

Putting the Business Back in Business Retention

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By Laith Wardi, CEcD Globalization. The impact of the Internet. Rapidly changing technologies. The emergence of new, fast-growth overseas economies. These factors are forcing wholesale economic change in communities across the United States and Canada – all valid reasons why business retention and expansion activities in 2007 are more important than ever.

The stakes are high. When a company leaves a town, the loss is measured in cold, hard data: lost jobs, capital investment and tax revenues. The pain, however, is measured in human terms: lives upended, families disrupted, foreclosures on homes. The ripple effect of the loss of a major employer spreads throughout a community – with economic, social and psychological impact.

So it's surprising how many communities throughout the U.S. and Canada still take a cavalier attitude when it comes to the business of business retention. Our opinion is backed by research from the International Economic Development Council: Economic development organizations in every section of the U.S. report that they engage in business retention activities, yet informal surveys show that private-sector employers characterize the efforts of local agencies as focused on recruitment, not retention.¹

Obviously, there is a disconnect between economic development organizations and the businesses that these agencies are supposed to serve. It's time to make businesses the focus of every business retention program.

The case for business retention

A quick review of the mass media and even economic development publications shows a clear bias toward business recruitment and entrepreneurship. Yet the facts are clear: mitigating risk or seizing opportunity is largely a function of how well we understand and anticipate changes in our business environment. This is true for successful private-sector firms as well as successful nonprofit or public-sector organizations.

In economic development, this understanding can only come from business retention and expansion activities. After all, it is the only time that we are routinely interacting with our existing customer base. Listening to and learning from our existing employers provides us with clear directives that impact all facets of our economic portfolio, including recruitment and entrepreneurship opportunities.

The need to regularly interact with resident companies is underscored by a well-known statistic: up to 80 percent of new jobs and capital investment in any community is generated by existing businesses, not attraction prospects.² As every successful private-sector company knows, it makes sense to stretch limited resources by focusing on existing customers – in fact, experts estimate that it is ten times cheaper to retain customers than it is to attract, recruit or market to potential new customers.³ Business recruitment, in contrast, is time, labor and money intensive.

Yet business retention and recruitment are not mutually exclusive disciplines. An effective customer retention program enhances a community's business recruitment efforts.



¹ "Business Retention and Expansion" course manual. The International Economic Development Council.

² "The Job Generation Process." Dr. David Birch.

³ The Gartner Group.

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One of the main ways that business prospects evaluate a community for investment is by talking to the business owners already there.⁴ Are the owners of your local businesses cheerleaders for your community? Local business leaders can be evangelists or detractors, depending on the relationship that you've built with them through your ongoing business retention program.

Business retention is important for those communities that have been consistently successful in attracting new investment as well. What happens to the new firm after the groundbreaking ceremony? Is it forgotten in the rush to recruit more new businesses? A systematic business retention program keeps recent "wins" on the radar screen and ensures that newly won customers are not forgotten as market conditions change.

Done correctly, business retention can provide a roadmap for business recruitment within a market area. A quick analysis of industry composition in your region will reveal growing business sectors or emerging industry clusters that can be fortified by attracting the right types of companies. Knowledge of one's existing customer base should be used to make a compelling business case to these recruitment prospects.

The same holds true for entrepreneurial development. When asked, local companies will openly prescribe a "wish list" of vendors for supplies, business services and a variety of other needs. This target list can be used to spur new business ideas in the entrepreneurial community and attract seed capital.

The state of business retention today

Business retention and expansion is at a crossroads. The global economy has never been more dynamic and unpredictable. Successful businesses have never been more sophisticated. And business demands on economic developers have never been greater.

Unfortunately, this all comes at a time when many economic developers view business retention as a hollow, robotic exercise in data gathering. "I want to come out and survey you today" is a commonly heard refrain.

In many communities, key business customers are subjected to regular "surveying" with no direct benefit to their business, industry or local economy. In this approach, businesses are treated homogeneously, regardless of their individual needs or economic impact. It is an agency-centered approach in which the focus is internal to the local economic development organization and its own needs, such as annual reports or board propaganda. Think about it: How does a company in your town benefit from submitting to a 30- to 45-minute interrogation?

What is needed is a customer-centric approach to business retention, which emphasizes value to the customer and where the survey is only a means to an end. Data obtained from the survey process is then used to develop specific customer knowledge and trigger actions that directly benefit the individual company, or broader programs or policies that benefit the industry, the entire business community and the region. Business retention is essentially a private-sector customer satisfaction program applied to public-sector economic development.

