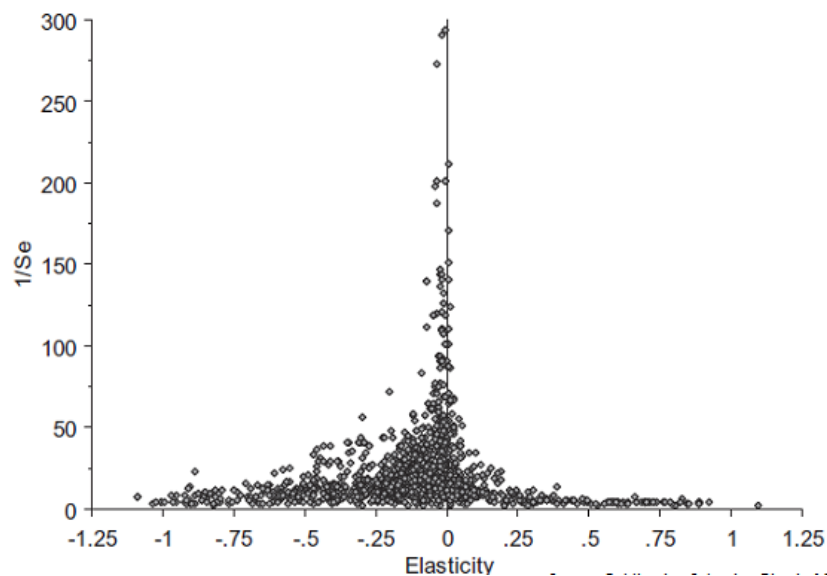
impact, on teenage and overall employment, of increases in the minimum wage.<sup>5</sup> The other camp, led by David Neumark and William Wascher, have found the opposite; that increases in the minimum wage reduce both teenage and overall employment of low-skill workers, those who are targeted by minimum wage increases.<sup>6</sup> In fact, they have found, at times, that a 10-percent increase in the minimum wage leads to a 1 to 3-percent increase in the unemployment rate. These debates hinge on a variety of factors: (1) the dataset used, (2) the statistical techniques used to analyze the data, and (3) assumptions about the effect of outliers (extreme data points) on the results.

In fact, another study by Hristos Doucouliagos and T.D. Stanley utilized a meta-analysis, a comprehensive statistical review of the entire minimum wage literature, to map out the effects of increases in the minimum wage on employment.<sup>7</sup> They argue that, for a variety of reasons, authors rarely publish “no results” studies, studies which do not have any finding (in this case, studies that find no loss of employment due to the minimum wage). They corroborate the findings by Card and Krueger, and find that employment losses from minimum wage increases are small.

In fact, in their paper, they include a figure of all the estimated minimum wage effects that have been found in studies across time (1,424 of them). It is replicated below:

**Figure 1: Employment Impacts of Minimum Wage**

Trimmed Funnel Graph of Estimated Minimum-Wage Effects ( $n = 1,424$ ).



Source: Doucouliagos, H, Stanley, TD. 2009. Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis. *British Journal of Industrial Relations*. 47(2): 406-428.

The horizontal axis measures the wage elasticity, or the percent change in employment due to some increase in the wage. The vertical axis measures how variable the estimates are; a higher value represents results that are less uncertain (if the techniques utilized by the papers are correct). The implication is clear; most studies find a small impact of increased wages on employment. If you take out all the elasticities that are positive, we find that a 10-percent increase in the minimum wage will reduce employment by 0.1-percent.

The majority of the data are located between an elasticity of 0 and -0.25; this means that a 10-percent increase in the wage, from an increase in the minimum wage, leads to anywhere from 0 to 2.5-percent decrease in employment. Thus can the two camps be reconciled; employment effects, at least in the short-run, from small changes in the minimum wage are small.

<sup>5</sup> Their initial study, “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania”, utilized the \$0.80 increase in the New Jersey state minimum wage in 1992. Further research, such as their 1995 book “Myth and Measurement”, as well as their 2000 study “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply”, have continued to support their results that there is no discernible unemployment effect from raising the minimum wage.

<sup>6</sup> This is provided in their article “Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research” in 2006, as well as in their book “Minimum Wages”.

<sup>7</sup> This study is “Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis”.

In fact, two economists believe that looking at changes in employment is incorrect.<sup>8</sup> They argue that the minimum wage impedes job creation, and that higher minimum wages slow the growth of this job creation.

