

## Business Retention and Expansion

### I. What is Business Retention and Expansion?

**B**usiness retention and expansion is a core component of any economic development program, in addition to efforts to attract and encourage the creation of new businesses. Business retention and expansion programs assist businesses in an effort to:

- ✓ Help them survive economic difficulties;
- ✓ Assist them with expansions that add new jobs; and
- ✓ Increase their competitiveness in the wider marketplace.

The focus is thus on existing companies, which form the local or regional economic base. Studies have shown that the businesses already existing in a community are responsible for up to 80 percent of all net new local employment.<sup>10</sup> A significant percentage of cities consider business retention and expansion programs to be a primary mission.

Business retention and expansion programs typically involve partnerships of the public, business, and community leadership that continuously assess the existing economic base and the physical, geographical, financial, technological, and human resource needs of individual companies within the community.

“Early warning systems” are established to identify at-risk companies so action can be taken to help them overcome economic difficulties that otherwise could lead to layoffs, shutdowns, or relocation. These systems consist of periodic surveys and interviews with business owners and managers at company facilities that are carried out by economic development agencies and business volunteers. Based on these contacts and the information they generate, economic development organizations can intervene with strategies designed to retain and assist firms.

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<sup>10</sup> Van Wert Economic Development Group, BRE Task Force, Final Report, December 2002.

## Firm's Impact on the Community

Business retention and expansion programs also enable the community to maintain an up-to-date picture of the local economy by obtaining data on:

- ✓ The competitive strengths and weaknesses of the local area as a business location;
- ✓ The relative strength of the local economy (e.g., number of business expansions, new investments, etc.);
- ✓ Areas of interest and concern that can be used to formulate public policy, enhance development efforts, or improve the local business climate (e.g. workforce availability, regulatory issues, access to capital).

Business retention is linked with expansion because a business retention activity is often triggered by the plans of a company to expand and modernize its operations. When considering an expansion, a company may look at other locations as one means of achieving its goals at the lowest possible cost. These other locations may offer various forms of incentives to attract the company away from its present location.

The impact a firm has on a community can be significant. The community, in turn, impacts the competitiveness of the firm. The following provides a brief review:

### Relocation or closing can:

- Eliminate local jobs
- Lower surrounding property values and contribute to blight or decline
- Lower community image or shake confidence
- Reduce local tax base
- Lead to additional closings as economic activity contracts

### Expansion can:

- Keep or increase local jobs
- Increase local property values
- Preserve or increase the local tax base
- Enhance community image or increase confidence
- Maintain the economic health of sectors or clusters.

## Successful Existing Business Development

Assisting existing businesses is a multi-faceted endeavor. The more successful programs are based on several factors. These factors include:

- ✓ **Industry Knowledge**  
Develop a clear understanding of the industries comprising the local economic base.
- ✓ **Local Firm Knowledge**  
Gain primary knowledge of firm needs and priorities.
- ✓ **Professional Service**

Use high-quality individual business services that meet local companies' changing needs.

✓ **Result Oriented**

Adopt an outcome or result orientation in service delivery.

✓ **Focus on Long-Term**

Encourage a favorable overall business climate in the long-term.

✓ **Coordinate Services**

Employ coordinated service team approach to assist companies that require services from multiple agencies or programs.

## **II. Stakeholders and Their Role in Business Retention and Expansion**

### **The Economic Development Practitioner**

First, the practitioner may be able to provide the resources directly, as in the case of a public economic development agency with financial and technical assistance programs.

Second, the practitioner may act as a broker between the sources of the assistance and the company needing them, and may package several forms of assistance available from different sources to assist the company.

Finally, the practitioner is frequently thrust into the role of advocate for the business community's concerns, especially as they relate to the policies and procedures of local and state government.

The economic development practitioner frequently must collaborate with a number of different service providers that can help the business. These include sources for financing, technical assistance, management and technological assessments, workforce training and retraining, and finding new markets. Some of these resources are provided by the public sector at the local, regional, state, and federal levels, while others are provided by the private and non-profit sectors.

