Traditional Economic Development Practices

.

Prepared by: WCM Consulting Inc.
August, 2005

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

This page left blank deliberately for double-sided copying purposes

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

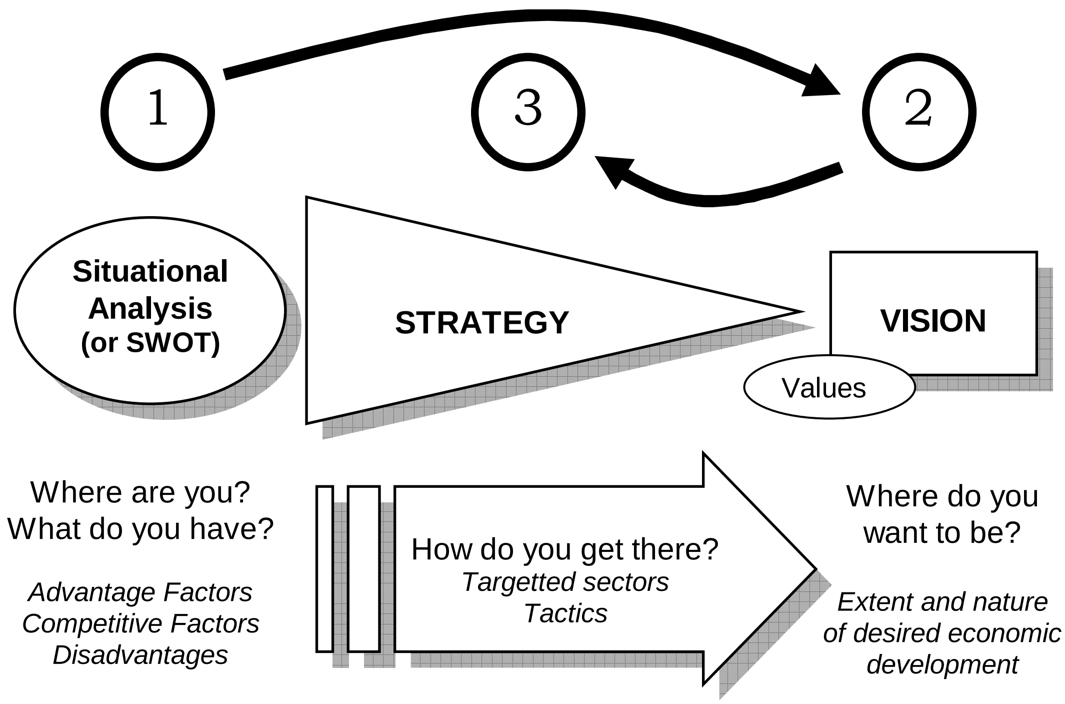
Table of Contents

Section	Description	Page
I	Economic plan development – three major steps	4
II	Situational analysis	6
III	Creating the Vision	16
IV	Developing the Strategy	22

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

I Economic plan development – three major steps

This paper outline a process by which an economic plan may be developed, principles that have been refined and tested over many years. This process can be encapsulated in the following macro-level diagram:



This order of development is represented in the above diagram by the numbers: 1 – 2 - 3

Each of these main elements has a series of sub-activities that must be considered and these are briefed in the subsequent Appendices II, III and IV.

While not all aspects of the process may be necessary, or deemed desirable by the jurisdiction, decisions should made to include or exclude various elements to best suit the situation at hand.

Who's on first – Situational Analysis, Vision or Strategy?

Although it may seem obvious that the Strategy must come after the other two elements have been defined, most often participants jump immediately to *'what should be done'* – this is 'Strategy talk'. It is a natural human reaction, borne partially out of the need to take action and, more especially, to take the action that the *individual perceives as being best.*

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

An analogy would be two people planning a trip without knowing their final destination or from where they are starting. Both may come up with valid route plans but they would end up in vastly different places, especially starting from different origins. Yet both could readily defend their routing as being valid and see no reason to back down nor give credence to the plan of the other which, to them, is so obviously 'flawed'. Therefore it best first to know where you are starting from and where you want to go *and then plan the trip.*

If it is clear that the Strategy must come after the starting point (the Situational Analysis) and the end point (the Vision) have been defined, some would argue that, in theory, it should not matter which of the former two are then prepared. From a practical perspective the Situational Analysis should be derived first.

Again, referring to our couple planning a trip, if one says that they should travel by car to Vienna for a vacation and the other to Vancouver, then the former cannot be accomplished by vehicle alone if starting in Windsor. On the other hand, Vancouver is quite within reach by automobile alone. The problem here is that the person wishing to drive to Vienna does not take into account the real starting point. This speaks to the importance of a pragmatic Vision for the Community that is within reasonable grasp; if it is perceived that the goal cannot be achieved, disenchantment will set in and enthusiasm will wane rapidly. **The goals inherent in a Vision should be significant and worthwhile achieving *but within grasp at all times.***

While the end goals may be constant, time and the evolving environment demands a Strategy that adapts and flexes with those changes.

"The most effective Strategies tell you what do to tomorrow and a process to figure out what to do the day after."

77 WARD AVENUE, SHARON, ONTARIO, L0G IV0 – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

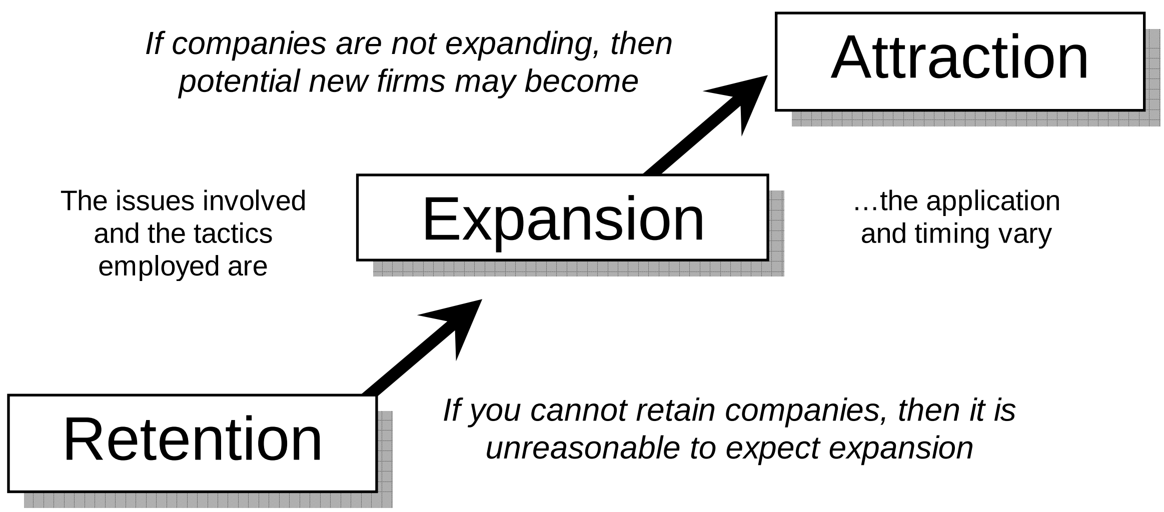
II - Situational Analysis

This is sometimes referred to as a 'SWOT' analysis (Strengths, Weaknesses, Opportunities, Threats).

You cannot plan your journey without knowing the starting point. The Situational Analysis (or SWOT) defines where the jurisdiction is today, what it has in the way of economic advantages and disadvantages and the economic environment in which it finds itself.