But what leads to the finding of POSITIVE elasticities (or the fact that minimum wage increases can increase employment)? Neumark and Wascher have speculated that these are industry-specific findings; in other words, certain industries may exhibit positive employment increases because they have a less competitive nature. This means that, in theory, it is plausible that a government can mandate a minimum wage level that increases employment.<sup>9</sup> But, as Neumark and Wascher point out, it is likely that these industries comprise a small fraction of total industries that employ many minimum wage workers (one doubts that the fast food industry, with its significant competition, leads to any decisive market power on the part of firms, as restaurants are fighting for a rather small pool of highly competent workers). This means that industry-specific employment can increase, while total employment will decrease from increases in the minimum wage.

So, if it is unlikely that there are significant employment effects from moderate raises of the minimum wage, does this mean that firms do not respond at all to changes in the wages that they pay? No; firms have a variety of tools with which they can alter the total compensation paid to workers (which includes wages and fringe benefits), pass the costs on to the consumer (higher food prices), or even replace the workers (technological innovation). But what does happen?

John Schmitt at the Center for Economic and Policy Research (CEPR) lists a variety of transmission mechanisms, how firms respond to the minimum wage, beyond reducing employment. These transmission mechanisms include:

1. **Reduction in Hours Worked;** instead of reducing employment, firms may move employees to part time, or cut back on what is considered full time hours. There is little evidence that supports that this is a large-scale phenomenon.<sup>10</sup>
2. **Reduction in Non-Wage (Fringe) Benefits;** firms may cut back on extra benefits, such as the level of a pension match, health insurance benefits (or contributions to the employee health insurance premium), reduced price food at work, uniforms, etc. Research finds little evidence that

what benefits are offered to employees are altered substantially.<sup>11</sup>

3. **Reduction in Training;** firms may reduce the amount of training that they provide employees, opting to force employees to learn on-the-job. Research finds that the amount of training is reduced as the minimum wage increases.<sup>12</sup>
4. **Higher Prices of the Good the Firm Sells;** the firm may choose to raise the price it charges. Research shows that minimum wage increases in the fast food industry raise prices more than the price raises in all industries that employ minimum wage workers.<sup>13</sup>
5. **Reduction in Firm Profits;** firms may simply largely eat the increased business costs and suffer from reduced profits. Research shows that firm profitability will decrease with minimum wage increases.<sup>14</sup>
6. **Technological Innovation;** firms may choose to replace workers with automated machines (such as self-order kiosks or auto-payment mechanisms). There is limited evidence of this beyond the rapid technological changes that are automatically arising every day.
7. **Reduced Worker Turnover;** workers may stay in jobs longer, rather than cycle in and out of them, because of the higher wages that they earn in these minimum wage jobs. These higher wages help employees pay for transportation and child care, reducing the need to leave work early. Firms benefit because they do not have to train as many employees. Evidence shows that low-wage workers stay at jobs longer as the minimum wage increases.<sup>15</sup>
8. **Changes in Worker Composition;** as workers become more expensive, firms may choose to hire more stable, longer-term employees, rather than the short-term employees. This means that firms may choose to hire older workers with children, rather than teens or younger workers without children. There is no evidence that this occurs.<sup>16</sup>

<sup>8</sup> This is Jonathan Meer and Jeremy West, both at Texas A&M University.

<sup>9</sup> Evidence for these findings are found in Dickens, Machin, and Manning, "The Effects of Minimum Wages on Employment: Theory and Evidence from Britain".

<sup>10</sup> Dube et al. (2010), find no evidence of this transmission mechanism.

<sup>11</sup> Card and Krueger (1995) and Simon and Kaestner (2004) provide the evidence on this.

<sup>12</sup> Neumark and Wascher (2010) find this.

<sup>13</sup> Lemos (2008) finds that a 10-percent increase in the minimum wage increases food prices by 4-percent, and overall prices by 0.4-percent. Neumark and Wascher (2010) agree with these results, as minimum wage workers are often a small fraction of the total costs of a firm (but larger in the fast food industry than other industries).

<sup>14</sup> Draca et al. (2011) find this.

<sup>15</sup> Dube, Lester, and Reich (2012) find this.

<sup>16</sup> Dube, Lester, and Reich (2012) find that there are no age or gender composition changes in the workforce of minimum wage jobs.

