

Maximizing Incentives with Incentives Management

By Jim Renzas



Jim Renzas is the President and CEO of Location Management Services, a site selection and incentives negotiation consulting company with 37 offices nationwide. He has more than 24 years of site selection and incentives location experience, providing consulting services to clients on multi-state location strategies, as well as government assistance programs to aid business expansion and or relocation.

Survey Reveals that the Fortune 500 Aren't Cashing in Where They Should

In the fourth quarter of 2004, Location Management Services (LMS), an expert in incentives management, surveyed CEOs and real estate, tax, and finance officers at Fortune 500 companies throughout the United States, asking how they negotiate, manage, and collect incentives. The survey, completed by 195 companies, was conducted through *Area Development* magazine. The results were surprising:

- Only 14 percent thought their company was doing a very good job at collecting all available incentives.
- Fifty-two percent of companies surveyed indicated they had no formal incentive process in place.
- Only 37 percent said they plan to improve the process.
- Twenty-five percent replied they intended to add the task of managing the incentives process to an existing employee's current workload, while 35 percent would seek to outsource the task to a specialist or hire an in-house manager of incentives.

Further, the results indicate that companies are exposing themselves to Sarbanes Oxley compliance risks.

These findings are even more surprising given that, in surveys over the past three years, corporate real estate executives have ranked incentives among the most important factors in selecting a site for new corporate facilities.

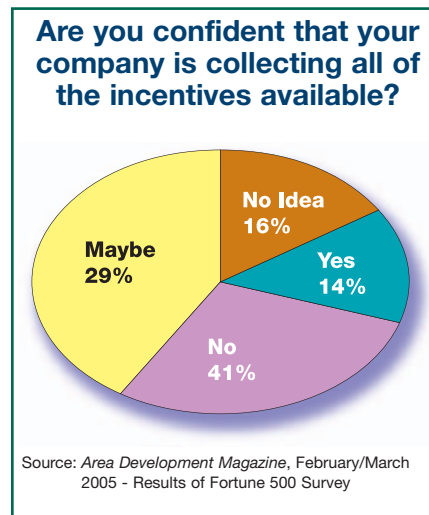
Exceptions Prove the Rule

Most of the LMS survey respondents reported collecting less than \$5 million from incentives in 2004. Bearing in mind that the smallest Fortune 500 Company—out of the 195 firms that completed the survey—Newmont Mining, reported revenue of \$3.2 billion; this means that even the smallest company in the Fortune 500 is collecting less than one sixth of one percent of its annual revenue through incentives.

However, a few smaller, privately held companies that preferred not to be named in this article did anecdotally report collecting more than \$1 million in incentives. So it seems that a few smaller companies are collecting as much as five percent of annual revenue through incentives.

Performance Depends on Process

The survey respondents tended to blame the situation not on poor negotiations up front, but on the lack of a formal process to track and collect the funds from incentives negotiated. There appears to be a lack of coordination among the groups that are tasked with



collecting incentives. In most cases, there is no clear leader in the process, and multiple departments are involved. In short, incentives are not a managed process. Many negotiations are handled in a decentralized and disconnected fashion. Because of this disorganized approach, many companies are not realizing the financial benefits of their incentives packages. In fact, 86 percent of those surveyed reported a need for improvement in their company's process of negotiating, collecting, and managing incentives. Fifty-two percent reported that they do not have a formal incentives process in place, and 13 percent have no idea if they have or do not have an incentives process.

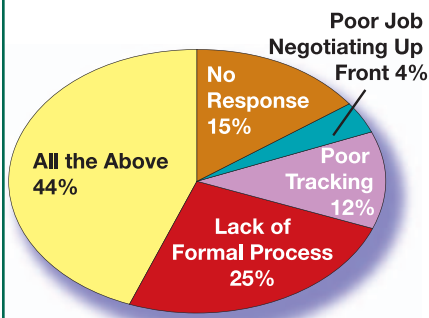
Moreover, rigorous processes govern—and sometimes seem to impede—the collection of incentives. So, in order to maximize incentives, a company needs to have an organized process in place to negotiate, manage, and comply with all necessary requirements.

Unfortunately, some managers at major corporations have probably just given up on ever improving the collection and management of incentives, even though they realize it is a major problem.