In general, the same conditions that will encourage the retention and expansion of existing businesses will also be the essential fundamentals in attracting new businesses. More specifically, the ***absence*** of such fundamentals will be a deterrent to new investment and, alone, they will not be sufficient to attract new investors. A comprehensive economic development plan must consider these elements. In reality these are all 'different ends of the same stick' and the variability is in how each element is approached and the emphases placed on each activity.

Different ends of the same stick



'Being competitive' is often sufficient to retain and permit business expansion; *having an advantage* is the key in winning new investment.

All sectors have key economic requirements that must be compared to the characteristics available in the jurisdiction, in order to assess the 'fit'. While this will vary from one sector to the next, the same factors will generally apply broadly within a given business sector.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Retention of the existing business base

In the highly competitive market of Ontario (and North America), firms make location decisions based upon market proximity and cost advantages in labour and raw material; however, the ***existing local firm*** is the best barometer of local competitive factors.

Some tough questions need to be asked of these firms, such as: Why are you located in this jurisdiction? Was there an attractor or is it simply 'home'? Would you choose to locate here again? Are multinational subsidiaries secured by a product mandate? These questions are essential to separate the 'inertia' of *being here already* from the factors that can generate momentum for others to *come* here.

When retention is threatened, this becomes the main priority of any jurisdiction. As such, it immediately has the most resources attached to the effort and the impact can be significant. Retention efforts, although often purely reactive and late, are relatively easy to organize since the targets are few and are present locally. Retention efforts offer the dual advantages of

- Developing partners and references to work with the jurisdiction in attracting new investment. It is difficult to claim superiority over other locations when significant existing companies are leaving, no matter what the reason.
- Sets the stage for economic growth based upon the expansion of individual firms. Programs directed toward local companies, especially when combined with business climate reforms, set the stage for more successful business attraction.

Expanding the existing business base

Jurisdictional efforts towards expansion are generally focused on efforts to help firms by assisting with export markets (anything outside of their current market area) or by assisting firms to create joint ventures. In terms of new export markets, additional tough questions must be asked: Which firms are 'export-ready'? Is there spare capacity to handle additional volumes of similar products? Are the existing unused facilities of value?

Joint ventures are mutual agreements between firms to share certain resources to increase growth at both firms. For example, a firm in the jurisdiction with a certain type of technology and surplus capacity could manufacture under license for a European or Asian firm that is currently exporting product into Canada or North America as a whole. Matching can be done by means of detailed profiles of particular local firms that are then compared with known characteristics of other firms in the target group for a joint venture.

77 WARD AVENUE, SHARON, ONTARIO, L0G 1V0 – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Despite their effectiveness, Retention and Expansion Programs are sometimes less attractive to jurisdictions. They are usually less visible to the public eye because so much work is being done 'behind the scenes'. It is only natural that jurisdictions prefers to demonstrate to citizens that concrete actions are being taken to build the economy and cutting the ribbon at a new site provides that recognition better than the retention of what is already in place.

However, in the long run, programs built upon existing local firms strengthen credibility and goodwill with these firms, develop instant 'ambassadors' and demonstrate 'satisfied customers'. The latter is vital since no company will relocate simply due to the propaganda of glossy brochure extolling the local virtues; they will *consider* relocating if those firms already located in the municipality are prepared to give a good report card.

Everything carried out in retention/expansion ***must*** be in concert with the needs of these firms. The process is remarkably simple, although not easy:

- Understand the issues of the existing firms
- Work with them where possible to address these issues
- Under their guidance, find opportunities for joint ventures, co-manufacturing, new supplies of raw material and new markets

The fundamental difference between *retention/expansion* and *attraction* programs is that, in the former, the economic development team is driven by the existing firms whereas when attracting new investment, the local Economic Development Team must seek the prospective investor.

The retention/expansion strategy comes down simply to ***choosing to do this,*** rather than taking these firms for granted. The tactics required to assist are identical to those used to attract new investment but applied in a selective and focused manner.

Attraction of new investment

Virtually all of the work to be carried out to attract new investment will be of value in the necessary thrusts of retention and expansion – *the 'other end of the same stick'.*

The attraction of new investment evolves from well-structured efforts in investment retention and expansion. In developing a comprehensive investment attraction program, a jurisdiction must carefully identify its advantages and disadvantages. The following statement is as true today as it was a decade ago:

> "Successful business attraction is almost impossible unless existing businesses are content with the overall operating environment." (Report prepared for Ministry of Economic Development and Trade on Investment Marketing Practices. 1995)

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

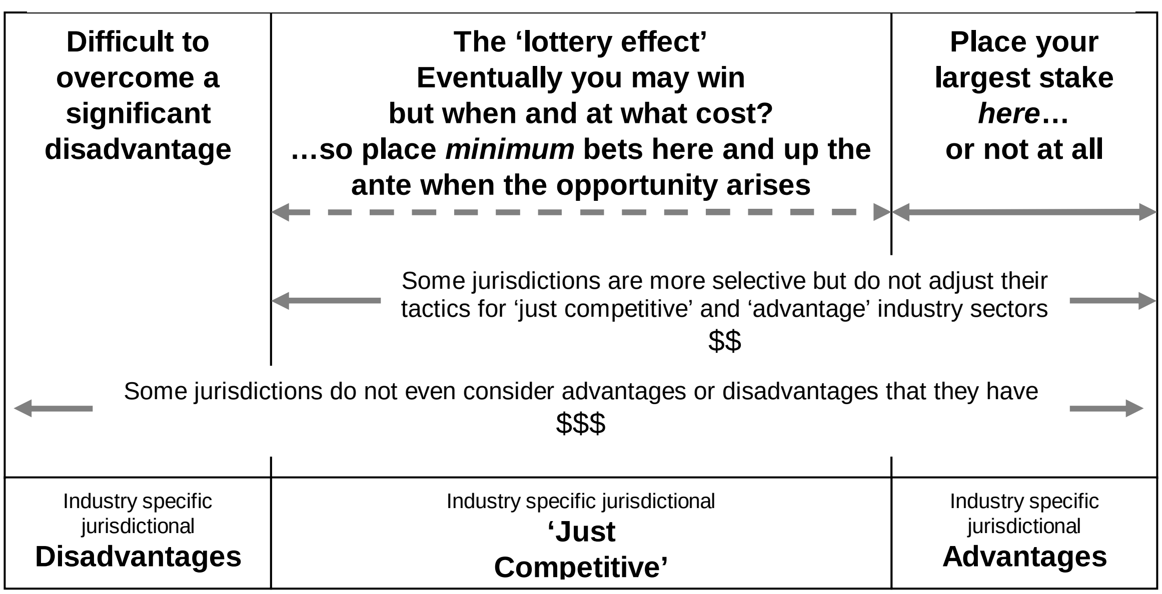
‘Having an advantage’ is *much* more than ‘being competitive’

We hear frequently that this jurisdiction or that province is ‘competitive’. Often this is said in connection with attracting new investment or in response to some criticism levelled at government by the public or media having lost such investment. What does ‘competitive’ really mean and how do misconceptions sometimes cause jurisdictions to spend money in attracting investment when they have little hope in succeeding due to these efforts alone?

The most obvious example is the final of a foot race. All of the participants will, in general, be competitive; that is they have some chance of winning. If not, they would not have qualified for the race. Yet, all else being equal on a given day, the competitor with an *advantage* will win. This advantage could be fundamental in terms of speed and stamina or it could be temporary due to weather conditions or the ‘Ben Johnson effect’. Regardless, on a wagering basis, the competitor with the advantage will win.