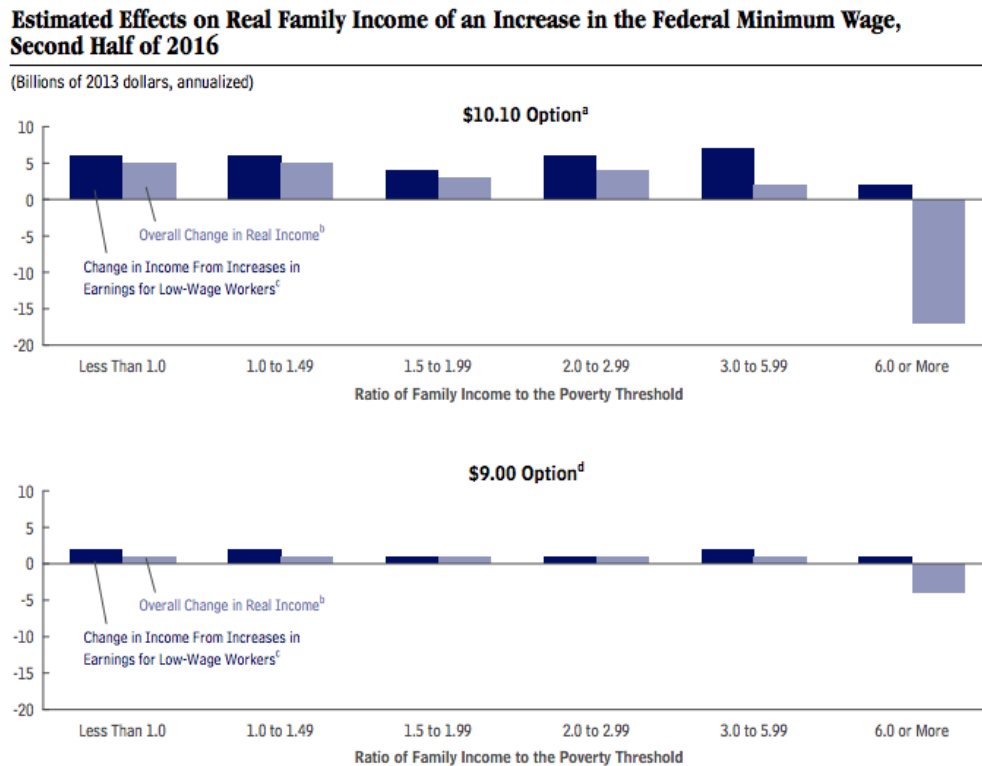
Thus, we see that looking solely at the employment effects of the minimum wage may mask considerable changes in how the firm may respond to minimum wage increases. There has been some thought that firms may be hesitant to cut employment in response to changes in the economic environment, as it may adversely affect the mood and motivation of the remaining workers (evidence has largely looked at the employment response to recessions). Firms are much more willing to save employee jobs because of increased costs (or decreased revenues) by cutting elsewhere, where workers may be more amenable to seeing their fellow employees remain at their jobs.

So, the evidence on the minimum wage is mixed. It appears that there are small employment losses, with firms choosing to reduce job creation growth instead. It also appears that the negative effects are spread out; workers get less training, customers pay higher prices, and firms earn lower profits. But, is the minimum wage an effective strategy at limiting poverty and raising wages for the low-skilled? It appears that the minimum wage is not a scalpel, but a rather ineffective sledgehammer at combating poverty and low wages.

As shown in Figure 2, though the minimum wage will increase incomes for the poor, it affects individuals further up the income spectrum, as a sizable minority of minimum wage workers are in families that earn substantially beyond the poverty line (either as second earners or as teen workers). In fact, for the \$10.10 minimum wage, families that are 2 to 6 times beyond the federal poverty threshold (about \$44,000 to \$130,000 for a family of four in 2009) have the highest income increases from the minimum wage. Families that live below the poverty line (less than \$22,000 for a family of 4 in 2009) benefit, but not as much as one would hope.

Even though the minimum wage does benefit low income workers, it cannot be targeted exclusively to families of workers that truly need it (i.e., those in poverty or low income families with children). Families with significant family income have secondary (or tertiary) earners who can earn the minimum wage. There are tools that are able to effectively combat poverty by targeting monies to those populations only. A negative income tax (also known as a guaranteed minimum income) or the Earned Income Tax Credit (EITC; where workers receive tax rebates if they work up to a certain amount) have been shown to be much more effective in providing low-income families with income, while limiting payments to families that have less need of these government measures.

**Figure 2. CBO Estimate of Who Benefits from Minimum Wage Increases**



Source: The Congressional Budget Office (CBO).

Though its disincentive effects are often over-stated, the minimum wage is an imprecise and blunt tool for a growing and persistent problem.

