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Marketing to Entrepreneurs, Site Selectors and Relocation Professionals: An Action Plan for Community Economic Development

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MARKETING TO ENTREPRENEURS, SITE SELECTORS AND RELOCATION PROFESSIONALS: AN 'ACTION' PLAN FOR COMMUNITY ECONOMIC DEVELOPMENT

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ABSTRACT

Community officials offer an array of incentives to stimulate local business growth, unaware of the salient criteria that determine location decisions. An analysis of proprietary research reports and site selector feasibility studies indicates specific criteria that are universally evaluated, nine of which undermine economic development initiatives. An 'ACTION' plan is provided to assist city planners' efforts in appealing to site selection professionals.

INTRODUCTION

City officials and economic development policy makers offer a plethora of incentives in their appeals to favorably influence business location decisions. Wassmer and Anderson (2001) indicate that the use of locally initiated incentives has increased dramatically throughout the United States since the 1970s. These incentives have assumed various shapes and sizes, including property tax forgiveness, tax increment financing authorities [TIFAs], industrial development bonds [IDBs], downtown development authorities [DDAs], and a host of other traditional and "new-wave" economic development incentives. However, research by Buss (2001) indicates that tax incentives may not be a major factor in influencing the location decision for businesses. Earlier research by Fisher (1997) and officials in Olympia, Washington (Washington Department of Revenue, Research Division, 1996) also suggest conflicting and contradictory results regarding the effectiveness of tax incentives in economic development efforts.

A BRIEF BACKGROUND ON ECONOMIC DEVELOPMENT RESEARCH

Plaut and Pluta (1983) examined location decisions of corporate officials and concluded that the best state in which to do business will be the one that offers the lowest taxes, lowest wages, right-to-work laws, least regulation, lowest utility costs, and highest subsidies for capital. This "least cost of operation" paradigm dominated for several years, until published

research emerged to challenge it. Subsequent research by Blair and Premus (1987) suggests that individual firm decisions regarding expansion or relocation were ultimately contingent upon corporate strategy, with tax rates entering the discussion in the very last stage of the decision process. The United States General Accounting Office (1988) conducted an exhaustive review of production relocation literature and concluded that taxes were of little or no consequence compared to other factors of production. Finally, Vaughn and Buss (1998) found that there were vast differences in the decision making processes regarding relocation and expansion across industries and organizations.

This brief review of tax incentives and their impact on economic development highlights four salient issues that must be addressed. The first issue is what Bartik (1995) calls "legalized bribery of the rich", a routine panoply of entitlements offered on a discretionary basis in an attempt to attract or retain business operations. The second issue is what Erickson (1987) calls "business climate". There is much uncertainty and disagreement as to what this means, but "business climate" is generally considered to be comprised of the cost and quality of productive resources, state and local policies, and quality of life. The third issue pertains to the competitive framework in which economic development planners operate. According to Bowman and Pagano (1992), city officials are acutely aware that they are competing against other communities, but do not know the specific community. Since the specific competitor is not known, their own competitive offerings cannot be critically analyzed, thereby

thwarting improvements in future competitive offerings to site selectors. The fourth issue is one of marketing management. More than fifty years ago, Drucker (1958) noted that marketing is the most effective engine of economic development. However, to be truly effective, the marketing professional must know the major players and their competitive offerings. If these are not known, then a general model must be developed and executed to secure a differential advantage in the marketplace.

RESEARCH PURPOSE AND ATTENDANT RESEARCH QUESTIONS

The primary purpose of this research is to provide community officials with a comprehensive strategic marketing plan that will facilitate their economic development efforts. Specifically, four research questions are addressed: (1) What type of background, filtering information do the majority of entrepreneurs, site selectors and relocation professionals expect to receive prior to making a site visitation?; (2) What categories of information do the majority of entrepreneurs, site selectors and relocation professionals assess during their on-site visitation that determines the choice of one location over another?; (3) Are incentives like tax breaks, abatements and land grants influential in business location decisions?; and (4) Can disincentives be determined that will result in a decision not to locate in a specific community?