The vital importance of assessing the strengths and weaknesses of the jurisdiction cannot be over-stated and these form the very basis for a practical and effective attraction strategy, founded in hard facts and economic reality. Failing this, prospective investors will ‘see through’ the glitter. Further, since there will be many sectors in which the jurisdiction is ‘just competitive’, it is very tempting to focus on all of these. Recall that every runner in the Boston Marathon is competitive, but that there is only one winner – *the runner with the advantage*.

Choose investment attraction targets with care; there is little ammunition



These factors can vary greatly from one industry to the next…each must be assessed

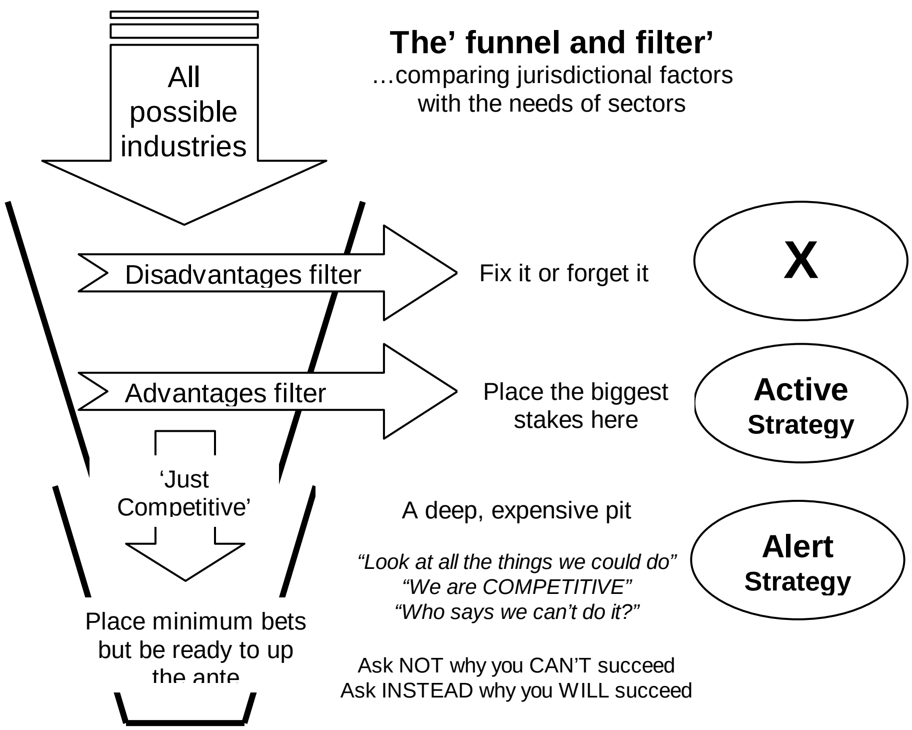
All industries in which the jurisdiction is overall ‘just competitive’, or has advantages, are kept on the table, but the initial treatment and effort are different.

77 WARD AVENUE, SHARON, ONTARIO, L0G IV0 – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Assessing the best opportunities requires an honest inspection of the strengths and weaknesses of the jurisdiction.

Where the weaknesses can be mitigated then well and good; where not, this must be accepted and those industries that would find this to be a disadvantage removed from the focus.

In the case where there are clear advantages, the majority of the effort and resources are so focused since the probability of success is greater. Where the factors are 'just competitive', a more *alert*, rather than active, approach is taken, ready to expend greater effort should the opportunity arise. This ensures cost effectiveness in the overall execution.



Being competitive is not the same as winning. It is a buyer's market in that there are usually far fewer opportunities than jurisdictions wanting those opportunities. So only the 'demonstrably best' are likely to win.

For the resource limited jurisdiction, this clear separation of 'advantages' from 'just competitive' factors is essential for an effective, yet efficient, campaign.

77 WARD AVENUE, SHARON, ONTARIO, L0G IV0 – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Which jurisdictional advantages matter?

Only those important to the targeted industry and no others

Advantage Factors will vary from one industry to another depending upon the characteristics of that industry. Generically these can fall into one of several primary categories but all have a single common denominator: *they must have a direct, beneficial effect on the profitability of the company.* Any one alone can be sufficient; two or more are rare but will likely clinch the deal. These primary categories are now discussed.

The jurisdictional economic factors important to industrial sectors

Raw material availability and cost/value	Most industries require raw materials
Access to markets	Nature of product, geography and politics
Labour availability and cost/value	General and specialized human resources
Utilities availability and cost	Important to 'high demand' industries
Transportation net	Important to many industries, but not all
Room to grow	Important to plant intensive industries
The total local 'tax burden'	Regarded with suspicion since it is volatile
'Softer' factors	Quality of life, etc.

Market attraction

The market is the place to start many conversations with international firms since it conjures the concept of selling their existing goods rather than investing in a risky venture.

Many opportunities can be derived from 'market attraction', backed up by any raw material advantages and conversion costs. Note that when talking with prospective investors from outside North America, it is important to *start* with the North American market (Canada maybe too small, let alone the province or jurisdiction). Once the market is established in the mind of the Prospect, emphasizing the advantages of Ontario and the local jurisdiction over the U.S. will shift the focus to where they should locate in that market. For this, any Canadian advantages over the U.S., as well as local advantages, should be used.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

The nature of the product and raw material will have a great effect on the most advantageous location. The lower the value-to-weight (or volume) ratio of the finished product the more the trend to locate near to the market rather than the source of raw material. Therefore, where the jurisdiction is not a major market centre it is better to look for the higher value-to-weight ratio finished products (these are often customized products and not commodities). Although not universally the case, the manufacture of such products is frequently accompanied by the need for a more skilled work force.

Raw material

Abundant locally available raw material at a competitive or cheaper price is a definite advantage. This is often the single most important factor after the market and, depending upon the nature of the raw material and the goods produced, it is sometimes more important than the market and one that can overcome other disadvantages to some extent.

When using raw material as an advantage to encourage *inward investment* into the jurisdiction it is essential that is it more economical to build a processing facility in the jurisdiction rather than exporting the raw material to an existing facility elsewhere. It is also essential that the products so produced are readily and economically transportable to the destination markets. If these are not true then the jurisdiction may well create a raw material *export* opportunity, but no direct investment (the 'drawers of water and hewers of wood' syndrome).

Iowa, Indiana and Nebraska have successfully translated their historical and continuing abundance of raw material into a strong investment strategy. Clearly, here are cases where the raw material availability and usage are unquestioned and there are long standing markets. Grains and the like are readily transported and processing firms originally built closer to the main markets. Today, these agrarian states have been able to attract processors from the more populated states through a combination of competitive costs and incentives. The growing markets on the west coast have 'balanced' the distribution network geographically and have alleviated the question of the transporting of finished goods versus raw materials.

If there is an abundance of raw material, but an undeveloped market, then that market must first be developed. It is highly unlikely that any outside firm will invest in a facility until the market intended to be served by that facility is first proven. On the other hand, if a local firm chooses to develop the market and shows signs of success, then foreign entities may be encouraged to join forces with (or take over) and expand that local firm, thus creating inward investment. The basis here is that the local firm proves the market and the associated business opportunity, since an outside firm may not take such a risk on an unproven product.

Where there is a proven market and a good supply of raw material then the outside firm will, if at all possible, first test the quality of the product through the export of raw material to an existing facility elsewhere, before investing locally in the attendant capital facilities and equipment required.

