

"Romancing The Stone"

Branch Plants - How to Pursue Them and Keep Them



Stephen A. Chait

Stephen is a management consultant with the Toronto office of Cresap/Barnard. Cresap/Barnard is an international management consulting firm with offices in Canada, Australia, the United States and Europe. Economic development is a key part of the firm's public sector practice.

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Over \$100 million a year is spent by municipalities and Chambers of Commerce across North America in the pursuit of economic development. The vast majority of this expenditure is dedicated to promotion, marketing and advertising. The pursuit of jobs and economic well-being has motivated an increasing number of public sector organizations to invest in higher annual budgets. Among the targets of these efforts are the big names of the industrial league; those large-scale international companies whose names often represent private sector confidence, economic stability, and the potential springboard for further economic growth. These companies, and their branch plants, are the objects of much attention, spending, and affection by economic developers in Canada and the U.S.A.

Toyota, IBM, General Motors, AT&T, and Siemens are names that cause economic developers to salivate in anticipation of the prestige, positive public attention, and appreciation which would accompany the person fortunate enough to gain a commitment by any of these firms to build in his community. It is therefore not surprising that these and other similarly well-known and respected industrial names are bombarded by

thousands of pieces of promotional material, numerous visits by economic development and political representatives, and countless invitations to visit prospective building sites, all expenses paid. For many communities and economic developers, branch plants represent the economic jewel critical to their community's further growth.

This article will explore how successful economic developers pursue branch plant investment. Why it is that some communities are more successful than others in attracting this form of investment, and how can one avoid some of the common pitfalls of the unsuccessful pursuit. It will also explore the role of economic developers in maintaining and strengthening the relationship with branch plants once they have established themselves in the community. Although the bulk of economic development budgets is dedicated to attracting new investment, a significant portion of the economic developer's time must be dedicated to maintaining and enhancing the commitment of an established branch plant to the community. Given the high rate of industrial obsolescence, and the sorry reputation of many branch plants as merely short term operations, it is particularly important to work out a strategy for keeping branch plants in your town and not losing them to the hundreds of

prospective communities who pursue them every year.

The Successful Pursuit

Economic developers are by their nature an optimistic and enthusiastic group. To them, the pursuit of new industry is a passion and a necessary part of their job description. Perhaps unlike any other industrial target, branch plants represent an excitement and anticipation for the economic developer which exceeds any other. Depending on the location of the parent company, the pursuit of branch plants can justify trips to far away, romantic places, junkets to visit key influencers or to court prospective decision-makers, the opportunities to tap organizational and financial resources otherwise unavailable for economic development purposes. The successful economic developer, however, does not engage in the pursuit without first having thought through and committed his team to a solid, agreed-to strategy.

This strategy in support of the successful pursuit should begin with two major components: understanding the motivations for the pursuit; and making the introduction.

Understanding the Motivations for the Pursuit

Not surprisingly, there are many sources of motivations for pursuing branch plant investment. In preparing oneself for the pursuit of branch plant investment, it is essential to understand the motivations of the community and of the target industrial company.

An obvious starting point, but one which unfortunately is soon forgotten in the heat of pursuit, is to remember and acknowledge the motivations of your community. These motivations may include jobs, the creation of taxable assessment, the opportunity for diversification of the local economy, and the need for an economic stimulus. Each of these motivations may best be addressed by a particular industrial sector, and therefore may help to narrow the list of potentially eligible target branch plants to a manageable size.

For instance, the number and type of jobs required by the community may dictate the targeting of certain branch plants. The community may have a preference for industrial operations of 60 persons or less versus larger 200 to 300 person factories. This may be due in part to the need to blend new industry into the existing community, or may be

dictated by the limited capacity of the underground services. Similarly, the ability of the community to invest in new hard services may require a corresponding generation of taxable assessment. Rather than pursue each and every branch plant as a target, the community may be seeking specific types which would enhance the diversification of the local economic base. Finally, some communities have found that the attraction of a specific target branch plant may be the stimulus necessary to upgrade or expand existing locally developed industrial business within the community.

