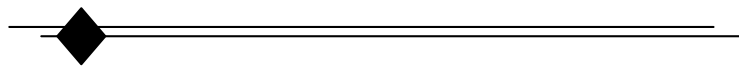


Untapped Potential:

Business Retention in Portfolio Management



Eric P. Canada

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Untapped Potential: Business Retention in Portfolio Management

by Eric P. Canada

Business Retention?

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

Without an effective existing business program, economic development opportunities will be lost. Count on it.

Competitors regularly invite even small companies to consider leaving the community they are in and locating or expanding in the competitor's community. Business retention programs have emerged in an attempt to slow business defections and the negative impacts those defections have on a community's economy. Today, these programs have increased in importance as communities recognize that real job growth over time comes from the expansion of businesses already in the community.

Formal business retention programs were developed to provide a systematic approach to working with existing employers to:

- Identify problems that could cause employers to leave a community
- Identify opportunities to help companies expand their presence in the community
- Build relationships with individual employers

Historically, the typical business retention program involves a process of executive interviews or an employer survey. The process, well documented in economic development literature, has been around for years with little significant change. In communities where the economic development organization has tried to use the business retention program as the centerpiece of the economic development strategy, there has been little success. Why?

Business retention as the primary economic development strategy is a strategy lacking energy or enthusiasm. Standing alone as the primary economic development strategy, a traditional retention/expansion program is a strategy with no "call to action." Alone, retention is a strategy of weakness and ultimately failure. With retention and expansion as the strategic approach, someone in the community's leadership will rightly accuse the development organization of failing to be proactive. This challenge can result in a dramatic change in program focus, or in a worst case scenario, the formation of a competing development organization focused on, you guessed it, a proactive strategy: aggressive business attraction.

Success with existing business is not about tweaking the same old "process" of business retention. It's about reinventing reasons for being.

- Business retention is an important goal, but it's not the reason for an existing business program.
- Business expansion is also an important goal, but it is not a sufficient reason for an existing business program.

I believe these are the reasons business retention and expansion as an isolated program lacks significant support from leadership – at least until the economy softens. As a result, the common practice in economic development is to place almost all bets (resources) on business attraction and starve resources from building a meaningful existing business program, in spite of the recognized low-return on investment.

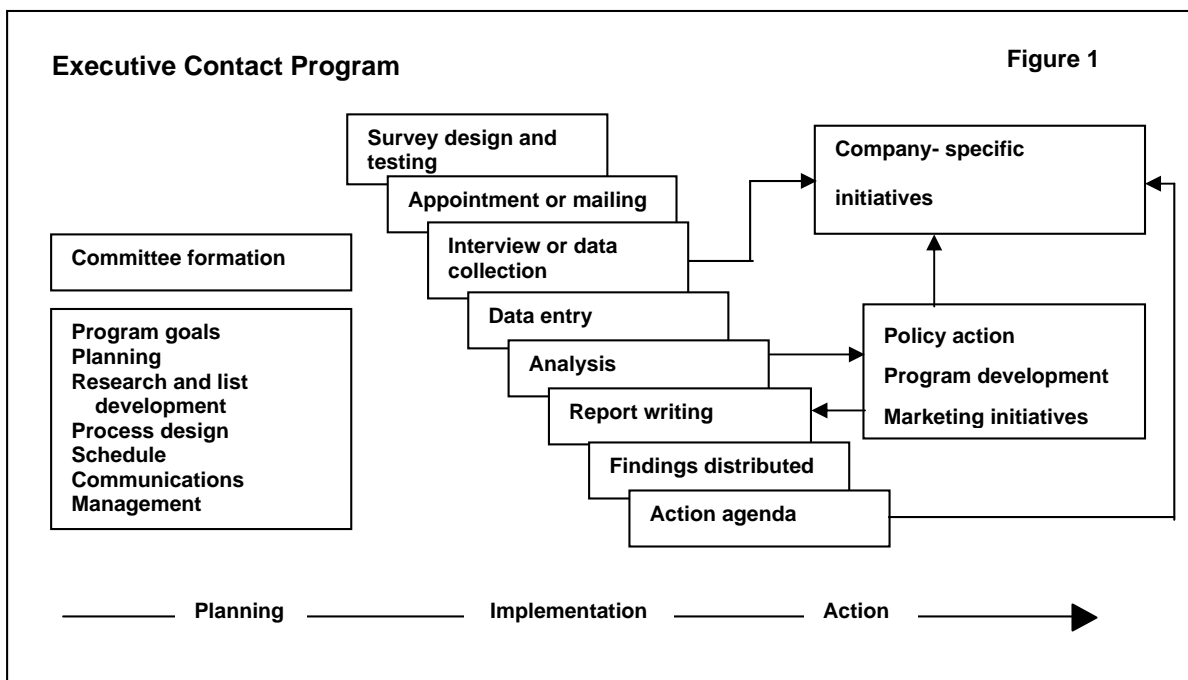
Curious, isn't it?