METHODOLOGICAL AND STATISTICAL CONSIDERATIONS

The data in the analysis are derived from two hundred forty three [n=243] proprietary entrepreneurial research reports, site selector feasibility studies and relocation professionals' monographs. Each report was examined with respect to content and outcome, this is, whether a specific location was recommended or not recommended by the location specialist. The reports spanned an eleven year period of time, with sixty-four percent of the reports being completed eleven years prior to this current research. The reports ranged in length from seven to two hundred fifty nine pages. All the reports addressed new, out-of-state development efforts.

More specifically, each report was categorized, sorted and clustered into major categories of interest. Pre – and on-site visitation variables of interest were categorized and ranked by frequency of occurrence. All selected variables of interest were assessed according to outcome, that is, whether the site selector recommended the community or did not recommend the community. Thus, the “winning” outcome [company did locate] was assigned a numerical value

of one [1] and the “losing” outcome [company did not locate] was assigned a numerical value of zero [0]. Since the data were analyzed according to outcome [locate/not locate], the Sign Test was employed. The Sign Test is particularly useful for this type of research in which quantitative measurement is impossible or infeasible (Siegel, 1956). The alpha was established at the conventional .05 level.

RESEARCH FINDINGS

Table 1 provides the answer to the first research question, “*What type of background, filtering information do the majority of entrepreneurs, site selectors and relocation professionals expect to receive prior to making a site visitation?*” There are seven categories of information that relocation professionals record prior to the site visitation. Although these categories of information occurred with a frequency greater than would be expected by chance alone, none of the items was statistically significant with respect to the decision to locate in a particular community.

Table 1. Pre-Visitation Information Of Interest To Site Selectors

| Information Category | Occurrence | Total Sample | Significance |
|--|------------|--------------|--------------|
| Population Size | 229 | 243 | .0001 |
| Tax Rates | 205 | 243 | .0001 |
| Location (airports/interstate) | 187 | 243 | .0001 |
| Household Income | 183 | 243 | .0001 |
| Education Level (population) | 180 | 243 | .0001 |
| Crime | 156 | 243 | .0001 |
| University/ Vocational School Affiliations | 143 | 243 | .0069 |

Note. Occurrence reflects a site selector's decision to include Information Category in report; Sign Test significance level alpha .05 (two-tailed); No Information Category item was statistically significant with respect to the decision to locate in a particular community.

Table 2 provides the answer to the second research question, “*What categories of information do the majority of entrepreneurs, site selectors and relocation professionals assess during their on-site visitation that determines the choice of one location over another?*” The analysis revealed one hundred two [n=102] unique items from the total sample of two hundred forty three [n=243] proprietary research reports. These items were clustered into four economic development areas: (1) Retail [n=104; 43 percent]; (2) Commercial [n=63; 26 percent]; (3) Residential [n=47; 19 percent]; and (4) Industrial [n=29; 12 percent]. In total, eighteen [n=18]

information items were distributed into four distinct economic development areas.

Again, these items occurred with a frequency greater than would be expected by chance alone, but

none of the items was statistically significant with respect to the decision to locate in a particular community.

