

# Synchronizing Economic Incentives with Business Growth

By Leslie Rubin

## Technology companies

Many technology companies have come to realize there is a real bottom line benefit to be gained by pursuing grants, tax savings and what we refer to as non-traditional customized benefits. What is less well understood is the role that timing has in determining the magnitude of the potential benefits and savings.

Proper timing is dependent upon several factors including the company's long-term business objectives, the projected growth within defined timeframes and the expected project start date.

### 1. Understand Government's Mind Set

An underlying assumption of the traditional economic development model has been that the entity (i.e. manufacturing company) once established at a particular site has significant inertia, which prevents it from easily relocating. This assumption has been applied almost as well to distribution and warehousing operations. Along come fast growing, mobile technology companies, and government agencies are left in a quandary of how to minimize the investment risk.

Recent trends indicate municipal agencies have dealt with this challenge either by tightening the program controls and/or creating a separate group of incentives specifically targeting technology companies. Thus, a channel has been opened through which a community's aggressive pursuit of this sector of the economy can now be accomplished.

### 2. Prepare Your Approach

Before pursuing any incentive opportunities, you need to thoroughly prepare your case.

### Create a Clear Vision

The need for a business plan cannot be overemphasized. Although market conditions create flux in the implementation, a good plan is still the best reference

upon which incentives will be based. Key elements are current annual sales and projected growth, current employment and projected needs, and company goals, such as the desire to go public within a fixed number of years.

### Sell Your Plan

The verbal presentation of the business plan is nearly as important as the numbers. Confusion, doubt and fluctuating expectations will result in a cool, even hesitant government reception. At the other extreme, hard ball tactics and an attitude of entitlement might work once, but never underestimate government's ability to remember.

### Ask Once

The company's needs and desires should be consolidated into one package and presented before the business plan is implemented. Taking a piecemeal approach will result in a scenario of diminishing returns.

### Make Incentives Part of the Business Plan

The potential for benefit from incentives should be factored into the growth plan and modified as the plan evolves. Realize, however, there are no guarantees for economic assistance although promoting the value that a company brings to a community will go a long way in fostering the public/private partnership.

Start-ups are risky, so expectations should be tempered even if the numbers are substantial. Any factor, which can substantially reduce the risk, such as a well-established joint venture partner, will weigh significantly into the final incentive commitment.

### Pick Your Timing

Discussions concerning economic incentives must occur before a project is initiated. Exactly when such discussions should take place will be case specific and influenced by the size of the project,

management's confidence that the project will go forward and whether the project includes the identification of a new site. In some instances conversations with local and state agencies may occur a year or two before the project is scheduled to begin; in others it may be a matter of months. When the business plan includes several expansion projects over multiple years, the pursuit of economic assistance for each discrete project may or may not be optimal.

### Study Examples

A recent case involved a rapidly growing technology company with a base employment of approximately 80 people, revenues in excess of \$10 million per year, an anticipated project capital investment in excess of 2.0 million dollars and the addition of 70 full time jobs new jobs within two years. The company sought state and local economic assistance.

The project was initially considered ineligible to receive economic assistance for reasons other than wage levels, number of jobs created and size of capital investment. Sometime later management of the company revised its business plan, packaged a new and significantly larger project and began to appeal to multiple states. Under conditions of inter-state competition, an evolving government attitude toward this industry and the prospect of loosing several hundred new high paying jobs, the host state responded very favorably.

### 3. Remember The Basics

Most companies are aware of incentives, fewer understand how to obtain commitments for economic assistance, and only a nominal number appreciate the complexities of maximizing the benefit to the company's bottom line. Positioning your company in the right place at the right time and implementing a well-thought-out strategy will have a real impact. □

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