As a result of these failings, the approach recommended here views business retention as an element of a comprehensive existing business program. It encourages community leaders to not only engage in business retention but also use the opportunity executive contact creates to build a meaningful existing business program around business development. Some of the benefits to be derived from this approach include:

- Help existing companies draw new sales dollars from outside the area.
- Build the economic base, adding new jobs and cash flow to support other business.
- Support the resource needs of existing businesses, rather than competing with their needs as business attraction can.
- Create a positive self-sufficient attitude within the community or region.

Begin With The End In Mind

Most economic development professionals begin with “the process” in mind (Figure 1). Focused on the “visit/survey” process, the steps fall into place, action unfolds, interview/survey forms roll in, results are tabulated, a report filled with pie charts, graphs, and quotable quotes is prepared. The end is celebrated. Only then, at the end of the process, does it become painfully clear that there probably will be no great saves (no companies on the verge of pulling out of the



community are found). Leadership also recognizes the organization’s role of helping companies expand is limited. Economic development organizations can provide physical and emotional support and networking. These are valuable, but seldom deal makers. Plus, after all of the effort of the contacts, not much new information is gained from the predominantly superficial interview questions. And finally, pie charts and bar graphs don’t help leadership understand what will drive the community’s economy forward. The reports don’t help leadership anticipate which companies will be the center of the community’s economy in the future.

If there are not companies to save, if our help is of limited value to expanding companies, and if there is no new understanding, where do we go from here? Is there more to consider than the process? Absolutely!

What Is Portfolio Management? A New Frame of Reference

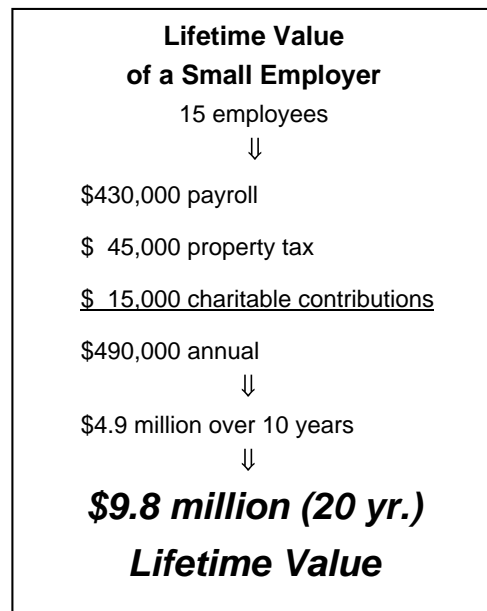
Movement away from the process-driven style of retention and expansion program begins with understanding...