### **The Business Community**

The business community, through organizations such as the chamber of commerce, has an interest in maintaining the community and assisting members with their problems. Major employers have a stake because the program's offering can be a deciding factor in their future location deliberations. The employees of existing companies as well as labor unions have a vital stake in the livelihood of workers which are threatened if businesses choose to relocate, lay-off workers, or shut down. Utilities have a special interest because existing companies represent the customer base of their service areas, in which utilities have substantial investments in infrastructure.

## **The Unique Role of Utility Companies**

Utilities companies, both public and private, have played a unique role in business retention and expansion programs at state and local levels. Because of their investments in the infrastructure necessary to deliver their services, utility companies cannot move away to another location in the face of an economic downturn. The survival and profitability of utility companies depends on the preservation and growth of the customer base in their service areas.

Depending on a utility's policy, its programs may include:

- ✓ Discounted rates for companies expanding or locating in targeted areas;
- ✓ Information on available land and facilities in the service area for companies seeking a location better suited to their modernization and expansion plans;
- ✓ Energy audits to help companies reduce energy consumption and increase their operating efficiency;
- ✓ Revolving loan funds and grant programs to small companies and nonprofit community economic development organizations.
- ✓ Low cost financing for local businesses;
- ✓ Assistance with establishing a program to export products and services to new markets, including foreign markets.

## **III. Creating a Business Retention and Expansion Program**

The success of a business retention and expansion program depends on the viability of the partnership created to run it. While businesses know best how to create jobs, invest, and produce profits, ultimately expanding the tax base, government brings a broad sense of increasing quality of community life. While both the private and public sectors can work toward these goals on their own, in the area of business retention and expansion, the final product of these two sectors' efforts is often more than they could produce individually.

### **Establishing and Organizing a Program**

Successful business retention and expansion programs have been housed in three different areas: local government, private organizations (e.g., the local chamber of commerce), and public-private partnership organizations. Each approach has its advantages and drawbacks. The section below can help to determine which best fits the situation in your community.

## **Local Government**

Local government is often the most logical place to house a business retention and expansion program, and may be particularly appropriate for communities experiencing long-term economic decline. In such cases, the public sector may be the only entity with sufficient financial resources to fund the BRE program.

Advantages of a local government BRE program:

- ✓ Economic development staff probably will have day-to-day contact with top elected and appointed officials, providing opportunities to build political support for the program.
- ✓ Staff of other government agencies and departments (e.g., zoning, public works) impacting business retention and expansion may be more responsive to fellow public sector employees than representatives from the private sector.

Disadvantages of a local government BRE program:

- ✓ Some business owners and plant managers may be dismissive of the public sector's ability to aid business.
- ✓ Funding for the BRE program may be drastically reduced or eliminated during times of budget crisis, or after a drastic change in local leadership (e.g., a switch in partisan control of the city council or county commission).
- ✓ Personnel rules and/or collective bargaining agreements may cause career bureaucrats with little or no economic development experience to be assigned as staff to the BRE program.

## **Private Organizations**

Other communities have housed their business retention and expansion programs in private organizations, usually the local chamber of commerce. Such an arrangement may make sense in communities where the chamber is dominated by local service businesses (e.g., banks, law firms, and accounting firms) that have a vested interest in maintaining a vibrant business community and in communities where the chamber, rather than local government, has taken the lead in economic development activities.

Advantages of a private sector BRE program:

- ✓ The staff should have much more credibility with local businesses than government employees.
- ✓ The private organization can leverage their members to serve as key personnel in the program.
- ✓ Freed from short-term political considerations, the program should be able to take a long-term approach to business retention and expansion.

Disadvantages of private sector BRE program:

- ✓ Staff in regulatory agencies may be unresponsive to private staff, particularly in communities where a chamber has been critical of regulatory actions.
- ✓ Some businesses may view the BRE program as counter to their own interests (for example, feeling that a certain amount of unemployment is good because it holds wage levels down), and use their influence within the chamber to thwart it.
- ✓ Many chambers operate on extremely tight budgets, and may be unable to fund a BRE program. However, the chamber may manage it under contract with the local government.

