

The Importance of an Existing Business Strategy

This article was written to help Synchronist Users reinforce the importance of business retention to a community's economy. It can be reprinted and distributed as wished with credit to source in local media, organization newsletters, web sites, board meetings, etc.

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A community's best companies are your competitor's best prospects!

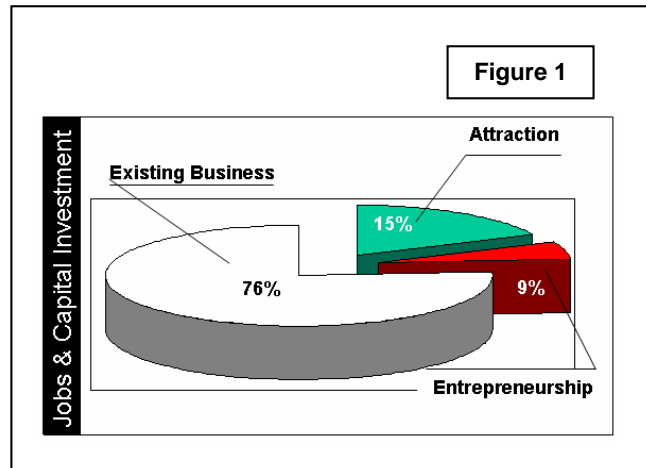
by Eric P. Canada

... dozens of other economic development organizations may be communicating with your community's best employers right now. If the community makes doing business difficult, company executives may turn to another community for help.

When it comes to the discipline of economic development, states, regions and municipalities can choose from a variety of strategies. Generally speaking, these can be broadly categorized into three categories: business attraction strategies, strategies that encourage or foster entrepreneurship, and strategies that are designed to grow the businesses already in the community.

Economic Impact

Looking at the source of jobs in a community gives insight into the importance of business retention. Based on research by Blane, Canada Ltd., the average community will derive 76% of their new jobs and capital investment from existing business. Business attraction will contribute 15%, and entrepreneurship will deliver the balance of the new jobs and capital investment, about 9%. In a rural area, the contribution of existing businesses is likely to be 86 - 90% because both business attraction and entrepreneurship will contribute less.



Add in "lifetime value," the economic benefit generated by a company over the life of the business, and the economic impact of existing companies increases. Even a small employer's lifetime value can be substantial when payroll, taxes, business purchases and philanthropy, are considered.

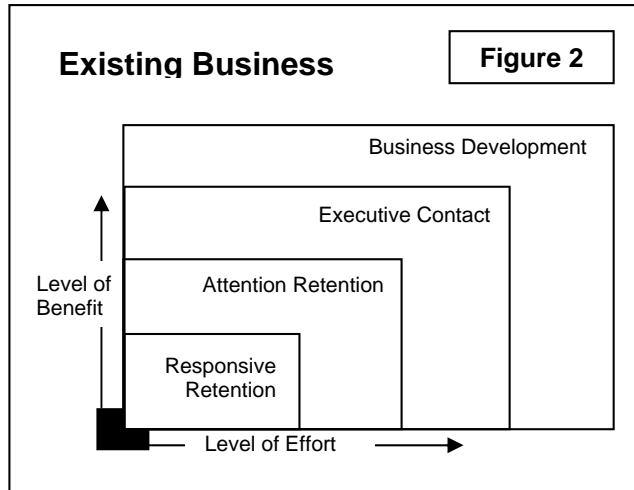
Yet, existing businesses, as any investment annuity, are easily taken for granted by community leaders.

Business Retention

To strengthen the relationship with existing businesses, many economic development organizations have a business retention program. There are four elements to a comprehensive existing business program. Business retention and expansion is only one of these elements. Each element requires a progressively higher level of commitment of time and money, as shown in Figure 2. The reward in each case is commensurate with the investment.

- **Responsive Retention**
 - Respond to the problems/needs of individual companies.
- **Attention Retention**
 - Create opportunities to shower attention on existing employers.
- **Executive Contact**
 - Conduct personal interviews or surveys to identify company and community issues.
 - Collect company-specific strategic information.
- **Business Development**
 - Provide support and services to help individual and groups of companies to increase sales and grow in the community.

Results have been mixed. Jobs have been saved. Important issues have been uncovered and corrected. Yet, existing business programs do not get adequate support or the funding needed to protect individual company's or the community's most important asset, its economic future.



Portfolio Management

Progressive communities around the US and Canada are now adopting a new view of existing companies based on the future economic security these companies represent. Progressive communities are looking at the existing business base as a portfolio. The value of the portfolio is the sum total of the value the individual companies bring to the community. Similar to an investment portfolio, the community's portfolio provides future security. But, insuring future security means managing the portfolio. Like a stock portfolio or a real estate portfolio, the first step to manage the existing business base as a portfolio is to assess each company and their business practices.