Portfolio Management	
<i>Is NOT</i>	<i>Is</i>
It <u><i>is not</i></u> an R&E program.	It <u><i>is</i></u> an executive contact program.
The purpose <u><i>is not</i></u> to save companies and help companies expand. That will be a by-product of the bigger picture.	It <u><i>is</i></u> about gathering strategic intelligence about the companies that will drive the community’s economic future.
It <u><i>is not</i></u> about existing companies.	It <u><i>is</i></u> about the policies and programs that form the environment where existing companies thrive – the same environment any new investor must find compelling if they are to choose to invest in the community.

The premise behind portfolio management is simple:

- New clients are hard (read, “expensive”) to get
- Increasing the value of current clients is where it is at (read, “less expensive”)
- New clients are drawn to communities that provide good service to existing clients

In economic development, the “lifetime value” (the economic impact generated over the life of the business) of even a small employer can be substantial. For example, a small employer with 15 employees (average wage \$13.75/hr) will put an annual payroll of \$430,000 into the community every year. That same employer will pay property taxes and contribute to various charitable and community initiatives as shown.



The direct annual financial impact of that single employer is \$490,000. If that business is in the community 10 years, they will pump a total of over \$4.9 million dollars (direct dollars, no estimated increases, no growth, no multiplier) into the community. In 20 years, that business will pump in excess of \$9.8 million dollars. Give that same company modest growth (5%) that allows for pay increases, and their direct contribution to the community balloons to over \$16.2 million dollars in 20 years.

Yet, like with any annuity, an existing business is easily taken for granted.

Is it possible to make a business retention program pay the same kind of dividends experienced by the adrenaline rush of a successful business attraction program?

Yes! It is all perception management. How we manage the perception of a community's business and political leadership will determine how the existing business program is viewed. Most business retention programs are built on the "business service model." In the business service model, the economic development organization is there to respond to the needs of a specific company related to doing business in the community.

However, the most advanced existing business programs are built on what we refer to as a "portfolio management model." In the portfolio management model, the first objective is to gain a deeper understanding of each company to determine how they will fit in the community's economic future. Their individual needs are not ignored. But, the top priority is to prepare to actively manage the community's economic portfolio. To do this requires information. The type of information an investor would use to evaluate the investment potential of a company's stock. In economic development we need to evaluate every company on five critical factors:

- Value to the community
- Growth potential
- Technological adaptation and leadership
- Risk of downsizing and/or leaving
- Satisfaction with the community

This information goes well beyond the typical investigation of community problems and business concerns needed to provide direct services.

Portfolio Management Model

Think of the companies in a community as parts of an investment portfolio. The value of the portfolio is the sum total of the value of the individual companies. An investor is constantly asking about growth potential, value, diversity, balance, etc. Therefore, like an investor, community leadership should be asking, which are our most valuable companies? Which are our growth companies? Which are stable? Which companies are in decline? Now, given that knowledge (value, growth, risk), how should the community/economic development organization invest their resources (incentives, loans, grants, programs, staff time, etc.) to maximize long-term value of the portfolio? Should the portfolio be conservatively or aggressively managed? Is the portfolio being neglected? What is the cost/consequence of a failure to act?

Executive Contact (Business Retention & Expansion)

The days of being paid to wait for the phone to ring from an executive asking for help are long past. Not many boards are willing to sponsor a staff person to “stand-by” just in case an area company calls for help or bounce from meeting to meeting.

Boards and political leadership want to see action. This is one reason business attraction is viewed positively. It is proactive. It is a symbol of the organization taking charge of the community’s economic destiny. Regardless of the odds for success, the emphasis is on action. To win real respect, existing business programs must foster the same action orientation. The structure of a typical business retention program is shown back in Figure 1.

The Strategic Information Tool (Survey or Interview Forms)

An essential step in building an executive contact program is to decide what will be discussed with area executives during the interview/survey. Most economic development organizations prepare a set of questions to help organize the interview and explore important issues. The challenge here is not what question to ask, but rather how to limit the appetite to ask the next question. There are always more interesting questions to ask than time available.