But, back to recent policy; what are the likely impacts of a major increase in local minimum wages (\$15 in New York, for fast food restaurants only, by 2021)? It is unlikely that the short-term effects that I have described will hold. It is very likely that there will be larger negative impacts, even as it is phased in over the course of several years. Technological adoption may accelerate in firms that employ many minimum wage workers, and it is likely that we see continued fringe benefit cuts. But caveats must apply; the labor market is incredibly adaptive, and has weathered sizable minimum wage increases in the past with minimal disruptions to low-skill, low-wage workers. We must not forget that the minimum wage, even as a blunt and imprecise tool, still helps improve the lives of millions of Americans. The debate about what level to set it at is a valid one. But, as found in many other areas of the economy, the impacts of mandated changes from above are too often over-stated and under-stated, polarizing the debate.

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## Fluctuating Oil Prices and Employment: Tracking Employment Estimates in Kern County since 1990

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The nature of oil prices being determined on an international market means that employment in the agricultural, oil, manufacturing and service related industries in Kern County may suffer severe adverse impacts from these cycles. In this article, employment estimates from the Bureau of Labor Statistics are used to assess changes in Kern County employment following a change in oil prices. Conventional wisdom states that lower oil prices will cause a reduction in employment

especially in areas like Kern County where a significant proportion of the labor force works in the oil industry.<sup>17</sup>

Lower oil prices that save motorists at the pump hurt energy workers. Employees working in drilling and exploratory industries face pay cuts and layoffs when prices are low. Thus regions where a large population of the labor force works in the oil and gas industry may experience reduction in overall employment because workers have less disposable income to spend on the economy. On the other hand, lower oil prices could fuel employment in the food, manufacturing, transport and housing industries. With less money to spend at the pump,

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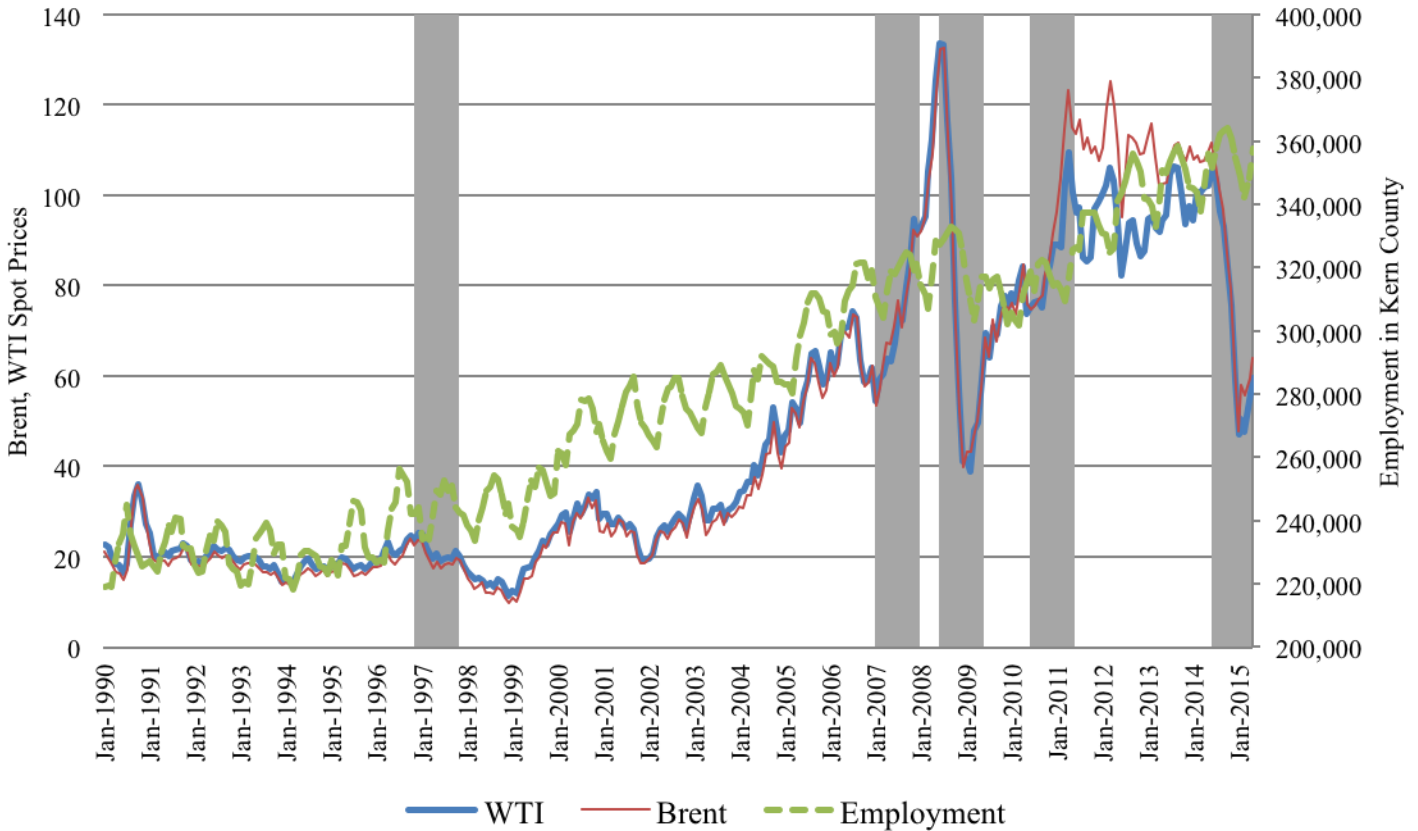
<sup>17</sup> As of May 2015, an estimated 10,300 people work in oil and gas extraction, which along with related positions in the refineries and transport sector, account for nearly seven percent of all jobs in the region. Employment by industry is as follows: total farm workers are 62,300; construction 17,100; retail 31,400; education 33,300; healthcare 31,700 and hospitality industry 25,600 for the (California Employment Development Department 2015).