Table 2. On-Site Visitation Information Of Interest To Site Selectors

| Economic Development Area | Occurrence | Total | Significance |
|----------------------------------|-------------------|--------------|---------------------|
| Retail | | | |
| Crime | 98 | 104 | .0001 |
| Parking | 96 | 104 | .0001 |
| Emergency Medical Services | 82 | 104 | .0001 |
| Public Cleanliness | 77 | 104 | .0001 |
| Commercial | | | |
| Public Power Options | 54 | 63 | .0001 |
| Street Conditions/Repair | 47 | 63 | .0001 |
| Internet Capacity | 45 | 63 | .0009 |
| Residential | | | |
| School System | 47 | 47 | .0001 |
| Police Services/Safety | 44 | 47 | .0001 |
| Ambulance/EMS | 42 | 47 | .0001 |
| Fire Protection/Service | 35 | 47 | .001 |
| Park Accessibility | 34 | 47 | .003 |
| Industrial | | | |
| Tax Abatements | 24 | 29 | .0005 |
| Land Use Options | 23 | 29 | .0023 |
| Flexible Zoning | 22 | 29 | .0081 |
| Power/Utility Options | 22 | 29 | .0081 |
| Water Availability | 21 | 29 | .024 |
| Sewer Service/Capacity | 21 | 29 | .024 |

Note. Occurrence reflects a site selector's decision to include specific information item in report; Sign Test significance level alpha .05 (two-tailed). No information item was statistically significant with respect to the decision to locate in a particular community.

Table 3 provides the answer to the third research question, "Are incentives like tax breaks, abatements and land grants influential in business location decisions?" Specifically, there were twenty-seven [n=27] reports where 'Community A' offered Incentives [n=16] and 'Community B' did not offer

Incentives [n=11]. Moreover, there were fourteen [n=14] reports where 'Community C' offered Tax Abatements [n=8] and 'Community D' did not offer Tax Abatements [n=6]. No statistically significant difference was found in either condition.

Table 3. Incentives: Relationship To Location Decision

| COMMUNITY | Occurrence | Total | Significance |
|-------------------------------|-------------------|--------------|---------------------|
| Offered Incentives | 16 | 27 | .4421 |
| Offered Tax Abatements | 8 | 14 | .7905 |

Note. Occurrence reflects a site selector's recommendation to locate in the community. No statistically significant difference was found in either condition; Sign Test significance level alpha .05 (two-tailed).

Table 4 provides the answer to the fourth research question, "Can disincentives be determined that will

result in a decision to not locate in a specific community?" Specifically, a total of eighty two [n=82]

communities of the seven hundred seventy eight [n=778] communities contained in the two hundred forty three [n=243] proprietary research reports were

eliminated from consideration for nine [n=9] specific areas of concern.

Table 4. Disincentives For Site Selectors: Not Recommend A Community

| Area of Concern | Occurrence | Total | Significance |
|--|------------|-------|--------------|
| Political Climate (hostile) | 12 | 14 | .0129 |
| Political Climate (unstable) | 11 | 12 | .0063 |
| School Board (uncooperative) | 10 | 11 | .0017 |
| Historical Review Boards (restrictions) | 9 | 10 | .0215 |
| Hiring Provisions (mandatory) | 8 | 8 | .0078 |
| Wage Provisions (mandatory) | 8 | 8 | .0078 |
| Newspaper/Media (hostile) | 7 | 7 | .0156 |
| Local Activist/Advocacy Groups (hostile) | 6 | 6 | .0313 |
| Environmental Policies (restrictions) | 6 | 6 | .0313 |

Note. Occurrence reflects a site selector's recommendation to NOT locate in the community; Sign Test significance level alpha .05 (two-tailed). Items [area of concern] stand alone in the site selector reports; not classified according to Retail, Commercial, Residential, or Industrial development area.

DISCUSSION AND IMPLICATIONS FOR PRACTICE

Regarding the first research question, the data indicate seven categories of information that relocation professionals assess prior to their site visitation. Economic development officials should make these types of community information available by the traditional media [trade journals, electronic media] as well as Web- and Internet-based technologies. Paradoxically, no individual item of information could predict a site selector's recommendation of one community over another.