The challenge is deciding WHY to include a question. Let me explain. In 1996, we gathered about 75 business retention survey forms from organizations around the country. Each organization had a proactive business retention program. Our findings, Figure 2, were startling. The vast majority of the time (53.2%) was being devoted to confirming easily obtained information (e.g. company address, parent company, product, employment, facility size). This means for an average 30 question survey, 16 questions were devoted to gathering information of absolutely no strategic value. Given this, it is clear few if any were asking themselves why these questions were necessary. Plus, just asking these questions demonstrates to the company executive that no one in the organization did their homework. This is not the image any organization wants to project.

Analysis of Survey Questions		Figure 2
Type of Questions	Percent	Questions
▪ Confirmation question	53.2	16.0
▪ Assistance questions	10.6	3.5
▪ Problem identification question	25.3	8.0
▪ Predictive questions	4.3	1.0
▪ Industry intelligence questions	0.6	0.0
▪ Company intelligence questions	5.2	1.5
▪ Buyer/supplier linkage questions	1.1	0.0

Source: Blane, Canada Ltd.

The other focus of the traditional survey instrument has been to identify problems. In our analysis, the typical survey instrument devoted 25% of the interview to identifying and/or documenting problems limiting business growth or thwarting the attraction of new companies. How many questions are required to identify/document problems? 5, 10, 15, 20? Unbelievably, one survey we analyzed posed 95 problem-related questions. Another posed 107!

Knowing community related problems is important. Creating goodwill is valuable. Offering assistance is useful. But, **in an environment of global competition these issues do not drive corporate location decision-making.** Therefore, investing 88.4% of our information collection

time on these issues (confirming company info, identifying problems, and offering assistance) is highly inappropriate. This line of questioning provides little leverage to manage a portfolio with limited community resources.

A New Conceptual Framework

To address the weaknesses in the typical business retention survey instrument, I proposed a new conceptual framework for increasing the strategic value of information gathered through the business retention process in 1995. The framework was detailed in the articles “Locked in the Twilight Zone: Business Retention Fails the Strategic Value Test!” and “Rocketing Out of the Twilight Zone: Gaining Strategic Insights from Business Retention.” [Editor’s Note: These articles can be downloaded at http://www.blancanada.com/frameset_books.html (see free articles)].

The focus of the new framework was a quest for strategic information. Strategic information is comprised of two types of information: predictive and market intelligence. Predictive information provides value by helping the development executive *anticipate changes* impacting a community’s economic base. Predictive information is focused on a company’s decision-making process. Market intelligence seeks to document or quantify *competitive advantages and weaknesses* affecting retention and attraction.

The key to strategic information becomes asking the right questions. The article “Locked in the Twilight Zone” argued that business retention surveys should investigate:

- Product/product development
- Market trends
- Industry trends
- Management practices
- Workforce satisfaction
- Community relationship

Exploring these issues provides insight into each company’s growth potential, value to the community, risk of leaving/downsizing, as well as overall satisfaction in the community. The article “Locked in the Twilight Zone” received the American Economic Development Council’s prestigious Roepke Award as the, “Most significant contribution to economic development literature in 1997.” Today, the strategic information approach is in use in more than 115 communities.

Understanding each company’s growth potential, value, risk, and satisfaction provides essential information for the allocation of economic development resources and the creation of new programs. For example, workforce challenges can be a problem for any company. In response, many organizations have created workforce programs. Company-specific strategic information allows the development organization to design workforce programs to help the most valuable companies first. Or, program designers can concentrate on the needs of companies with the greatest growth potential first. In either case, by working with executives from these two important groups, the resulting program is likely to be very different from one designed for “generic” employers.