people can splurge on purchases such as clothing, restaurant meals, automobiles and vacation. Other sectors of the economy such as manufacturing, trade, service and retail industries may see an increase in employment numbers.

This article seeks to provide facts on some of the commonly held beliefs regarding the oil prices and employment relationship. To investigate this, oil prices from January 1990 to May 2015 were analyzed, where periods experiencing an abrupt increase or decrease in oil prices were identified. Average employment growth rates in the 12 months following a price increase/decrease were calculated. Finally, a discussion of the findings followed the analysis. The graph below traces oil prices and employment in Kern County over the last 25 years. The shaded sections in the graph indicate areas of interest where oil prices increased or decreased for a period of 12 months or more.

**Figure 1: WTI, Brent, and Kern County Employment**



Source: Bureau of Labor Statistics and the U.S. Energy Information Administration

A cursory observation of the graph reveals that oil prices and employment moved together between 1990 and 1996. The two deviated in January 1997 when oil prices dropped and employment increased. In November 1996 when oil prices started declining, roughly 241,975 persons were employed in comparison to the 242,486 employed one year later in November 1997. This indicated an increase of 511 employees over one year. Average employment growth rate grew at 0.03% during that period. This change in employment is not large enough to arrive at a conclusion that a drop in oil prices was associated with growth in employment.

Between February 2007 and January 2008, the price of Brent increased from \$57.56 to \$92.18 a barrel. During the same period, employment increased by 3,975 or grew by an average of 0.11% each month over the 11 month period. These findings concur with conventional wisdom which imply that increased oil prices are associated with increased employment.

In June 2008, oil prices rose to record high of \$132.32. The next 12 months witnessed a drop in oil prices. During the same period, Kern County witnessed a loss of 10,297 jobs with employment dropping from 327,230 to 316,933. Average employment growth rate was -0.27%.

In June 2010, a barrel of oil cost \$74.76 compared to the \$113.83 in June 2011. During the same period, employment increased by 7,895 at an average growth rate of 0.28%. The surge in oil prices was accompanied by an increase in employment.

In June 2014, a barrel of oil cost \$111.80 but in May 2015, the price had dropped to \$64.08. During this period, employment increased by 5,956 at an average growth rate of 0.16% over the last 11 months. These findings go against conventional belief that oil price decreases are accompanied by lower levels of employment.

Our study yields several conclusions. In most cases, increased oil prices were marked with increased employment as seen in the 12 months following February 2007 and June 2010. However, we have witnessed a decline in oil prices over the last 12 months which have been accompanied by an increase in employment which goes against popular belief. Of course employment is affected by factors such as economic conditions and this is seen in June in 2008 where the economic recession led to decreased employment. This analysis does not go without caveats. The study does not account for seasonal changes in employment, age, education, experience and size of the labor force. Incorporating these factors will have an effect on the findings. Furthermore, it is important to note that oil prices affect employment indirectly.

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## Small Business Customer Acquisition & Guerrilla Marketing In the Age of Social Media and Online Data Availability

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Small businesses are the backbone of a global economy. From Europe, Asia, Africa, and Australia, to the Americas and right here in Kern County, small businesses represent a majority of firms. There are over 20 million businesses in the United States with less than \$100 million in annual revenues<sup>2</sup>. This represents roughly 75% of the total population of businesses in the country and over \$400 billion of total business revenues (see Figure 1 below).