In matching the motivations of the community with the needs of a potentially interested branch plant, it is important to understand the firm's strategy for market entry, its position on costs, its logistical needs, and (if possible) to inform oneself about the personal side of management and key decision-makers. Literature searches, a review of corporate reports, and discussions with knowledgeable provincial, state and federal industry-related officials can help to outline which firms are seeking market entry in the area. Through these same sources of information one may begin to develop profiles of production, their need for logistical support (highways, railways, break and bulk), and the senior level and decision-makers. This information should be examined critically to understand the potential fit between the candidate target branch plant and the community. Furthermore, it is also important to recognize, particularly when dealing with privately-owned family firms, that there may be personal reasons for wanting to locate a branch plant in an area. This may include motivations such as seeking immigration to Canada, reuniting with relatives who may already live in the area, or the pursuit of a more attractive lifestyle which the area may be able to satisfy.

In the final analysis, it is important to understand the motivations of the community, understand the target branch plant and identify any common ground between them. The identification of common ground, and similar purposes, will be instrumental in eliminating from the prospective list of branch plants hundreds of possible firms. This will help to reduce the financial jeopardy in pursuing firms who clearly would not be either suitable or interested in the community. Given the limited and valuable resources available for pursuing economic growth, it is vitally important that economic developers be critical in their appraisal of candidate branch plants.

Making the Introduction

Having created a short list of candidate branch plant firms, successful economic developers then

concentrate on a strategy for making a successful introduction. Too often, economic developers rely on a "bandwagon" or "cold call" approach. They presume that by merely attending major trade shows and accompanying provincial/state-sponsored junkets, they will be well regarded and serious candidates for investment by branch plant firms. Too often, economic developers who accompany larger trade missions abroad are guilty of not differentiating themselves from their colleagues. Similarly, unsuccessful economic developers are sometimes guilty of placing too much emphasis on the impact of a cold call, presuming that the potential interest of a prospective client branch plant can be determined on the basis of a single meeting.

The successful economic developer, on the other hand, adopts a two-step process to introducing the community to the high potential target branch plant. He or she identifies and canvasses key intermediaries who can provide vital information about the target client. He or she then decides on who within the client company to contact and make the successful introduction.

1. Identify and canvas key intermediaries.

Valuable market intelligence can be gathered from customers of target branch plants, suppliers of these firms, co-nationals (presuming the firm is based outside of the country), and government. The successful economic developer quickly determines the contacts necessary within each of these groups and begins to canvas them regarding the character of the company, the customs of the company, and the potential for a successful introduction.

2. Decide on target client. It is also important that the economic developer decide on how to approach the prospective company. This approach can occur through a mutual friend, the vice-president of corporate affairs, the president of the firm, or through the chairman or owner of the firm. The decision as to which route to take should be based on the advice of key intermediaries and the confidence of the economic developer.

A successful introduction involves the completion of the two key steps and the skill with which the economic developer plays the dating game. The dating game involves more than just a successful introduction. It involves a courtship requiring time and patience in order to understand the inner-workings of the client company, to create positive awareness of the attributes of the community, and to generate interest in locating a branch plant in the community. It requires building a reputation for the

community based on sound references and credibility.

Avoiding the Pitfalls of Success

The successful attraction of a branch plant investment in a community is frequently the end of an intense period of client service and attention to a specific company's needs. Similar to a courtship, once the pursuit has ended successfully, there is sometimes a let-down. There are many examples of communities who are successful in winning the competition for branch plant investment, only to find that living with them is not as smooth sailing as they had anticipated.

There are numerous hard luck cases about communities who landed a major branch plant operation, only to find that the company failed to perform according to expectation and soon closed down its local plant. These examples can be categorized by three classic situations. These include: the day after the opening; the grant expires; the takeover.

The Day After the Opening

Economic developers are frequently the unfortunate victims of the "what have you done for me today" syndrome. Economic developers do not always have the luxury of a political master who sees the necessity of servicing existing businesses as well as achieving growth through the attraction of outside investment. As a result, the economic developer is frequently compelled to decrease his attention from servicing the newly located branch plant in favour of pursuing other similar investments. As a result, there is a loss of attention and the resulting jeopardy that the competition may begin to work to relocate the new found branch plant investment to their community.

The Day After the Grant Expires

Financial subsidies and incentives are frequently part of a package of incentives used to attract branch plants to a community. Successful economic developers take pains to emphasize the value of grant eligibility in order to lure branch plants to their community, but quickly revise the emphasis away from grants and in favour of local economic benefits in order to minimize the negative impact of the inevitable day when the grant expires. If this refocussing of benefits is not successful, there is the real risk that the branch plant may

pick up and leave with the expiry of the grant or financial incentive.