## **Public-Private Partnership Organizations**

Many business retention and expansion programs have been structured as public-private partnership organizations. When properly administered, these programs can enjoy the "best of both worlds," (i.e. acting as a strong voice for the interests of local businesses, while also possessing immediate access to the highest levels of local government).

Advantages of a public-private partnership BRE program:

- ✓ Initial government funding leverages substantial contributions from the private sector.
- ✓ Structure outside of local government provides a measure of protection from the whims and desires of individual elected officials. Partnership staff retains access to key government officials.
- ✓ Increased flexibility in staffing and personnel issues when compared to local government (i.e., freedom to hire aggressive, entrepreneurial staff with substantial experience in the private sector).

Disadvantages of a public-private partnership BRE program:

- ✓ Local chamber of commerce may view the partnership as competing for funding and status as representative of the business community.
- ✓ May be criticized as redundant in communities that already have economic development programs established within local government or the local chamber.

## **Assessing the Community for Business Retention and Expansion Programs**

A SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats) provides an excellent framework for gaining a deeper understanding of the factors that have brought current employers to the community. It will also enhance business retention and expansion efforts by providing a clear picture of the assets that the community has to offer businesses, as well as those areas that are not competitive. It will reveal that some existing businesses and industries gain a competitive advantage from locating in the community, and should be targets of your business retention and expansion program. Likewise, some businesses simply do not fit well with the community's profile, and relocation may be in the best interests of both the community and the business.

Areas to examine in assessing the community's strengths and weaknesses include the following:

- ✓ Labor force;
- ✓ Access to markets;
- ✓ Transportation;
- ✓ Educational infrastructure;
- ✓ Site availability;

- ✓ Tax rates;
- ✓ Utility cost and availability;
- ✓ Quality of life; and
- ✓ Business climate.

Once a SWOT analysis has been completed, there should be a clear picture of the competitive position of the community. Now the economic development organization must develop an action plan to target the limited resources at the disposal of the BRE program to those areas where they will have the greatest impact.

Finally, it is important to keep in mind that an action plan is based upon the community's status at a certain point in time. Thus, the action plan should be updated annually to reflect these changes; doing so has the added benefit of refocusing attention on the BRE programs.

#### **IV. Business Visitation and Surveying**

The purpose of the visitation or surveying program is two-fold. First, the program serves as an early warning system to alert local economic development officials to the plans, problems, and concerns of individual companies, which could lead to their eventual relocation out of the jurisdiction or, as in the case of at-risk companies, lead to layoffs or even closure. Second, the information resulting from the visits is aggregated and serves as part of a database for local economic development officials to keep aware of the dynamics of the local economy, particularly the economic well-being of individual companies and various industrial sectors. This data can be used in a formal, automated system that produces indicators pertaining to companies, industrial sectors, and geographic locations.

#### **Models**

The following models have been used by economic development organizations in conducting business visitation and surveying programs:

- ✓ **Mail surveys** are usually most appropriate where the prime objective is to get a general sense of the business community's level of satisfaction with the community as a whole, as well as to gauge the overall health of local businesses.
- ✓ **Site Visit Surveys Using Volunteers** who may be recruited from local employers, the chamber of commerce, community organizations, and educational institutions. Each volunteer conducts a small number of interviews with local businesses (usually four or five) over a short time period (usually two weeks).
- ✓ **Site Visit Surveys Using Economic Development Staff** is becoming increasingly popular with economic development organizations. This model is most appropriate for building an on-going business retention and expansion presence in the community, which is one of the most important elements of a credible BRE program.

- ✓ **Combined Mail and Site Visit Surveys** are particularly used in those communities that have limited economic development staff or a small pool of volunteers to draw upon. This strategy allows the BRE program to gain an in-depth understanding of the concerns of its largest employers, while also getting a general sense of the issues affecting smaller firms, and identifying those that may be at risk.
- ✓ **Email or Web-based Surveys** allow some economic development organizations to stay in touch with the key economic players in the region and is an efficient organizing tool for the creation and maintenance of business networks through the Internet.