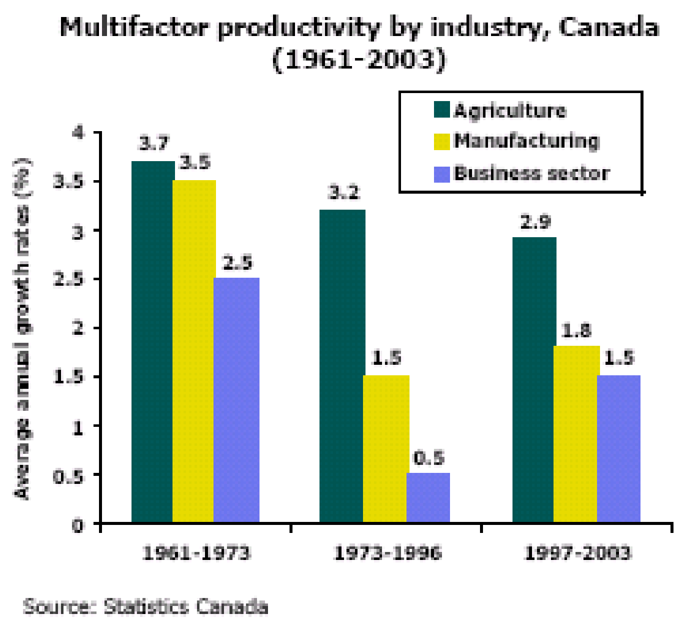
77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Conversion costs

A conversion cost is any cost incurred in converting input raw material and/or subassemblies into the product that is output from that factory. These costs are directly related to the impact of the jurisdictional characteristics on the cost to implement the conversion process. There are usually two main elements – utility costs and labour value ('output for pay').

Unless there are very significant labour or input energy costs the differential between conversion costs in a given jurisdiction and other areas of North America may be too small to be crucial. Between international firms (in Europe and Japan) and a North American jurisdiction, however, they can be very valuable as part of an investment strategy.

Examples of other jurisdiction-based factors



Abundant land can be beneficial for certain industries but this will not overcome fundamental disadvantages in other factors unless the land itself is the focus of the business.

There are few such industries that will produce a considerable number of well-paying jobs. Farms, despite the many problems being faced, have far out-stripped other industries in the growth of productivity, the work is seasonal and worker-immigration programs are very commonplace.

Good telecommunications are now available in most locales, are no longer an advantage and now serve as a barrier if they are not available. Certain industries require very high bandwidth capabilities and to these few industries the availability of very high capacity telecommunication lines is an advantage. Equally, such lines are becoming ubiquitous or microwave links are used.

Very few government programs or subsidies will create a primary attraction to industries but they can act as 'sweeteners' if all else is equal. Governments change as do their promises and no company wants to be lured into making major capital investments only to find that the 'rules' have changed within a few years. If agreements can be reached that guarantee advantageous jurisdictional costs over time then this can be an attractor. These are uncommon in Ontario.

Secondary factors

77 WARD AVENUE, SHARON, ONTARIO, L0G IV0 – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Certain secondary factors can come into play but these are of no consequence except when differentiating between two or more jurisdictions with, on aggregate, similar profitability advantages. These secondary factors are more varied and intangible, like icing on the cake, but they should not be dismissed. The following is only a small sample:

- Lifestyle and the ability to attract skilled workers
- Climate
- Local attractions and amenities
- Schools
- Reputation as a safe place in which to live and raise a family

These secondary factors are more often *quoted* as the reason for so locating but they are usually built upon the fundamental primary (business) factors. For some reason, executives of the newly arrived firm prefer not to state that they will 'make more money' (almost implying an 'exploitation' of the locale) and would rather quote the nicer and politically correct 'this is a good community in which to prosper and raise children'.

These can become primary factors in a situation where the person and their family are attracted to the locale for life-style considerations and then set-up business as a result and this is a real example. A manufacturer of pasta is located thousands of kilometres from the source of their raw material, durum semolina, in a jurisdiction with but a small local population with far less than ideal transport facilities. They have developed a good business and export a portion of their product outside of their jurisdiction. Local officials, anxious to spur economic development ask the question "The Pasta Company" is doing well so why can't we attract more of the same?" On the face of it, a reasonable question, which is asked frequently, but one predicated upon an assumption, rather than a fact.

The assumption of the officials is that economic characteristics of the jurisdiction have had a significant role to play in the location of "The Pasta Company" in that locale. When the local economic development team makes inquiries as to why they are so located, what are the advantages and how to attract more of the same, some or all of the following comments arise:

- *Obviously we are not near the source of raw material so that is not an advantage.*
- *Our local market is not large, so that is not advantage.*
- *The local utility costs are no better or worse than anywhere else; they are competitive but not an advantage.*
- *The local people are good workers and their pay is in line with the rest of the country or locale; they are competitive but not an advantage*
- *We located here because we were born here, moved here or bought the business that was already located here.*

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

- *A long time ago there were advantages but these have since eroded.*
- *We would probably do as well elsewhere and there may be some locations in which we could do better but the cost and effort to move is too great.*

In the case of the Pasta Company, the reason that they had located in Newfoundland and Labrador is that the family-run company wanted to live there and…they happened to make pasta for a living.

Look at the facts before making assumptions

> *"It is a capital mistake to theorize before one has the facts; insensibly, one begins to twist facts to suit theories, rather than theories to fit facts."*
>
> *Sir Arthur Conan Doyle*

When an industry first develops, there are always many hopeful entrants located in many different areas. Those that prosper do so, for the most part, due to the skill of the owners and workers rather than anything more fundamental about the jurisdiction. These companies then attract supporting cluster businesses. Years later, government officials conclude that the jurisdiction ***must*** have some inherent advantage ("why else would the cluster exist?") and seek to exploit that situation. Yet, the only advantage is the cluster itself, which could exist anywhere else with equal success.

Business has a remarkable way of sniffing out competitive advantages in a jurisdiction and would probably already have so located before officials had reacted. The fact that businesses have not done so perhaps implies that the jurisdiction ***is*** 'competitive' but has no tangible 'advantages' to differentiate it from the hundreds of other areas competing for the same investment prize.

This reality is often hard to accept but it is a reality that must be faced. If it is not accepted then the jurisdiction may invest considerable time and money in attempting to attract investment when it has few or no advantages. The results will be, at best, sporadic and at worst, a waste of resources. This is not to say that the jurisdiction cannot win ***some*** of these races but these occurrences may not correlate directly with the effort applied. This is the 'lottery' effect.

Having considered the various possible industries and compared them to the prevailing jurisdictional factors, three categories of business sectors can be created, which form the launch-point for the strategy itself

A list of businesses in which the jurisdiction has DISADVANTAGES	**A list of businesses in which the jurisdiction is 'JUST COMPETITIVE' *(by default)***	**A list of businesses in which the jurisdiction has ADVANTAGES**

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Appendix III – Creating the Vision

The development of the Vision is where the Community as a whole is best involved – ***through Stakeholder-driven economic development.***

While expertise in the disciplines of economic development are required to asses the current situation and to develop a plan to achieve the desired end result, *what* that end result should be is best determined by those who will be most affected – the Community itself. The analogy is that of a homeowner wishing to renovate – the homeowner must first describe and then be happy with the end result but the execution of the renovation is best placed in the hands of those with experience in construction and decorating.

There are, fundamentally, **two** main options in this aspect of the process.

- One is to ask the Community before planning the end result and to cope up-front with the sometimes inevitable conflicts and differences of opinion that will emerge.
- The other is to complete the plan and to then open it for debate and criticism afterwards.

Each path brings with it characteristics and hurdles; the choice of that path should be made by those leading the economic development effort in the jurisdiction and facilitation of the discussions and decision-making process is necessary to select that course.