The Day After the Takeover

In this time of increased industrial consolidation, and corporate takeovers, it is not unusual for ownership of firms to change. These takeovers are difficult to anticipate, but are not necessarily a disaster. The successful economic developer should keep his or her ear to the ground to attempt to anticipate when or if such a takeover may occur and what the ramifications would be. A good working relationship with the local branch plant manager and senior administrators, will serve the economic developer well by allowing for some early warning of impending changes and a conduit for factual information once the takeover has occurred.

An Important Role to Play

As the goodwill ambassador for the community, and as the leading proponent of the branch plant which you have successfully introduced to the community, it is important that you also monitor the associated impact (both positive and negative) of the location of a branch plant within your community. A common and classic point of potential friction between the new employers and the community is the competition for labour. The existing employers in your community may be concerned about the arrival of a significantly larger or perhaps better paying company in their midst. It is therefore important that the anticipated competition for employees be considered and communicated to the community.

Similarly, economic developers are sometimes victimized by unfortunate layoffs or strikes occurring at the branch plant which was introduced in such a positive way only a short period before. The manner in which one conducts oneself during this period of layoff or strike will have a bearing on how the company continues to perceive its role and acceptance within the community, as well as how the community perceives the company. The temptation is for the economic developer to remain on the sidelines while the politicians shoulder the sensitive affairs of the community. In fact, the successful economic developer does not remain totally on the sidelines during these periods of friction. As a result of the close relationship with the company and with the community decision-makers, the economic developer can perform a valuable service as a conduit of information and as the proposer of potential solutions.

An increasingly important and challenging role for the economic developer is in the area of modernization. Increasingly, modernization implies a loss of jobs due to a reduction in staff and operations, or the replacement of staff by robotics or other forms of machine controlled production equipment. The temptation is for the community and the media to be negative and harsh in its criticism of such modernization. Clearly, the loss of jobs is an unwelcome occurrence and a source of concern. However, it can frequently be proven that this modernization process is inevitable and would have led to a loss of jobs in any event. The opportunity remains for the economic developer to adopt a positive approach and identify a role for training and manpower upgrading which may in fact qualify employees for better paying and more interesting work within the firm, rather than make existing employees totally redundant and potentially unemployable.

Keeping the Romance Alive

The challenge of maintaining and enhancing the community's relationship with a branch plant requires a shrewd mind and a solid strategy. Like a romance, it is important to pay attention to the object of one's affections, as well as to the "in-laws" and "relatives". In the case of economic development, the in-laws can be typified as the parent firm, and the relatives can be described as the local businesses.

Help Branch Firms Prosper

One strategy for dealing with the in-laws should begin with identifying the key decision-makers in the parent firm. Maintain contact with the people who made the original decision to locate a branch plant in the community. It is vitally important that these persons continue to feel confident and are seen in the best light by their superiors in the parent company. To this end, it is important that the economic developer continue to communicate to them the success of the local plant or operation and the contribution of the community to the success. This is a worthwhile investment of time, since it may be the same decision-makers who can contribute to further investment in the community as they make their way up the corporate ladder. In order to be prudent and timely with the support, it is important that one mind the indicators of the economic health of the parent and branch plant company. Read their reports, watch the markets for their goods, and talk to fellow economic developers. These can be important indicators of the condition and health of the parent company.

Help Local Firms Prosper

Dealing with the relatives or local businesses in an area can be a sensitive and demanding function of the job. It can also become the most valuable activity of the day-to-day affairs. The opportunity to identify spin-off investments and develop supplier relationships presents an outstanding opportunity for the economic developer who wants to multiply the rewards of locating a branch plant within the community. This is the real value of a municipality funding the economic development function.

Similarly, it is important that one help to introduce the managers of the branch plant into the community by encouraging their involvement and personal investment in the community. This can be in the form of participation in local economic development functions, financial support for social and recreational programs, and identification of the branch plant as a supporter and endorser of well-thought-of projects. The role of the economic development officer should be one of a broker and counsellor. In other words, never stop listening to both the community and the decision-makers within the branch plant, and do not sit on the sidelines. Especially when the community and the branch plant are in need of the economic developer's skills.

In summary, the role of the economic developer in pursuing branch plants is in fact a romantic as well as a strategic one. It is important at all times to choose carefully and to be prepared to say no to an aggressive branch plant who may not fit with the community's objectives and list of needs. Secondly, stay involved in the process at all times or else one may lose sight of the danger signals or opportunities for growth. Finally, remember branch plants are "here for a good time, not a long time". The successful economic developer can help to create a climate which enhances the contribution of the branch plant to the community's economic development plan, and enhances the benefits of establishing a branch plant within the municipality.