Economic development organizations have used executive contact, private one-on-one meetings with business executives, as a central part of business retention. Historically, the goals have been clear:

- Help companies at risk of leaving/downsizing
- Identify opportunities to help companies expand in the community
- Identify problems that could cause employers to leave a community
- Build relationships with individual company executives

Conducting executive visits is not enough to adopt an effective portfolio management strategy for existing business programs. In order to be effective, the questions asked during the visit must be designed to gather predictive data. Municipal officials must craft questions and guide the executive interview discussions in order to obtain information concerning the corporation's growth plans, community problems if any, need or desire for assistance, perception of place in the community, and perception and level of awareness the company may have of the officials

themselves. This new interview strategy leads to an understanding of the value of the company to the community, satisfaction levels, growth potential and the potential risk of the firm leaving the community or downsizing. As a by-product, the interview identifies companies at risk, companies that need help expanding their facilities, and community-based problems.

The goal of community economic portfolio management is to better manage public resources and increase the return on investment in economic development policy and programs by maximizing the future economic value of the business base. Communities adopting a portfolio approach to existing business are now redefining the purpose of the executive visit. They are also defining the strategic information needed to understand a company's economic contribution to a local economy.

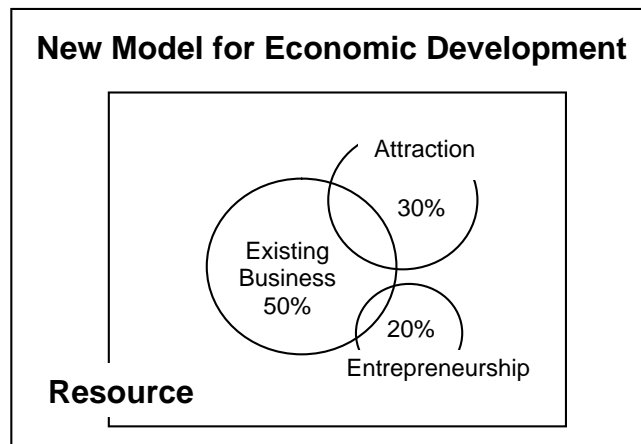
For the first time, instead of focusing exclusively on individual companies, community leaders are asking, "What is the value of our portfolio? Is the portfolio being neglected? Should our portfolio be conservatively or aggressively managed? What is the cost/consequence of a failure to act? What are to the community's long-term objectives for the existing business portfolio?"

Balancing An Economic Development Strategy

Traditionally, economic development strategy has been dominated by business attraction.

However, looking at the risk of loss to other aggressive marketers and the potential represented by the existing business base, economic development strategy should be led by the existing business program, including business retention.

By emphasizing existing businesses, progressive communities adopting a portfolio management strategy are working to align their economic development strategy with real world realities. This approach:



- Focuses resources on the greatest opportunities
- Makes business retention/expansion an integral part of a more comprehensive approach to existing business
- Leverages the executive-contact/assessment phase to collect information beneficial to business development, business retention, as well as business-attraction programs
- Improves the community's infrastructure, making it more attractive to prospective investors
- Generates positive success stories documenting company and economic growth
- Works to diversify the economy

Focusing on portfolio management provides all the benefits of a classic business retention and expansion program. Companies with problems and/or expansions are identified while community

problems are isolated. At the same time, resources can be properly directed to growth and value companies.

Close

Viewing the existing business base from the perspective of a community's economic portfolio clarifies the community's dependence on maximizing the portfolio's value. This defines a clear role for the economic development organization. It provides a rationale to draw together the economic development resources deployed in a variety of programs and services provided locally as well as at the state level. Furthermore, maximizing the portfolio value requires strategic information, a hands-on management approach, and selectively directing resources to growth companies to help them achieve their potential. This is clearly a proactive strategy, presenting a compelling argument for additional resources. Starving existing business programs to devote 80 percent of the available resources to business attraction is a flawed strategy, a strategy no longer valid in a global economy.

Economic development strategies dominated by business attraction leave communities with too much at risk. Building a portfolio management strategy refocuses economic development programs on the long-term. Communities and their economic development organizations can invest their resources (incentives, loans, grants, public infrastructure, time, etc.) more efficiently to maximize the long-term value of the portfolio.

Eric P. Canada is the leading authority on existing business strategies and business retention. His extensive body of work has changed the way economic development organizations manage their relationships with the companies in their economic portfolio.

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