## **Selecting Firms and Industries to be Surveyed**

The companies and industries targeted for interviews during the BRE program will depend upon the program's strategic objectives.

Below are some of the criteria that should be used in developing a list of target companies. The list is by no means exhaustive; if appropriate, develop additional criteria that reflect the unique circumstances of your community:

- ✓ Size, measured by:
  - Number of employees;
  - Annual sales; and
  - Annual revenue.
- ✓ Industrial Segment or Category, selected by:
  - Two or three digit NAICS code level.
- ✓ Geographic (e.g., an older industrial district, the downtown area); and
- ✓ Ownership, some BRE programs limit their efforts to locally owned firms.

Regardless of the chosen survey method, it is imperative that the questionnaire is thoroughly tested before the actual surveying process begins. Particularly in the case of site visit surveys, it is important to be certain that the survey can be administered within the amount of time (45 minutes to one hour) that CEOs and plant managers are generally willing to commit.

The most important factors in surveying are brevity and confidentiality to firms that participate in BRE surveys. Disclosure of the results of an interview could derail an otherwise successful BRE program.

### **Information on a BRE Survey**

The economic development organization should already have most of the basic information such as, address, contact numbers, primary NAICS code, current numbers of employees at this location, length of time at location, and whether they own or lease.

Specific areas of focus for the questionnaire should include:

- ✓ Firm background;
- ✓ Business climate;
- ✓ Labor and training needs;
- ✓ Marketing and trade;
- ✓ Financing needs;
- ✓ Regulatory issues;
- ✓ Barriers to growth;
- ✓ Satisfaction with public services and facilities;
- ✓ Past utilization of and satisfaction with local business assistance programs.

## Following up the Survey

A well-coordinated follow up effort is every bit as important as the survey itself. Without it, local businesses' expectations will have been raised, only to be disappointed when none of the issues mentioned by a firm during the course of the interview are addressed. In fact, a community that fails to follow up its business retention and expansion survey in a meaningful way may end up worse off than a community that fails to initiate a BRE program in the first place.

Listed below are follow-up steps that communities with successful BRE programs have used.

- ✓ **Immediate**  
Within two days of receiving the completed survey, you should review surveys for assistance requests and red flag any firm determined to be immediately at risk for rapid response.
- ✓ **Short Term**  
Within two weeks of receiving the completed survey, you should send a brief thank you letter, tabulate the completed survey, and create a file for each company surveyed.
- ✓ **Medium Term**  
Within four weeks after the conclusion of the survey effort, you should make sure that agencies have responded to all requests for services.
- ✓ **Long Term**  
Approximately three to four months after the conclusion of the survey effort, you should update firms on progress in dealing with community-wide issues that impact the business climate.

These actions could be communicated by way of a letter from the chief elected official in your community to reinforce local government's commitment to be responsive to the needs of the business community. You might also include an executive summary of the survey results to give the business community a picture of the overall local business climate.

## Development of an Early Warning System

One of the primary benefits of undertaking a BRE program is the development of an early warning system that can predict when a local company is in danger of

relocating or closing. A well designed BRE survey will provide a profile of each firm surveyed; this profile can then be matched against early warning signals to identify local firms that may be at risk.

Factors that communities with long standing BRE programs have found to be early warning signals include the following:

- ✓ Declining sales/declining employment;
- ✓ Larger non-local corporate ownership;
- ✓ Recent ownership change;
- ✓ Lease of property, expiring leases;
- ✓ Other facilities producing the same product or service;
- ✓ Negative attitudes about the community;
- ✓ Unbearable regulatory burdens;
- ✓ Union contract expirations;
- ✓ Expanding employment/expanding sales;
- ✓ Facility and site expansion plans;
- ✓ Obsolete or land-locked facility;
- ✓ Location in a problem neighborhood;
- ✓ Older product lines or production technology;
- ✓ Contentious labor-management relationships;
- ✓ Lack of export/international focus;
- ✓ Family-owned firms with aging owner and no succession plan;
- ✓ Gradual corporate downsizing over time;
- ✓ Relocation of top managers and corporate officers to another location;
- ✓ Loss of longstanding supplier contracts/relationships (e.g., losing contracts to supply specific parts to an automaker).