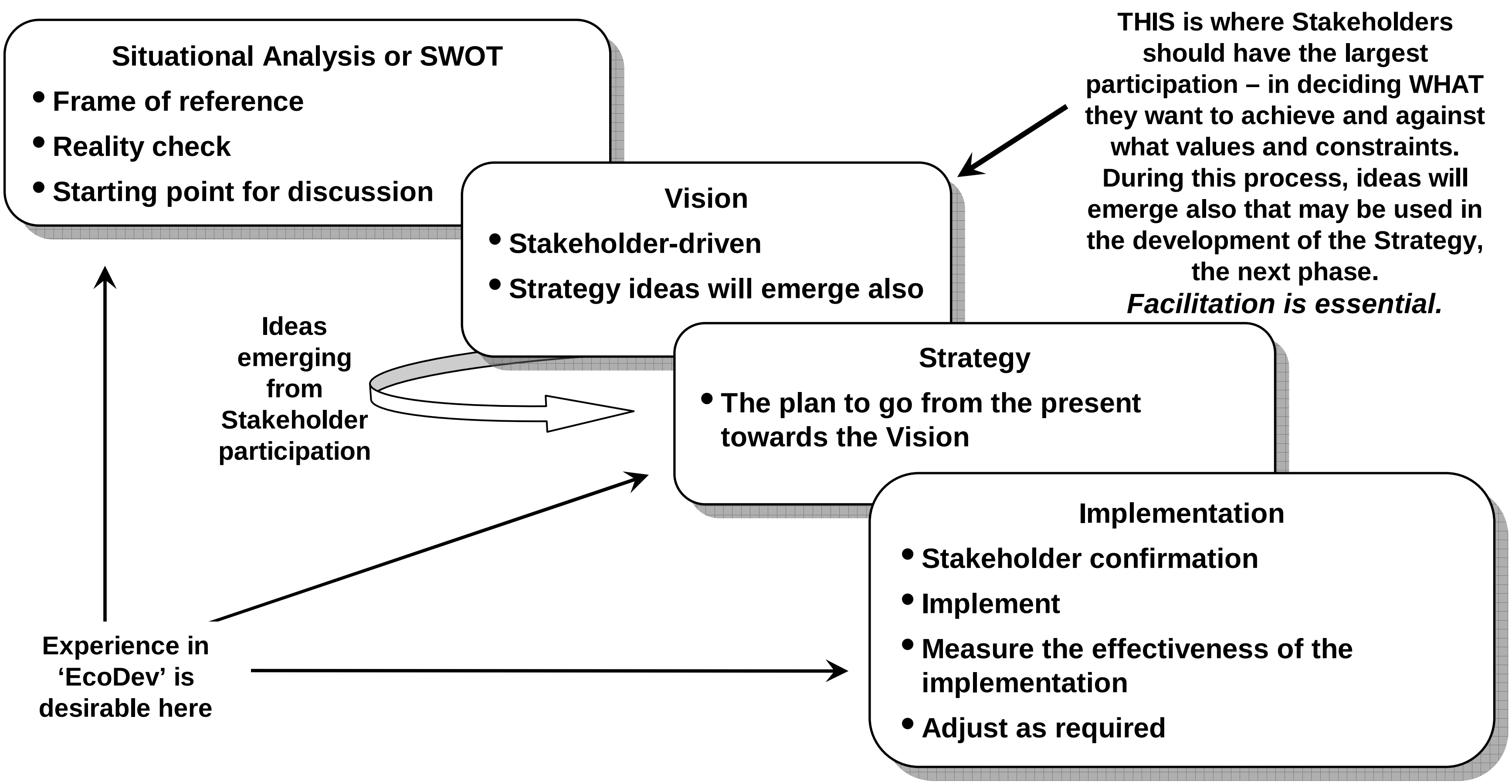
Very often, most especially where the efforts are taking place within the context of a stable or thriving existing economy, 'economic development activities' sometimes occur without a concerted Stakeholder-based focus. In that case, it is most often assumed by both the local government and local economic development officials that the current performance and direction of the economy is generally acceptable to the majority of the Stakeholders. Thus the development efforts are incremental to that which already exists and that the direction taken is already much aligned with the present thrusts. In fact, the use of the powerful 'attractor-factor' of existing thriving clusters becomes a regenerative aspect of most economic development strategies.

However, *if there is a desire to be inclusive or where there is any possibility of contention and disagreement,* a Stakeholder-based initiative is not only invoked, but is the best approach. The most effective way to achieve this is through Stakeholder participation from the very outset and to design a transparent and efficient process.

The following diagram shows the overall process and the importance of Stakeholders participation in the key area of establishing the Vision.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Effective and efficient Stakeholder participation



77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Asking the Community is not an abrogation of the leadership role of government. *It is:*

- An opportunity to educate the public
- Obtain essential feedback
- Garner some ideas
- Politically sensible
    - the issues, if any, transform from a media-fanned *'people versus the government'*
    - …to one of healthy, democratic debate between citizens, with government seen to be good leaders:
        - *first, facilitating*
        - *then, deciding*

To provide an example, WCM facilitated the development of a comprehensive umbrella strategic plan for the Region of Niagara. The 'political' environment in the Region at that time was highly charged with a right-leaning regional government, a left-leaning provincial government, a right-leaning federal government, multinational stakeholders, strong unions and active social-planning councils. Further, the three relatively 'have' municipalities' and the nine 'relatively 'not have' local jurisdictions were often found to be in disagreement on fundamental economic development issues. Yet success was achieved and copies of this strategy are still available a decade later, since it was designed as a living and flexible plan with both ***tangible results and process*** emphasized in equal measure.

Note that **Values** are an important element of Vision. Values inform the Vision and help to shape it as a reflection of the needs and desires of the Stakeholders. Essentially they:

- *Provide guidelines as to how to proceed in the development and execution of the Strategy.*
- *Answer the questions: What do I want to live by and how?*
- *Must be described carefully to guide the behaviours required.*

The 'Community Plate'

An analogy. In a restaurant, a party of eight may have a hundred or more dishes from which to choose and each individual will tend to select their favourite. What is appealing to one may be 'poison' to another but that does not matter since each has their own 'private plate' from which to eat.

Contrast this with the banquet hall catering for a party of 400 wherein, essentially, everyone eats from the 'same plate' Unlike the restaurant manager, the catering manager is no longer trying to provide for the special favourites of the diners. On the contrary, the menu is developed *to least offend the diners;* that is, one or two choices, favourites of few but offensive to none. Airline food (now a thing of the past) is another such example.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Consider that the restaurant owner tries to find out what people DO like, *and provides that,* while the banquet manager determines what people DO NOT like and *stays away from that.*

Individuals in a Community can have the 'restaurant experience' if they live in a dormitory jurisdiction and work elsewhere. When the economy now comes to the Community, that experience transmutes into the 'banquet hall' and everyone shares the results of that development, whether it is their 'favourite, or not; ***everyone eats from the same 'Community Plate'.***

In economic development it is often better to take the 'banquet manager' approach and ask people what they do NOT want rather than what they DO want. Gaining agreement 'restaurant-style' is not likely.

Creating a transparent, yet effective, public process

Generally, ideas abound and everyone believes that theirs is best. Often people place their egos behind their ideas and are reluctant to cede their position because their egos will fall with the idea; this is simply human nature. This results in a list of partially and fully conflicting views from which people will not back down. A method to reduce this effect is essential and yet still achieve a *transparent, open and unfettered process.*

Inclusiveness is important but, realistically, to have 100% inclusiveness at all stages is impractical, extremely cumbersome and very inefficient. For example, carrying out a Situational Analysis requires a degree of training and experience in economic development principles. The same applies to the development of a strategy. However, with facilitation, everyone is 'expert' in saying what they *want to achieve,* namely the Vision.