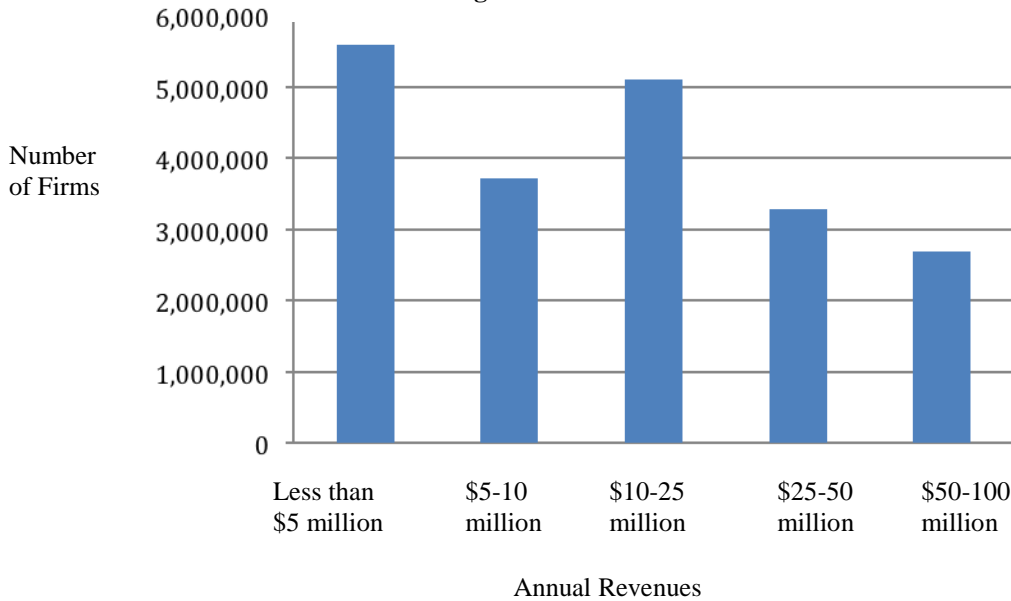
In challenging economic times such as those we currently face, small businesses are, in many ways, the great hope for continued growth and development in our community. While large corporations may cut back on jobs or shift operations abroad, each and every small business in the Kern County area has the capacity to reach out, build value for customers, and create jobs and wealth. It may be a few tens of thousands of additional revenues and profits here, or a new employee or two hired there, but when you multiply those results by thousands of individual businesses, the value accumulates. In order to support this growth and development, CSUB's Department of Management & Marketing and Small Business Development Center (SBDC) are undertaking a variety of new initiatives aimed at creating value for area small businesses. In addition to the free consulting services already offered by our SBDC, our undergraduate and graduate small business management classes now offer a variety of free project work for area businesses – this past Spring alone creating roughly \$15,000 in value for 15 different local firms (see Figure 2 below). Another initiative is this column, in which I attempt to distill some of the key tools I think any small business "Jack of All Trades" should have in his or her toolbox. In this first installment, I talk a bit about the *dynamic* results small businesses can achieve by leveraging the internet and social media for customer acquisition and guerilla marketing.

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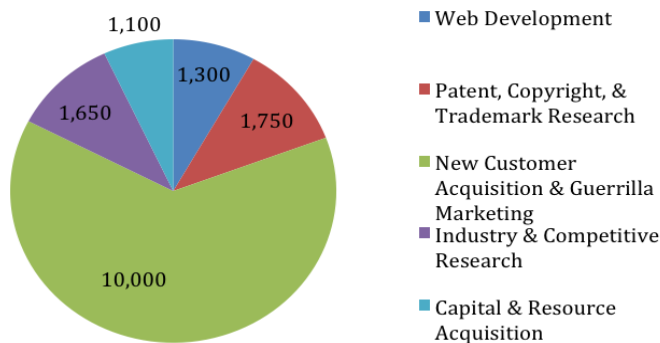
<sup>1</sup> Dr. Woods is an international business development scholar, educator, and consultant with over 20 years of experience. He is an author and coach in the areas of small business executive decision-making, entrepreneurial project implementation, lead generation, and sales management. He is the founder of two small businesses, Avenue 2 Licensing & Consulting and Market Driver Consulting, and has been a key player in a number of educational, consulting, and business expansion projects in North America, Europe, and Latin America.

<sup>2</sup> US Census Bureau, 2007 Survey of Business Owners.