Unfortunately, some businesses refuse to participate in the follow-up analysis. Perhaps this is because of a previous bad experience with the local government, a confidentiality concern, or a lack of available time.

## **Economic Development Tools for BRE Programs**

A variety of economic development tools and techniques are used to implement business retention and expansion programs. Not all options are used by all economic development organizations. The capacity and strategic plan of each organization will help in determining the best match of the tools available.

### **Marketing**

One of the most effective ways to market a BRE program is by leveraging existing marketing efforts sponsored by utilities and educational institutions. In many communities, utilities and local educational institutions will have existing marketing programs that systematically target the same businesses that will be the focus of your BRE program.

- ✓ Utilities market energy audits, financing for energy efficiency improvements, and technical assistance services.
- ✓ Local educational institutions, particularly community colleges, will frequently have staff responsible for marketing their continuing education training and certification programs.

Economic development organizations can form extensive partnerships with utilities and educational institutions in order to market the full range of services available through the BRE program. Some examples are discussed below.

- ✓ Marketing brochures prepared for your BRE program can highlight the services available through the local utilities and educational institutions.
- ✓ Staff from your organization and these institutions can trade information gathered through sales calls and other contacts with local businesses.

## **Identifying and Supporting Industrial Clusters**

Clusters usually develop and grow as a result of specialized amenities and support services that are available in a particular region. Some of these amenities and support services include:

- ✓ Business services firms (e.g., accounting and law firms) that specialize in providing services to firms operating in the cluster industry;
- ✓ A network of financial institutions or venture capitalists that specialize in providing capital to firms operating in the cluster industry; and
- ✓ A major research university that supports the cluster through specialized research and academic programs.

These amenities and support services are almost always developed on a regional basis, as it is the concentration of firms within a larger geographic area (usually an entire metropolitan region), as opposed to within a given set of municipal boundaries, that helps drive the growth of the cluster. Thus, it is best that a cluster strategy be pursued at a regional level, with coordination among the various local economic development organizations within the region.

## **Creating Site Opportunities for BRE**

Creating new site opportunities will be a critical element in most retention and expansion strategies. Manufacturing and distribution firms, particularly those which are located in older urban areas, frequently confront one of the following scenarios, all of which can lead to a decision to relocate:

- ✓ The surrounding land uses have “up-valued” to the point that manufacturing no longer represents the highest and best use of the manufacturer’s current location, and the surrounding property owners and community wish to replace the “dirty” manufacturing plant with some “cleaner” form of land use (e.g. residential, commercial). This scenario is increasingly common in industrial areas located just outside a revitalizing downtown district.
- ✓ On the other hand, the surrounding neighborhood has deteriorated to the point that firms believe the benefits of remaining in place (e.g., low

occupancy costs) are outweighed by other factors (e.g., crime, deteriorated infrastructure, low quality municipal services).

## **Technical Assistance and Assessment Programs**

Sufficient land for expansion is unavailable at the firm's current location. Many small and medium-sized firms are experiencing serious difficulties in adjusting to today's globally competitive environment. Assisting small and medium-sized manufacturers can have a big payoff in business retention and expansion, as these firms account for an increasing proportion of new job creation in today's economy.

Technical assistance programs can provide management consulting expertise to small and medium-sized firms at an affordable cost. Such services can assist businesses in a number of different areas:

- ✓ Operations management (plant layout, inventory management systems, etc.);
- ✓ Marketing/sales (developing exporting strategies, etc.);
- ✓ Financial control systems;
- ✓ Workforce training and development; and
- ✓ Strategic planning (writing and updating a business plan, etc.).

### **Key Elements of Technical Assistance Programs**

A successful technical assistance program can provide businesses with consulting at a fraction of market cost. Thus, more firms will likely desire assistance than can be served, making it especially important for the program to be designed to have the maximum impact possible on retention and expansion.