The summary results of the SWOT or Situational Analysis are first presented in Public Sessions as a statement of the current situation, often having been pre-published to the Community in order to increase interest. This presentation is well accepted as an appropriate role for the 'experts' and is not seen as an attempt to dictate the process; simply put, it is independent fact-gathering.

In the same session, the participants are then asked, based upon an understanding of the current situation, to create a common Vision. **This sub-process is absolutely key and, unless carefully facilitated, it is very difficult to achieve consensus.**

There are two common pitfalls:

First, people tend to speak in terms of what should be DONE (properly part of the Strategy element) rather than what should be ACHIEVED, the Vision. Good facilitation to restate an ACTION as a GOAL, without distorting the participant ideas, is required. The 'idea' aspect is also recorded for use later in the Strategy phase.

Second, even when focused on describing their goals, it is difficult to gain consensus on what people want. Each will have a certain set of ideas which are not likely to mesh perfectly with the ideas of others and each tends to lobby for their own position.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

While they might not *object* to many of the other ideas, they see themselves as competing for their particular position. Again, it is simply human nature.

There is a very effective solution for this hurdle, as illustrated in the diagram. Essentially, it is better to help people to identify the core elements that they DO NOT wish to have and thereby open the door for many more elements which are at least acceptable, if not ideal.

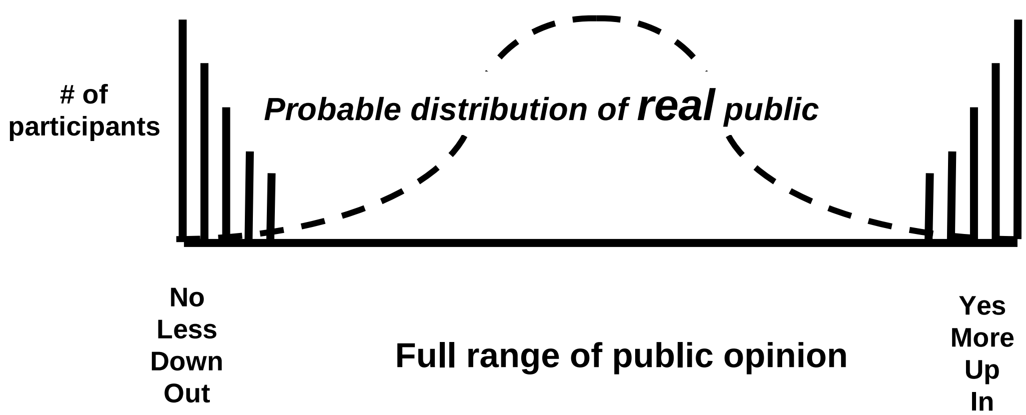
The set of what people WANT is far smaller than the set of what people (WANT plus are O.K. with)

DON'T WANT	**NEUTRAL** **"I'm O.K. with it"**	**WANT**
Realistically, not everyone in the community will get what they want	Realistically, the community can agree on what they DO NOT WANT ***Ask not what the Community wants but what it DOES NOT want***	This leaves a much broader range of possibilities, few ideal, but all 'acceptable to good'

This results in a compromise in which, while no one gets *everything* that they want, no one has strenuous objections to what is decided. **This is a realistic objective of the process.** Essentially, the Community Plate' is ***acceptable*** to all, even if not the ***favourite of any.***

Also in the session, ideas and opportunities are encouraged and recorded for use in the Strategy development phase to come and they can be used to derive further aspects of the Vision.

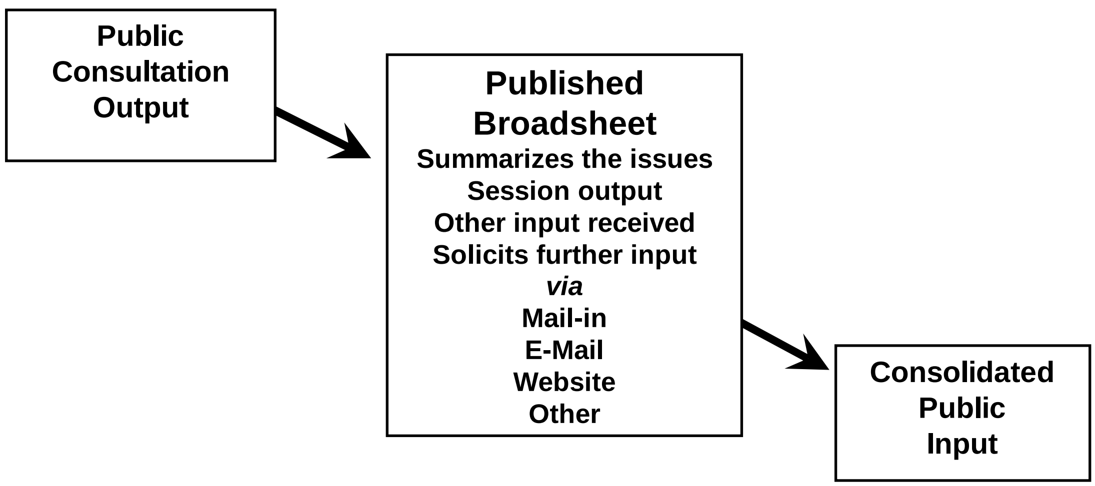
Concerns regarding the 'public process'



77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Concerns often emerge when contemplating a public process. At many public meetings polarized views may be prevalent (most people do not care to become involved unless they feel 'threatened') and there can be a concern that one element or another, perhaps representing extreme positions, may dominate the session. While this domination can be managed to some extent though effective facilitation, the real answer is that the public meeting is not the only mechanism by which public input is obtained.

The following diagram shows additional public mechanisms that may be used and how the Leaders then create the consolidated total public input. In this way, greater levels of participation can be achieved with a more 'normalized' perspective being generated.



With the Situational Analysis already completed and the Vision now established, then the 'economic development experts' have their 'marching orders' and must design a Strategy that will accomplish the goals as defined in the Vision. Of course, that Strategy will be subject to public critique, as it should be, but many of the major hurdles are already overcome in gaining future acceptance. Essentially, everyone has agreed on where we are and where we want to go; the discussion now focuses on the best route to take and this can produce healthy debates and be the genesis of innovative approaches.

An analogy is contracting a builder to build a house. The owners define what they want it to look like and the contractor then sets about designing and building it. The owners have been involved appropriately and have also used the 'experts' appropriately. The owners can also critique the building process as well as the end result and may demand adjustments accordingly.