This ability to distinguish between companies is central to portfolio management. Resources are directed first to the areas of greatest opportunity. In portfolio management, the greatest

opportunity is not for a successful program, but rather, the greatest opportunity to yield the highest economic return on the time and money invested by the community. In the past, programs were designed around program measures, not return on investment (ROI). An ROI focus changes everything. Information becomes critical. Strategic information gathered through the business retention process is an essential building block because development organizations *must*:

- Seek out and acquire information relevant to the decision-making process of companies
- Build company-specific knowledge base
- Create a process to transform unconnected pieces of information into relevant, accurate and useable strategic knowledge
- Focus information resources on helping identify marketing opportunities and predicting companies at risk

Portfolio Management and Business Development

How can an economic development organization adopt a growth-oriented strategy without total reliance on business attraction? The best approach to economic development for many communities can be characterized as Business Development. Under this proven economic development strategy, the economic development organization becomes a hub connecting companies and business support programs to stimulate and/or accelerate the growth of companies in the community.

Business Development is:

- Proactive management of the local economy (portfolio management)
- A proven economic development strategy
- Focus on existing employers to help them grow sales outside the community

Government procurement programs and international export development programs were early economic development services targeted at business development. Each of these programs was aimed squarely at growing existing companies. Contemporary examples could include actions like those following. While some of these examples are from areas that do not have an active focus on business development, the projects described are perfect examples of the type of activities undertaken by those with business development programs.

Some years ago, *Advance Green Bay Area Development (WI)* found that small manufacturers were having difficulty achieving ISO 9000 certification. Since ISO certification was becoming a supplier requirement, these small companies were at risk of losing current business and being frozen out of future opportunities. These small companies could not afford the cost of an expensive consultant to help achieve ISO certification. In response, Advance formed an ad hoc group of eight firms. Each participant put up a portion of the funding to cover a consultant's fee. Each participant shared in the services provided. Ultimately, each company achieved ISO certification. This action by Advance Green Bay preserved jobs and created an opportunity for eight area companies to grow their businesses.

In *Kentucky*, two small furniture manufacturers went together to bid on a contract that was too large and complex for either company to win alone. Together, they were able to craft a winning bid bringing new work to the community.

Greater Louisville Chamber of Commerce (KY) has created a “Client Services Center.” Staff members make calls on existing companies and are charged in part with trying to develop networking opportunities to connect (buyer-supplier, collaboration partnerships) companies from their three-county service area.

In *North Dakota*, the Manufacturing Extension Partnership program provides services to improve manufacturing operations in ND. The first step in the development of the program was to assess the capabilities and growth potential of existing companies, identify services needed to improve manufacturing processes, and direct client companies to public and private sector services for assistance. Individualized services are provided to qualifying candidates. Many services are provided by independent providers using a combination of state and federal funds to reduce the company’s direct cost.

In 1997, Development Thunder Bay helped create Forestry Thunder Bay, a public private partnership. The Partnership has since created an e-business buyer/supplier tool <http://www.northernsupplier.com/>. Today, over 300 of the largest regional buyers are now registered and over \$1,000,000 worth of business has already been tendered. The site guarantees a buyer supplying basic information “at least three quotes from regional suppliers within 48 hrs.”

A thin workforce and revolving door human resources policies led *Fond du Lac County Economic Development Corp. (WI)* to create an employee retention service to help companies put systems in place to keep employees longer. The fee based service has helped many employers slow the demand for new workers by slowing the leakage.

A professor at *Michigan Tech’s School of Engineering in Keweenaw (MI)* organized three multi-disciplinary teams of students to work with area company executives to make recommendations to improve business practices, management processes, production efficiencies, as well as marketing. This effort helped companies increase productivity and gave students concrete business experience.

As shown in these examples, services may simply constitute referrals to existing public and or private service provider elsewhere in the community or region. In other cases where no service is available, an existing organization may help the company find a private consultant. For example, aging business owners nearing retirement frequently face the prospect of closing their business for lack of a successor. If this is a significant issue, the business development program may form a business brokerage network to help business owners sell, avoiding abandonment of the business. The bottom line in business development is finding ways to help existing companies survive and thrive.