**Figure 1 – Small Businesses in the USA**



**Figure 2 – Estimated CSUB Small Business Management Student Project Value Creation, Spring 2015 (in Dollars)<sup>3</sup>**



**Acquiring Customers – Selling and the “Rule of 10”**

There are roughly 7 billion people on the planet. There is *always* someone who wants what you have to offer. The challenge is weathering the process of finding them! One of the key concepts to recognize and accept in this process is that you will probably need to “touch” at least 10 prospects for every one lead and “touch” at least 10 leads for each real opportunity. It used to be the case that you didn’t know much about a stranger or an unfamiliar company until you contacted them and asked them questions. This meant blasting potential customers with cold calls, mailings, and other types of minimally-targeted sales and marketing outreach, with the vast majority of these calls and mailings going to waste and often annoying uninterested prospects. Today, small businesses can leverage social media networking, member lists from associations such as the Bakersfield Chamber of Commerce, online databases, and Google to get publicly available information on your “touches”. This helps you

target ones who are more likely to become “leads” and cut down on wasted time, money, and annoyance.

**Looking for the Right Kind of Customer**

Modern information technology makes it possible to find information about nearly any person or business prior to spending time, money, and energy contacting them for sales and marketing purposes. However, taking a “ready, fire, aim” approach to the use of these powerful tools is likely to bring about a result similar to that experienced by Mickey Mouse in “The Sorcerer’s Apprentice”: ever more software application brooms carrying you ever more buckets full of customer information water – quickly drowning you in information!

To avoid this problem, it is useful to first develop a “customer vignette” before beginning to acquire information. This allows you to be very precise in the information you gather. Who is your target customer? Are

<sup>3</sup> To request a project, please contact Dr. Jeremy Woods at [jwoods7@csub.edu](mailto:jwoods7@csub.edu).

they consumers, businesses, or both? Do you target customers, influencers, or both? Are there different segments to your customer markets?

After you've answered these questions, ask yourself what you need to know about your customers. What are their wants and needs; both physical/practical and emotional/mental? Are their personal attitudes relevant for your product or service? Where and when do they buy? At what price point? What is their monthly or annual spending on your product or service?

After you've answered this next set of questions, write out what your target customer's demographics are (firm size, industry, geographic location for B2B customers or age, marital status, income, occupation, residential location, and professional location for B2C customers). Then ask yourself what competitors they currently use, what marketing and advertising channels they consume, and, *critically*, what social media platforms they use.

### **Defining Which Product or Service You Want to Offer First**

After defining the specific type of customer you're looking for, it is next helpful to define the details of what product or service you want to offer first. While you can certainly offer various different products or services, it helps to focus on them one at a time in guerrilla marketing campaigns, where the time and space you have to get your message across with new potential customers are extremely limited. Once you've settled on your focal product or service, identify what information customers absolutely need to know about the product. What "image" do you want to portray for the product/service? What are the principal features/benefits of the product/service? What promotion or "call to action" are you offering? What's the pricing? At this point, you should also identify the basic sales & advertising channels will you use, what your customer acquisition goals are, and how will you track prospective customers contacted about your focal product or service.

### **Developing Modular Guerrilla Marketing Materials**

Once you have determined which sales and advertising channels you will use, you should prepare concise, modular materials that can be used in each channel<sup>1</sup>. These likely will include one or more of the following elements:

- A website, if you don't already have one, featuring 1) a home page which provides a brief "storefront" for your company and a navigation bar that allows visitors to navigate to the other

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<sup>1</sup> If you feel you're "all thumbs" when it comes to developing media graphics and materials, you're not! Developing professional-looking media graphics and materials is much easier than it looks. For more information, contact us about potential SBDC webinars on the topic!

pages on the site; 2) an "about us" section which describes a bit of your company's background, personnel, and competitive differentiators; 3) contact information; and 4) profiles of your products and services (with graphics that help visitors to visualize & understand things).

- Social media profiles featuring graphics, biographical information, contact information, photos, audio files, and video files about your company, products, and services, to be posted on social media platforms such as Facebook, Pinterest, LinkedIn, and Google Circles.
- "Tweet" messages consisting of a single sentence (140 characters or less) and featuring news and information about your company, products, and services, to be posted on social media platforms such as Twitter.
- Blast emails which feature anywhere from a few lines to a paragraph or two of text, as well as attractive visual graphics, to be sent to mailing lists of email addresses of your existing or potential customers.
- Keywords that can be recorded in advertising platforms such as Google's AdWords and display a link to your company's website when internet users search on terms related to your company's products & services.
- Banners which feature attractive visual graphics and offer discounts, free samples, and similar promotions, to be placed on high-traffic websites such as search engines and news outlets frequented by your target customers.
- Blog postings which feature anywhere from a few paragraphs to several pages of text, with embedded branded background graphics, on topics such as "how to" guidance, opinion pieces on current business topics, or "white papers" on topics related to your products & services, to be posted on a variety of industry information and opinion websites.