With respect to the second research question, the data indicate eighteen specific items of community information, distributed across four distinct economic development areas. It appears that economic development is not a "one-site-fits-all" decision process. Instead, each type of economic development area possesses definitive, unique criteria. This would suggest that economic development officials' marketing efforts should be segmented or targeted to specific types of business efforts — retail; commercial; residential; and industrial — for example. However, the results indicate once again, that no individual item of information could predict a site selector's recommendation of one community over another. For this reason, it appears unwarranted to fixate on one, or perhaps two, specific items in an attempt to favorably influence a site selector. The data suggest that the ultimate decision to recommend one location over another is a summative judgment, not contingent upon a single criterion. As a result, the economic development official should consider a self-audit of specific areas of interest to the site selector, prior to the

development of a more comprehensive marketing strategy.

As previously discussed, tax incentives and other financial inducements have been under review by policy analysts for decades. The third research question addressed the influence that incentives have on the choice of a particular community. The findings were divided into two types. The first type included those communities that offered "pure incentives" [free land; buildings]; the second type included those communities that offered "tax incentives" [abatements]. The data indicate no statistical significance with respect to type of incentive offered and a favorable decision to locate in the community. This suggests that incentives and tax breaks may not independently result in a favorable decision. However, it is apparent why researchers have discovered conflicting and contrary results in the past. For example, in the current research, fifty-nine percent of the communities that offered "pure incentives" were recommended, and fifty-seven percent of the communities that offered "tax incentives" were recommended. More importantly, from a total of 778 communities contained in the 243 proprietary reports, only 14 cases could be found where one community offered some form of tax abatement and the other community did not. Further, only 27 cases could be found where one community offered "pure incentives" and the other community did not. The implication appears to be that the offering of incentives or abatements is to be expected by site selectors, given the high frequency of occurrence. Incentives become a "pre-purchase" expectation, a "price of entry" to the site selector's consideration, and could possibly jeopardize a community's economic development efforts, if they are not included in the proposal.

The fourth research question assessed the effect of disincentives on location decisions. Nine disincentives were found to exist. Although no individual item could predict a site selector's decision to recommend one location over another, there were nine individual items, i.e., disincentives, that would eliminate a community from consideration. Specifically, the relocation professional is more likely to respond to disincentives than positive community attributes when rendering location decisions. Upon closer examination, however, the disincentives in Table 4 can be transformed [by

elimination] into issues concomitant with a "business friendly" environment. The marketing implication is clear — eliminate disincentives and focus on a "business friendly" environment to establish a formidable position of community differentiation.

In an attempt to create a unique and differentiated marketing plan that will resonate with site selection professionals, Table 5 illustrates the central issues to be incorporated.

Table 5. An 'ACTION' Plan For Economic Development

| | | | | | |
|---|--|---|---|--|--|
| Audit your community's internal features according to Retail, Commercial, Residential and Industrial areas. | Create a "business friendly" community; eliminate disincentives. | Target your marketing efforts; terminate the "one-site-fits-all" mentality. | Incentives may work, but don't "invest" in one single offering. | Ongoing marketing assessments and audits are not an option but a necessity.* | Never forget the nature of competition. Since you don't know the competition, focus on self-evaluation, not comparisons. |
|---|--|---|---|--|--|

*Note. To facilitate a comprehensive marketing assessment and audit, an interactive computer program is available from the lead author.

LIMITATIONS AND FUTURE RESEARCH

This study exhibits all the inherent limitations and weaknesses associated with historical and qualitative data. Specifically, the use of dated [over ten years old] and non-standardized reports is particularly important. Moreover, the research reports were from multiple states and were not specific to any particular area of economic development. All the site selectors were in the process of locating new or expanded business offerings out of their state, therefore, application to in-state models or out-of-state relocation decisions needs to be examined and validated.

The use of the Sign Test, although feasible for this study, does not possess the statistical power that most researchers desire. However, given the nature and scope of examining historical proprietary research, future researchers should make an attempt to control for variables that were highlighted in this research. Finally, although this research examined what site selectors consider to be important, no data were available regarding how these competing communities were determined. Therefore, future research should consider how communities are awarded "consideration status" in the never-ending search for the optimal business location.

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