Creating A Business Development Program

The fatal characteristic of government procurement and export development programs was that they were programs. They were a one-size-fits-all approach. The assumption was that any company could sell to the government or overseas. Unfortunately, if a company did not have a suitable product, the program was of no use. Consequently, these programs were inappropriate for most communities. Where the business base was large enough, they still struggled to justify their existence then, quietly disappeared.

The better model for a business development program is the Manufacturing Extension Programs (MEP) of the U.S. Department of Commerce's National Institute of Standards and Technology. The MEP program makes it possible for even the smallest firms to tap into the expertise of knowledgeable manufacturing and business specialists. MEP Centers have the ability to assess a company's capabilities, to direct technical and business solutions in a wide range of areas to help build the companies capabilities.

The beauty of the MEP program is that it is market driven. The services offered are dependent on the situation and needs of the individual company. While their focus is manufacturing, it is not a specific type of manufacturing. This gives the MEP Center latitude to focus on producing results.

In most communities, business owners and managers are not well connected. They do not have many meaningful networking opportunities. The "networking" events hosted by chambers and civic organizations are heavily attended by vendors with something to sell. Under a business development model, the economic development organization serves as the network hub conducting assessments, exploring needs, and directing public and private services to area companies, helping them grow their business.

Maintaining an open structure without a specific industry allows the most benefit. Creating cross industry linkages and coalitions allows development organization to play a valuable role as shown in the examples earlier. Furthermore, understanding the needs of growth companies helps a community prepare for the future instead of the all too common practice of building for the past.

Business development is not entrepreneurship. Entrepreneurship programs focus on helping an individual start a business. In a business development program the primary focus is working with companies that already have proven business models. Target companies have employees, a client base outside the area, and sales. Most importantly, they have the potential for more sales. Business development is about identifying the economic potential of existing companies, and helping these companies reach that economic potential. Growing revenue streams create opportunities for expansion and new employment. In addition to the economic and employment value, by helping local companies grow, a community is building future business/civic leaders.

"Sounds good, but it won't work for us. We're too small." Well, consider this. Randolph County (IL) has a population of 35,000. The largest community is about 8,000. In Randolph County, economic developer Ed Crow, an avid reader, scans dozens of newspapers and business

Service Categories

- Process improvement
- Business management
- Financing
- Human resources
- Marketing
- Research
- Product development

Service Delivery Partners

- Community colleges
- University professors
- Manufacturing Extension Program
- Other businesses
- Private consultants

periodicals watching for and clipping articles and notices with leads useful to area business executives, e.g. area school plans to purchase 25 computers; telephone system bid notice. Articles are collected in envelopes bearing the businesses name. In 2001, 30 businesses received 257 “opportunity” packets, mostly hand delivered, containing 1,317 leads. Because of the effort on one economic developer, dozens of businesses have bid and won sales they would never have known about. One implement dealer sold a tractor 50 miles away. A telephone service company sold and installed a dozen phone systems and expanded several times – hiring more residents. The sales growth can be documented. The goodwill has been bountiful. Total cost, negligible.

Or, talk about low cost, the Greater Moncton Economic Commission, NB, Canada has sometimes joined one of their corporate citizens at the table to sell a prospective clients. According to the commission, “As partners, we are selling the company, the community and the workforce.” The Commission has supported OAO Technology Solutions (a large systems information technology company providing application development & maintenance), as one example, in their quest for new business. This approach has successfully helped secure new business for their Moncton operation and OAOT continues to grow.

Economic Gardening

Economic gardening is a movement with growing support in the U.S. It is a form of business development and can serve as another model for creating a business development program. The premier economic gardening program is Littleton, Colorado’s New Economy Program. Widely modeled, Littleton’s economic gardening program is sponsored by the City. It consists of a very sophisticated business resource center and a skilled staff with research, business, and management backgrounds. Area companies are invited to events to learn about the research and assistance that can be provided. Staff can conduct market feasibility studies to help companies identify and/or prove potential new markets for their products. Once a prospective market is identified, resource center staff will also help develop a custom mailing list for a promotional campaign. Or, executives can come to the resource center to use research resources. Littleton provides services and support to any company or entrepreneur on request.