There are several possible reasons for this:

- The managers might fear they will be assigned to manage the improvement process themselves, in addition to their heavy load of responsibilities.
- The managers might fear that if they hire someone in-house to improve the process and they start collecting significant dollars in incentives, the finger will be pointed at them when the inevitable question comes up, “Why haven’t we been collecting incentives like this all along?”
- Further, the fact is that negotiating, managing, and collecting incentives is a long and arduous process that may not show a positive return on investment for several years. What ambitious corporate officer would want to lead an effort that could cost the company hundreds of thousands of dollars in salary and benefits, yet may not show positive results for three to five years?

If you believe you are not collecting all of the incentives your company is entitled to, why do you think that this is the case?



Source: *Area Development Magazine*, February/March 2005 - Results of Fortune 500 Survey

Compliance Is Crucial

One way to improve the situation is to install an effective incentives management process at the corporate level. This system would encompass not only a centralized approach negotiating incentives, but also the all-important functions of maintenance and compliance.

Studies by Georgia State University (Atlanta) have shown that more than 50 percent of all negotiated incentives are never collected. This is because modern incentives policy is performance oriented. Companies must show evidence of compliance with the incentives agreement and, if this evidence is insufficient or is not provided, the incentives agreement could quite possibly be invalidated. Given Sarbanes Oxley requirements for documentation of processes and procedures and given corporate transparency considerations, insufficient evidence could result in a technical violation of Rule 404, which could expose the company to shareholder lawsuits and government sanctions.

What, Me Worry?

Only 14 percent of respondents expressed confidence they were collecting all of the incentives available to them and 87 percent indicated that the incentives process needed improvement, however, only 37 percent reported they planned to do anything about it.

As the current LMS study shows, 56 percent of companies have no formal processes to handle incentives negotiations, management, and tracking nor do they have processes in place to ensure compliance with government documentation requirements. Therefore, many companies have found that this area is a good one to consider outsourcing. LMS can assist SIOR members by bringing the entire gamut of incentives negotiations and management skills to the client in a one-stop process.

What Can LMS Do for You?

First, LMS conducts a confidential up-front evaluation of the incentives potential for all locations where there is at least a

remote possibility that the corporate client will be investing a minimum of \$5 million or 100 new jobs.

LMS uses experienced incentive negotiation consultants in the field who have strong ties with state and local economic development officials. These consultants constantly track the climate for economic development in their areas of responsibility and monitor the types of programs that are available at the state and local levels. These local consultants are supported by a national project management team that 1) brings in new ideas that have worked elsewhere and 2) provides the focal point for information flows between the field consultants and the client. The national project management

Others Get Incentives

Only 12 percent of survey respondents are confident they are collecting all the incentives available to them—33 percent indicated that they felt that other companies receive more incentives than they receive.

team also works with the client to identify critical issues that must be addressed and to obtain necessary information to assist the field consultants.

Once the range of potential benefits is identified, the national project manager will work with the client's internal team to ensure that the proposed incentives programs do not conflict with internal agreements or policies and that the proposed incentives package is actually one that can add value to the corporation.

Too often, corporate managers obtain incentives packages that the company cannot access for a number of reasons, such as the language in a corporate credit facility. States can hand out huge incentives in the form of tax credits for new investment and job creation, but they might never have to redeem these benefits if the company lacks the necessary tax liability in that state.

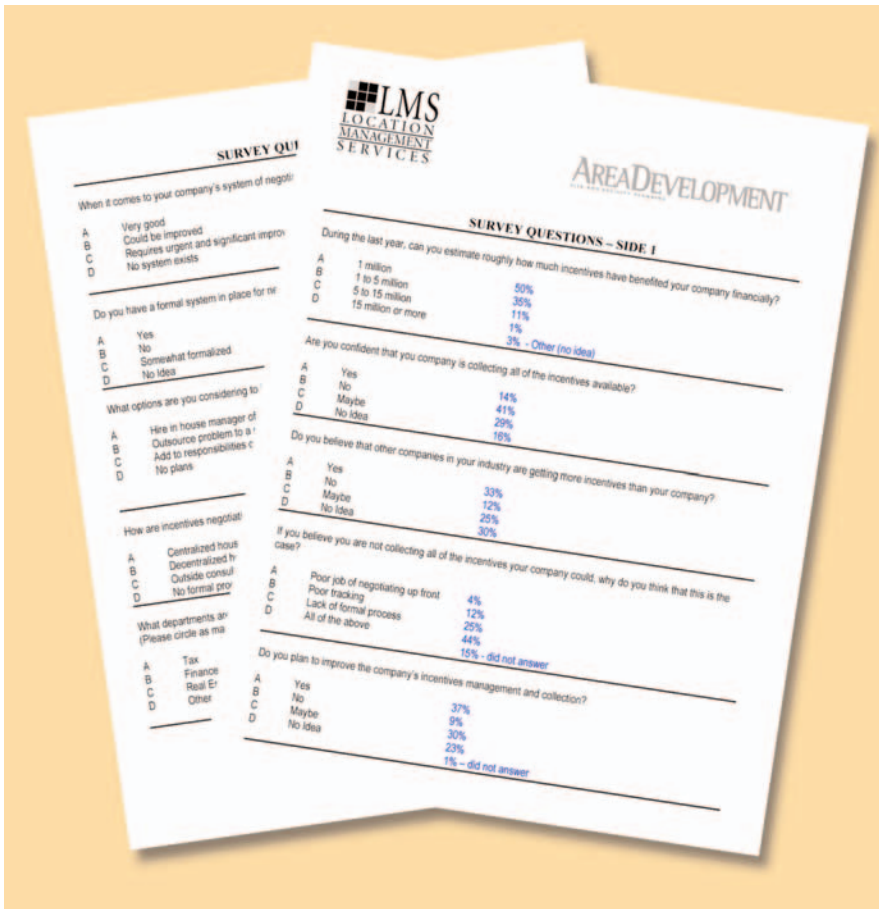
LMS helps the client determine the best type of incentives program and also prepares an