The advantages of this process are:

- **Expertise is applied where it counts – in the Situational Analysis and Strategy development.**
- **Stakeholder inclusiveness is achieved where it counts – in defining what the Stakeholders want to achieve *(and no consultant has the right to tell the Stakeholders that).***

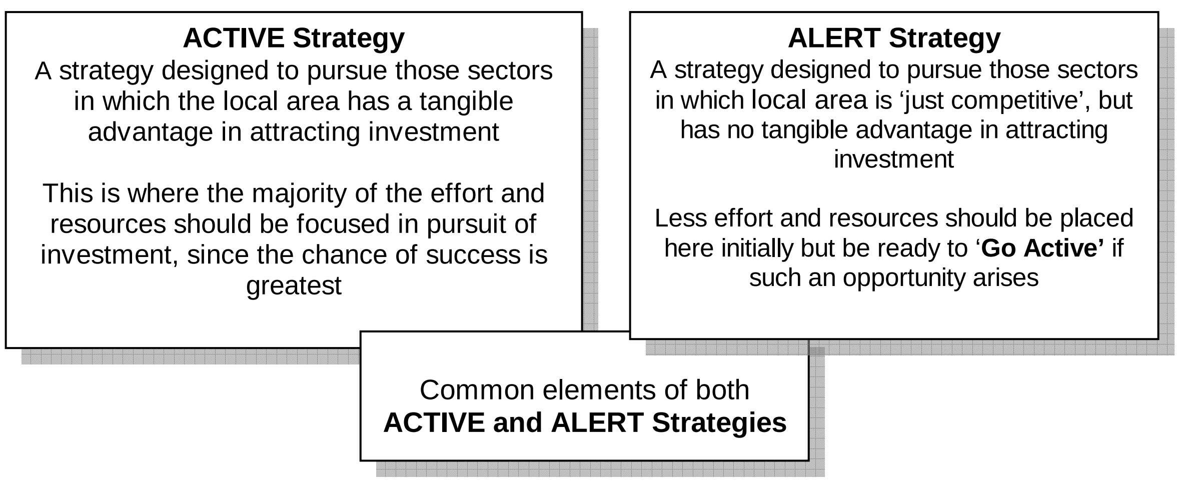
77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Appendix IV – Developing the Strategy

The Situational Analysis will have produced the contents for the diagram below but now the Active and Alert Strategies emerge.

The Active and Alert Strategies

The difference between Active and Alert Strategies is conceptually simple; applying the distinction can make a significant difference to the effective utilization of scarce investment attraction resources.



In the **Active Strategy,** the tangible advantages of the jurisdiction are used to create a positive investment attraction business case that should be taken to the potential investor market. This is where at least 80% of the resources available for investment attraction should be devoted since there are tangible advantages compared to other jurisdictions that can be used to attract the prospect through differentiation.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

In the case of the **Alert Strategy**, less resources should be invested in non-targeted sectors but be ready to act with as much vigour as in the Active Strategy should the opportunity arise. This will happen from time to time (the 'lottery effect') since the area may be competitive in several industries and should receive a fair portion of the attention from prospective investors.

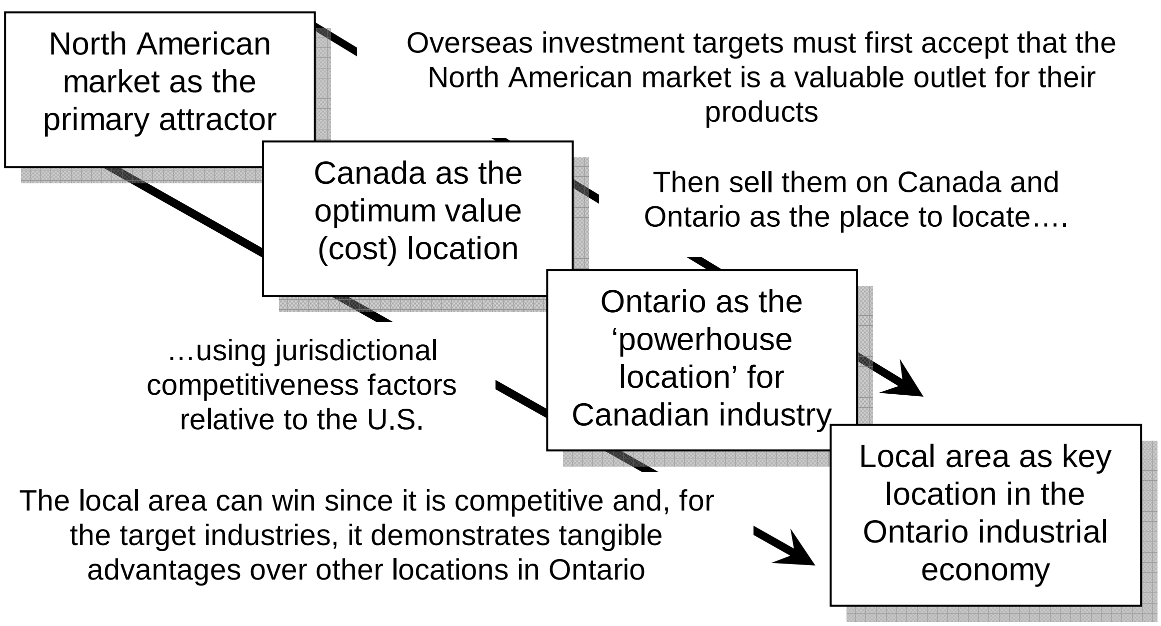
Thus the only difference between the Active and Alert Strategies is in how the prospect is uncovered. In the case of the Active Strategy the prospect is actively sought with resources applied, since the chances for success are highest. In the case of the Alert Strategy, the prospective is identified when they come along but relatively little effort is applied to find them, since the area cannot readily differentiate itself from other jurisdictions and has a lesser chance of a successful active campaign.

Marketing using jurisdictional competitiveness factors

In order to create a well-tuned business case, it is necessary to assess, in detail, the relative competitiveness of the area against competing jurisdictions. The latter would be other regions of Ontario as well as surrounding U.S. states.

This can be a large undertaking and is the basis for the KPMG Competitive Alternatives process that has been ongoing for a decade. However, the use of such localized factors may not always be necessary.

Consider the following:



When attempting to attract investors located in Asia, or similar distant locations, then the focus should first be on Canadian advantages, compared to the U.S. and then Ontario advantages. To such investors the precise location of the particular municipality or region will be irrelevant, at least initially.

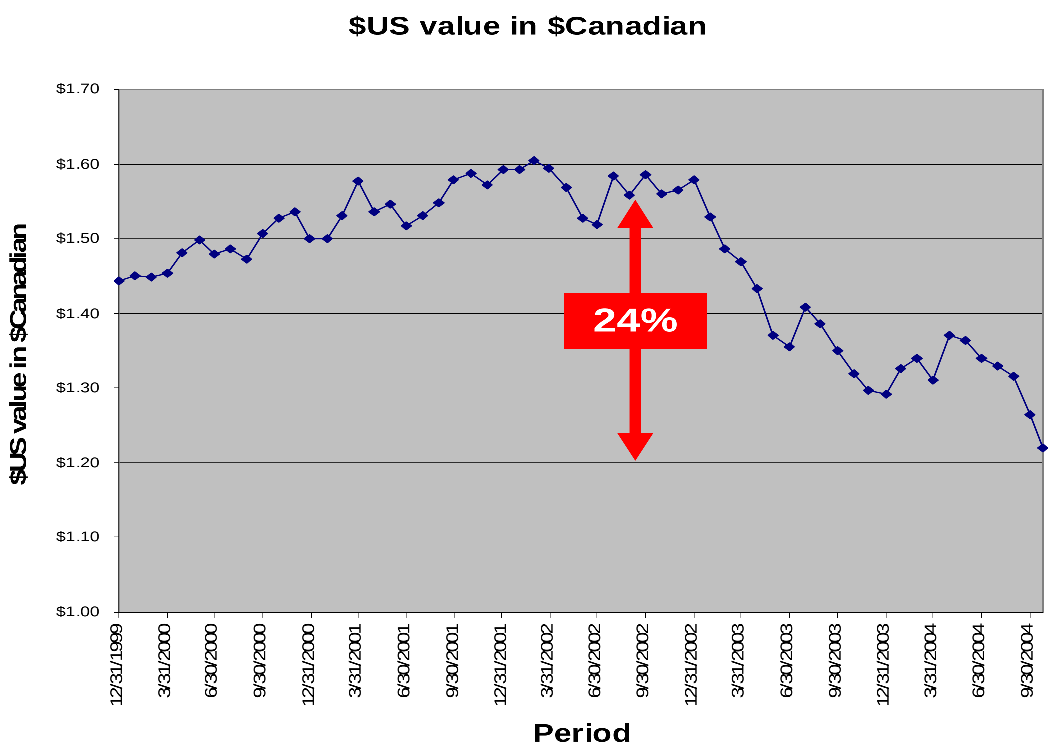
77 WARD AVENUE, SHARON, ONTARIO, L0G 1V0 – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

When attempting to attract firms currently located in, or considering locating in, other parts of Ontario, then only those factors that differentiate the local area from that competing region need be considered. This level of detail requires study since the variations are likely to be small and show only fine degrees of separation for most factors.