Growing Movement

Economic gardening is a growing movement, especially in areas where business attraction has been more challenging or growth issues have emerged. These programs form a body of work for reference and inspiration. A few of the U.S. communities engaged in economic gardening include: Santa Fe, New Mexico; San Bernardino and Chino, California.

Two Approaches

The approach recommended for business development begins with a strategic information and understanding of area companies. This market research can be conducted concurrently with the executive contact program using the strategic information approach described in the article “Locked in the Twilight Zone.” Understanding the needs of growth companies provides insight into how existing service providers or available government programs can be the most valuable. A revitalized business retention and expansion program can form the cornerstone of the assessment process by focusing on identifying growth companies.

Business development services may be directed toward companies fitting established criteria, to push services to the companies most capable of generating new jobs in the community. The criteria for a business development program could include:

- Profitable business with 25 – 75 employees (lower in rural areas)
- Solid growth potential
- Growth-oriented management
- Majority of product/services sold outside the region

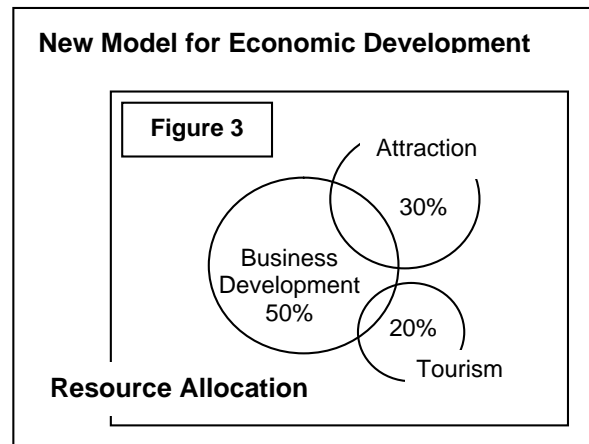
The alternative is to take all applicants on a first-come, first-served basis. This may be necessary for programs sponsored by a unit of government as in Littleton, CO. In their case, service delivery is reportedly somewhat self adjusting. More sophisticated companies with stronger managers tend to ask more sophisticated questions and receive more service as a result.

Portfolio Management and Economic Development Strategy

The ultimate model for economic development was once considered to be a blend business retention/expansion, business attraction and a third element, perhaps tourism or entrepreneurship. Today, we believe the model can be strengthened by upgrading business retention and expansion to a more comprehensive portfolio management strategy.

If the goal is quality jobs, increased wages, and new corporate investment, the single most powerful economic development strategy is to maximize the value of existing companies.

Business development is an alternative to traditional attraction strategies for communities where a business attraction strategy is undesirable or inappropriate. In other communities, a business development program can be implemented in parallel with a business attraction strategy.



The complete economic development strategy should be a combination of elements led by business development. In Figure 3, resource allocation of 50-30-20 has been assigned by leadership. This economic development strategy:

- Focuses resources on the greatest opportunity
- 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
- Reduce leakage by substituting local products or services for products or services currently purchased outside the community
- Generates positive growth success stories documenting the “good” business climate for regional and/or national media
- Works to diversify the economy

Focusing on portfolio management and upgrading retention and expansion into a business development program provides all the benefits of a classic R&E program (companies with problems and/or expansions are identified while community problems are isolated).

There are no firmly established rules for what constitutes a business development strategy. There is no road map. The final design for a community could be a blend of all of the elements described. A business development strategy is an opportunity for innovation and creativity. But, beyond this, portfolio management creates an integrated, proactive economic development strategy capable of generating the adrenaline rush of successful business attraction, and much, much more.

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