“apples to apples” comparison of the alternatives. This reduces the various incentives programs down to a net present value benefit to the company. Once the company has decided to get serious about two finalist locations, LMS will conduct all incentives negotiations and make appropriate presentations to government officials in order to secure the

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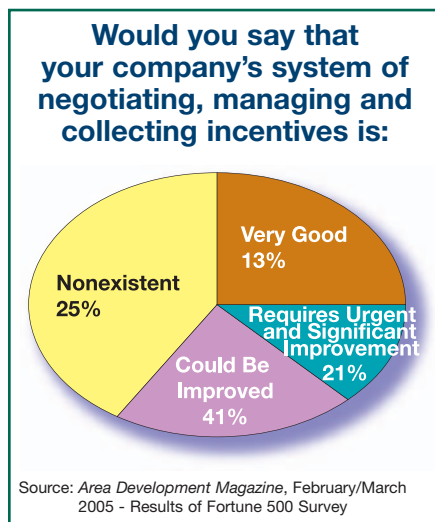
incentive package that the company has already approved.

After the incentives package has been fully documented, the background and contract language is forwarded to LMS's full-time compliance department, which abstracts the incentives document and calendars key critical compliance dates and milestones. All this information is entered into an interactive Web-based program that allows the client, the broker, and LMS to see the entire history of the transaction, including notes entered



during the course of negotiations and various versions of the incentives documentation as it has evolved.

The compliance department works closely with the client and its real estate broker to manage the entire process, ensuring that critical documentation is supplied on time. In addition, the compliance department follows up on the submissions to ensure that incentives benefits are delivered to the client. We have found that in many cases, changes in state




and local staff and in elected officials result in a loss of institutional memory about the terms of the incentives agreement. The LMS compliance staff works with new corporate and government staff to ensure that all parties adhere to the incentive agreement, which can run up to 30 years.

During the first compliance year, the LMS compliance staff conducts quarterly audits of corporate processes to make certain that the necessary steps are being taken to ensure that the company will stay in compliance with the incentives agreement. Subsequent

A Recipe for Chaos

A majority of respondents indicated that multiple departments, as many as four or more, are involved in negotiating, managing, and collecting incentives. This indicates a lack of a consistent pattern of involvement or clear leadership.

monitoring meetings focus on issues and problem solving as well as on projecting the ultimate investment and job-creation goals to make sure that the company will do what it has said it will. This monitoring is especially critical because government officials do not want to be surprised at the end of the incentives agreement with the news that the company cannot do what it had said it would. It is much better to contact government officials early to let them know that there might be some difficulty in meeting the goals. This allows government officials time to work through the political structure as well as find acceptable means to adjust the incentives benefit without causing the company to

sacrifice everything. Also, if the company is more successful than had been assumed during the initial negotiations, the company might be able to raise the level of benefits through additional incentives. For example, companies that are planning expansions might be able to use past incentives agreements to gain additional financial incentives without having to start negotiations from scratch. 

—Jim will be speaking at the upcoming Fall Professional Conference in Chicago on negotiating, receiving, and collecting incentives. Go to the SIOR Web site www.sior.com and register today.