If we are doing our jobs properly, economic developers will deliver customized, bottom-line benefits to these business constituents. The metrics can range from workforce training grants or low-interest financing to assistance in obtaining a zoning variance or receiving a façade grant for a downtown storefront. For the customer, these are tangible outcomes that improve the firm's ability to compete and be successful from our community.

Learning from the private sector

On-line holiday sales in 2006 were expected to rise 20 percent over 2005 levels, growing to an estimated \$24 billion.⁵ In less than a decade, on-line merchants such as Amazon.com and Barnes & Noble have completely rewritten the rules on successful and sustainable business models using customer relationship management (CRM) and 1-to-1 database marketing techniques.

Pursuit of customer data in the private sector is only a means to an end. On-line retailers are transforming this data into knowledge and using it to cultivate and maintain strong relationships with select customers. These customers come to expect solutions that are seamless and tailored to their unique needs and circumstances. As customer knowledge increases, so does the level and quality of customer service. The focus is always external, squarely on the customer.

Technology – in the form of CRM and 1-to-1 database marketing – allows vendors to anticipate, rather than respond to, customer needs. It allows vendors to treat each customer differently based on the value that the customer generates. A surprising number of economic development professionals don't have this intimate knowledge of their customer base, yet a resident business should be a known commodity in economic, community and workforce development circles.

Economic developers have their own unique set of criteria that define "best customers," including variables such as job

⁴ Levine, Andrew. "Getting Inside the Site Selector's Brain." Economic Development Commentary, Fall 1997.

⁵ The Purdue Retail Institute and Center for Customer-Driven Quality.



creation, competitive wage rates, capital investment, assimilation of technology, spin-off or multiplier effect and industry clusters. However, in many instances we expend valuable time and resources on customers who don't provide any meaningful return on our investment. Proven CRM and 1-to-1 techniques enable us to define our best customers and give our best service to those companies with the potential to create or retain more jobs and wealth in our community.

Four things economic developers can learn

1. A resident business expects and deserves value each time we interact with them. A question-and-answer interrogation for the sake of the survey is not business retention.
2. No two businesses in your community are the same. Each business has unique needs and potential to generate jobs and capital investment.
3. The more we interact with a business in our community, the more we should know about the business. We should use this knowledge to create highly customized solutions.
4. Business retention is not about data gathering – it is building long-term relationships that give the economic development team an in-depth understanding of the firm, and the ability to customize solutions to solve a problem or seize an opportunity.

In short, it's time to put the business back in business retention and expansion. ★★★

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Key Elements of a Best Practice Program

The foundation of any good retention program is dedicated outreach to the business owner.

Outreach personnel are pivotal to any business retention program. These individuals often give the business community its first – and lasting – impression of the organizations that can possibly assist the firm. Outreach personnel should be passionate about the community and take ownership of the private-sector customer. They should be trained in key aspects of sales and customer service and have a strong understanding of economic development policies and programs.

Make no mistake about it: Outreach is a sales and marketing function – comparable to the sales force for a private-sector firm. Building a relationship with the owner is key – that's why phone, fax or mail surveys should never be confused with face-to-face outreach.

The second element of a systematic, sustainable business retention program is a broad-based team of service providers that can seamlessly provide integrated solutions to client companies. It should include any and all public-sector economic, community and workforce development organizations at the local, regional and state levels that offer programs and tools to help resident businesses succeed. It should also include local government. It may also include private sector firms such as utility companies, lawyers, accountants and bankers. The composition of resource teams can change over time in response to the changing needs of the business community.

The third element is management, and this is often where many well-meaning business retention programs fail. Like the sales manager in a private-sector firm, the business retention manager is responsible for all aspects of the retention program – from

creating a target list of firms for visitation and building a team of service providers to marketing the program externally and managing the outreach specialists. Management is the glue that keeps the program together. Without strong management, a retention program is destined to fail.

The final element in business retention is database technology. As providers of a database system for business retention programs, we always surprise people when we say that this is the least important of the four elements. Three of the four elements involve people, because people – the outreach personnel, the team of service providers and a manager with strong people and marketing skills, not technology – make or break a business retention program. Unfortunately, database technology usually generates the most interest, when it should actually be the last consideration in the development of any business retention program.