Six Truths They Don't Teach in Economic Development Classes

by Lloyd Matthes

During the past thirty years of "doing deals," I have seen lots of good economic development projects go south for reasons ranging from the business being undercapitalized to a company president's wife believing that Wisconsin had polar bears. (Yes, that's a true story). In almost every case where I have had a major success, and there have been a few, it was because I was able to bring into play, one or more of six basic truths that they didn't teach me when I trained for my certification as an Economic Development Finance Professional. While knowing the following six truths won't guarantee success in landing any specific business, failure to recognize them will make it much harder to land *any business.*

Truth Number One: Businesses don't locate for what you give them today, they locate for the profits they will make tomorrow!

When I was a naïve young man working as a planner/community development director in a city in central Wisconsin, I once made a passionate presentation for a park basing the entire presentation on the upgrade to the city's quality of life and how that would attract business to the city. One of the Park and Recreation Commission's members for life was Stanton Mead, at the time the world's 33rd richest man and the power behind the Consolidated Papers Empire. As Stanton voted, so voted the commission, and my park project died. After the meeting, Stanton stopped me in the parking lot, and gave me the first truth of economic development. As we stood by his pickup watching his dogs eat the steering wheel, Stanton said, "Young man, you made a good proposal but you have to remember, that businesses don't locate for what you give them today, they locate for the profits they will make tomorrow."

Stanton's one piece of advice to me was probably the most important piece of economic development training I ever received. It was emphasized a few years later when a state agency and a city gave major incentive dollars to a medical computer company. Because it was the first major project of a newly formed branch of a state agency and because the promised returns were stated in hundreds of millions of dollars, several red flags were ignored and the State poured several million dollars in incentive funds into the company account. About two years later the state was able to extradite the company president from a South American country.

Incentive packages can be useful tools. They can also be a waste of money. Incentive Loans should always have collateral be it in the form of a building, equipment, or utilities in the ground. Even so, without a strong profit motive, a company can easily leave at the least provocation.

Truth Number Two: The real marketing agents for any city are the clerks in the stores and the drunk on the street!

I learned the second truth when my office received word that business scouts for a major insurance company wanted to meet with city officials and the economic development organization. During a hastily called banquet, sponsored by the owner of a local hotel, it was mentioned that the scouting team had been in the city for a full week. Being a "gracious host" I commented that had

they let us know they were in town, we would have been happy to show them around and saved them a lot of effort. The business scouts politely explained that their method of analyzing a city was to separate, lodge in different hotels, eat in different restaurants, shop in different stores, and to discuss a scripted set of questions with virtually everyone they met. They pointed out, correctly, that the economic development corporation and the city officials would have shown them what would showcase the city and not what was important to their client. The leader of the team of business scouts stated that they could learn more from the clerks in the stores and the drunk on the street than they could from a scripted tour hosted by local economic development officials.

Later, while doing some consulting for various cities, I used the same techniques and learned that I really could learn more about a city, in less time, by discussing a scripted set of questions with waitresses, clerks, and hotel staff than I could from the official agenda. The best and the worst representatives of any city are its residents. The more positive residents are about a city, the easier it is to market that city to prospective businesses.

Truth Number Three: Attitude counts!

This is a spin-off of truth number two. In small towns especially, a common theme is, "We are just a little town, no business wants to come here!" If that is the prevailing attitude of the town, then the statement is absolutely correct. Given a chance to make a profit, business can be attracted or expanded regardless of the size of the community. The corollary is that if new businesses are viewed as competition for labor or market, it is very easy to prevent new business.

Any city with a positive, can-do, attitude toward attracting business and that is prepared to act positively, can eventually attract new businesses. There are numerous successful businesses located in cities or even in the middle of rural farmland that owe their location and success strictly to the positive attitude of the founder or the community. A town's attitude plays a significant role in whether or not the city or town remains economically viable.

Truth Number Four: There is no status quo!

No city can freeze a moment in time and remain there. A city, by its actions, either moves forward or backward. The world and technology keep moving forward. Move with the times, and you may keep up. Anticipate the future and you may get ahead. Try to stand still and the world will pass you by.

Truth Number Five: Economic development must be planned!

There are any number of stories of cities and towns that failed to plan for growth and ended up with huge debt loads or major deficits in services. Everything must be paid for. From the time a major employer decides to locate in a given area to the time the city gets a return is a minimum of two years. For every 100 jobs created there is roughly a need for 100 employees, 100 houses, 3/5 of a police officer, 2 ½ classrooms, and approximately 3/5 of a mile of sewer, streets, water mains, telephone lines, gas lines, and electric lines. If these services and amenities do not exist, they must be created. A knee-jerk reaction without looking at the ability to provide for the optimum method of meeting these needs can be disastrous.

Truth Number Six: Keep your existing businesses!

Attracting a business that employs five people at a reasonable wage, while losing an existing business that employs six people at the same wage is a net loss. Both business attraction and business retention are important. Attraction is more exciting, but in my experience, roughly seventy percent of the time spent on economic development is spent behind the scenes on business retention. Businesses with elderly owners, or who start laying off employees, or who cut wages are all raising red flags that need to be investigated.

As I said in the beginning, knowing the six truths won't necessarily land you a given business. You never know what polar bears lurk in peoples' minds. However, if you look at the profit potential, can maintain a positive attitude toward the city as a whole by the majority of residents, can be positive toward the future of the community, keep looking forward, plan for development and growth, and keep your existing businesses healthy then you are well on your way to having an economically viable city or town. ■

Lloyd Matthes is an independent economic development consultant. He can be reached at **lmatthes47@hotmail.com**. *This article is reprinted with permission from the* Kansas Government Journal.