#### **Determine the companies to be targeted for assistance**

Factors to consider include:

- ✓ Does the company provide a disproportionate share of employment in the region?
- ✓ Is the company part of the regional export base?
- ✓ Is the company projected to grow or contract in coming years?
- ✓ Does the company provide quality, stable employment for residents of the region?
- ✓ What is the recent trend in this company's industry?
- ✓ Does the company need assistance – has research demonstrated a need or have they asked for assistance?

#### **Develop standards for participating companies**

At the very least, set size thresholds for the minimum and maximum number of employees that eligible companies may have. Other factors that may warrant consideration are ownership, financial condition, and growth opportunities.

#### **Define the scope of services to be provided**

Within budgetary constraints, it is best to provide the most comprehensive package of services possible, examining ALL aspects of a client's business in an interdisciplinary nature (e.g., being a world class producer of a given product is not very valuable if your marketing department cannot formulate a strategy for selling it).

#### **Determine how best to supply needed services**

Consulting services may be provided to the firms selected for assistance in a number of different ways. There are two popular ways to do this:

First, the economic development organization might contract with local management consulting firms to provide services. If possible, negotiate a discounted rate from the selected consulting firms.

Second, the economic development organization could hire staff to provide the consulting services, or set up a separate organization for consulting services. Some organizations have great success in bringing former executives of local companies out of retirement/early retirement; such individuals can be a valuable resource if they are motivated out of concern for the economic health of the region.

### **Workforce- Economic Development Connection**

Workforce development has become one of the most important issues in economic development because knowledge has become the driving force of economic growth. Demographic shifts are causing communities to re-evaluate the current policies towards workforce training policies. From small rural communities to large urban centers, the trend in economic development is to target workforce development programs to help drive industry.

Helping companies meet their workforce needs is a critically important business retention and expansion strategy for all types of communities. First, public dollars invested in upgrading the skills of a community's workforce will largely remain in the community, unlike monies spent on other incentives (e.g., tax abatements) that may be lost if the company relocates. Second, small and medium-sized companies typically do not have the financial resources to pay for extensive employee screening and training programs, and will substantially benefit from both a better-qualified pool of prospective employees, as well as low-cost training programs. Finally, and most importantly, a well-trained workforce, combined with effective infrastructure for providing training programs, can give a community a distinct competitive advantage which, unlike incentive payments and tax abatements, cannot easily, quickly, or inexpensively be duplicated by competing communities.

### **Helping Firms Find New Markets**

The survival and possible expansion of many existing companies depends on identifying new markets for their products or services. The company may be diversifying to provide products and services in industries that are new for the company. The company may also be expanding its reach into new national or international markets. The BRE program should be able to help link the company

with resources to identify and explore new markets or to operate and compete effectively in these markets.

Finding new markets for their products or services in other countries can be an opportunity for a company to grow. Programs that assist existing companies with counseling, financing, insurance, exporting, and international trade knowledge are an important component of a BRE program.

### **Assisting Firms with Permitting and Licensing**

BRE programs frequently find that sometimes businesses do not believe that they are appreciated by their host communities. Frequently, a portion of this feeling can be attributed to the relationship between the business and government permitting and licensing agencies.

Assistance with permitting and licensing is one area where economic developers can potentially have a very immediate and visible impact on business retention and expansion efforts. At the same time, this can be one of the most difficult areas in which to obtain action, because government agencies may be very defensive of their past performance. Compounding this problem is some agencies' desire to maintain an "arms length" relationship with those they regulate. Addressing this situation may be difficult for an economic developer alone, since he or she may be confronting agency heads who are peers or perhaps even superiors. However, through the BRE program, the economic developer can utilize the influence of local elected officials, business leaders, and community leaders in support of improvements to permitting and licensing processes. Some possible improvements include:

- ✓ One-stop permitting centers;
- ✓ Technical assistance;
- ✓ Training of regulatory staff;
- ✓ Case management;
- ✓ Ombudsman;
- ✓ Assistance center;
- ✓ Restructuring redevelopment codes.