### **Reaching out on Social Media**

The potential of social media websites such as LinkedIn and Facebook for acquisition of "warm" leads is truly *immense*. A common misconception about these and other social media platforms is that they somehow replace traditional networking. They do not. What they do is *enhance* traditional marketing by removing the bounded rationality of the human brain (Simon, 1957)<sup>2</sup> as a bottleneck for identifying and remembering contacts. Human beings have limits to their ability to remember large and complex sets of information, such as the names and complete professional histories and personal interests of hundreds of contacts. Computers have no such limitation.

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<sup>2</sup> Simon, H. A. (1957). *Models of Man: Social and Rational; Mathematical Essays on Rational Human Behavior in Society Setting*. New York: Wiley.

This enables you, as a small business manager in the age of social media, to leverage the power of these computers' information organizing capacity to never have to make a "cold call" again! This is possible because of the ability of users to search the professional history and personal preferences of not just their own friends and contacts, but of *those* people's friends and contacts, and *those* people's friends and contacts – and so on and so on. If you are a restaurant focused on consumers, for example, you can start by surfing through the Facebook pages of your friends, and their friends, and their friends, and ask to be referred to individuals who post a good deal of restaurant or food pictures on their pages (and thus are likely to be restaurant-going enthusiasts). If you are a business focused on providing products or services to agricultural firms, you can search LinkedIn for individuals you are connected to (directly or indirectly) who either currently or formerly work or worked in the agricultural sector. This can quickly add up to lists of hundreds of individuals and businesses to whom you can be introduced by a friend or close associate, rather than contacting these individuals and businesses "cold." And hundreds of prospects, according to the "rule of 10," likely means several new customers – which then expand your social network, giving you access to still more potential introductions.

### Further Steps in Guerilla Marketing

Depending on how your initial social media outreach goes, you should expand your guerrilla marketing campaign accordingly. This expansion will likely include one or more of the following elements:

- A word of mouth campaign. This involves continuing to leverage the network of contacts and potential customers identified in your social media outreach to "spread the word" about your products and services. It can be practically free and extremely effective, and it works best when you have opinion leader "champions" within your target customer groups who each are responsible for outreach to a certain number of new contacts.
- Online outreach. This could include anything from email blasts to blog or tweet campaigns to banner advertisements and keyword placements on Google and other search engines. It is particularly fast, focused, and cost-effective.
- Flyers, brochures, and physical mailing campaigns. This could include anything from passing out flyers and brochures in locations frequented by your target customers to targeted physical mailing campaigns. It can be more expensive, depending on the quality and quantity of the materials you print, and it is most cost-effective when done in combination with a word of mouth campaign.
- Events. This could include anything from informal meet-and-greet sessions at local bars or

restaurants to full-on product demo events. It can be more expensive, but it allows for face-to-face interaction with prospective customers, robust demonstration of products, and dynamic generation of image/brand identity.

### Bringing it All Together

As you manage your guerrilla marketing campaign, it is helpful to keep a few key concepts in mind.

- Document everything. No piece of information you glean about a prospect is too insignificant – even the fact that they are out to lunch or busy with a meeting. They all help you to get to know the prospect better and give you opportunities to build a relationship.
- Don't take rejection personally. It's an omnipresent part of the process.
- Get people talking. Prospects become leads, leads become potential customers, and potential customers become actual customers by getting them talking about details of their situations that relate to problems you can help them solve (Khalsa, 1999; Rackham, 1988; Rackham, 1989)<sup>3</sup>. Manage potential customers in each of these stages like a "funnel." You want to have 10 prospects for every lead, 10 leads for every potential customer, and 10 potential customer for every actual, new customer you want to acquire.

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<sup>3</sup> Khalsa, Mahan (1999). *Let's Get Real or Let's not Play*. Franklin-Covey/White Water Press: Salt Lake City. ISBN 1883219507. Rackham, Neil (1988). *SPIN Selling*. McGraw-Hill: New York. ISBN 0070511136. Rackham, Neil (1989). *Major Account Sales Strategy*. McGraw-Hill: New York. ISBN 0070511144.