It is also clear that this detailed information may not always be necessary to achieve the desired result, most especially when targeting distant investment prospects. In fact, based upon demonstrating that Canada/Ontario alone is the right place to locate in North America from a cost perspective, it is quite plausible, since they have received good advice and positive attention from the jurisdiction, that the prospect will select the local area in Ontario that has brought the opportunity to them.

Canadian dollar/US dollar currency exchange rate

There is, potentially, an overriding issue: the Canada/US currency exchange rate. As can be seen in the following chart, in less than a 24-month period spanning 2003 and 2004, this had effectively decreased by over 20% the revenue taken in by Canadian exporters for all goods sold in the U.S. currency. Conversely, Canadian relative costs have risen compared to U.S. costs.



This has not only severely impacted Canadian exporters. Investment attraction has many parallels to the export of goods. Essentially, the jurisdiction is 'exporting' itself in terms of attracting the 'Customer'. With respect to investment attraction, for firms outside of North America seeking to expand into the North American marketplace by

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

establishing a local base, the relative cost of Canadian jurisdictions, when compared to U.S. jurisdictions, has risen by a commensurate amount.

Previous editions of the respected KPMG Competitive Alternatives analyses, http://www.competitivealternatives.com/ , had quoted an upper limit to continued Canadian competitiveness at an exchange rate of $0.80 to $0.85, depending upon the industry under scrutiny. We have now well exceeded that limit in 2006, as the currency appears to have stabilized at around the 90 cent mark, at least for the present.

This may tend to discourage fresh first-time investment from international companies that have not yet experienced the additional benefits that Ontario can bring to the table. Those already established are in a better position to appreciate the **value,** rather than just the cost. *Marketing **jurisdictional value,** rather than cost, is the best way to address this but value must be experienced to be appreciated.*

Clusters

Jurisdictional cost factor advantages are not the only elements to be used in the strategy arsenal. Where they exist, clusters are 'proof of propaganda' that the jurisdiction is conducive to the economic well-being of the types of businesses within that cluster and they are a powerful' attractor factor'.

'Attractor Factor'	Rationale and Usage
Existing cluster of similar firms	This almost supersedes the cost factors since it provides a composite 'proof of propaganda' that such firms can thrive, thereby implying a competitive costs base as well as many other positive factors
Existing cluster of customer firms	This is attractive to most prospect businesses

Corporate Investment Postures

*No matter how hard you try to bring the horse to the water, the horse still makes the decision whether to drink. No matter how many advantages you have or how compelling the case made, businesses must be in a receptive mode before success will be achieved. **Understanding corporate investment posture is vital on an ongoing basis.***

Corporate investment posture is a measure of how companies in various industries invest to increase their business. There are many variables and these differ from one industry to the next. Based upon the experience of WCM, some of the more constant elements are discussed here but there are always exceptions.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Active Investment Posture:

The firm is actively seeking to invest in some jurisdiction other than in it's own.

The active posture must be met with a rapid and effective reaction that gains and maintains the initiative. The key is hearing about them in sufficient time to act, before falling too far behind the 'power curve'. The driving factors for firms to invest outside of the home jurisdiction are usually a combination of one or more of the following factors:

- Growth has ceased or decreased significantly in the local market.
- New market opportunity with a move towards a large population market.
- Access to raw material.
- Lower unit costs/more profitable operations versus exporting to that jurisdiction.
- Increased market share on global basis. May create economies of scale at another facility.
- Reduced transportation costs
- To expand or start up production facilities.
- To take advantage of incentives offered by a jurisdiction.

Quiescent Investment Posture:

While the firm is not actively seeking to invest in any jurisdiction (except, possibly, in it's own), it might be persuaded to invest outside if approached with a compelling case.

The quiescent posture must be met with a pro-active approach and the target sectors need to be carefully matched against local advantages or attractive, viable partner firms in order to generate strong interest. A very strong case is needed to shift the firm in that is in quiescent mode into active mode.

Changes in Investment Posture:

Firms will go from one posture to the next depending upon the state of their industry and their own state of mind but some patterns do emerge:

Is the industry growing?

If the industry is growing then the companies will more likely have an active investment posture.

What is the current mode of growth in the industry:

Companies within the same industry often fall into the same patterns and modes of growth. This comes about through each observing the successes and failures of their competitors. Although these beliefs can be changed, a very compelling case must be made. Examples of growth mechanisms are:

- Acquisitions

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

- Joint Ventures
- Expansions
- Spin-offs
- Green-fields

The nature of the company (multinational, medium-size or small) will play a role in determining the common mode of growth.

Size and nature of the firms

Multinational firms (essentially, any large scale firms) respond best to:

- Cost advantages such as the long term supply of economical and readily available raw material
- Significant conversion cost advantages such as low labour costs - only if labour content is high – and low utility costs – only if utility consumption is a major cost factor in their processes.
- Jurisdictional ('being there') costs – taxes and other government sensitive factors
- Dense market proximity for presence or to reduce transportation cost of low value/weight ratio finished products.
- Existing clusters as overall 'proof of propaganda'.

Further, apart from 'long term fixture' incentives (the Canadian R&D tax credit, for example), government incentives are regarded with suspicion since they can, in general, be easily eliminated when the economy thrives. In contrast, Government must be seen to be reducing jurisdictional deterrents and the multinational may be enticed to buy local companies or, in rarer cases, partner in a joint venture. Local firms must be very successful (or have demonstrable high potential) or be seen as the route to gain the local strengths and advantages.

For multinationals in an *active investment posture* it is vital to learn quickly about their interests through some mechanism.

Unless the jurisdiction is an obvious place for people to contact, only a pro-active posture has any hope of being considered. Such firms are also the main prize for economic development organizations and few attract more than a handful in a career.

In a *quiescent investment posture* multinationals' will not even enter into a conversation unless the demonstrable, firm-relevant jurisdictional advantages are significant and assuredly very long-lasting.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com

Medium size firms:

Mature medium-small size firms often look to partner with a local company initially. Frequently these start with mutual cross-distribution of products and can move to mutual co-packing and full co-manufacturing. Some of these fledgling relationships result in joint ventures or the take-over of one firm by another. Frequently, if the new entrant buys the local firm for some specific broader advantage or technology, then this can result in the departure of the local firm from the local area, resulting in a net loss, unless the market or other intrinsic factors are sufficiently strong to be an overwhelming attraction.

For medium size firms an ***active investment posture*** is often triggered by the desire to enter the market. Locations will be assessed from market proximity and cost advantage perspectives initially but, eventually, the existing local partner is the barometer of performance. It is essential to know the local industry and to have willing local companies ready to partner in some manner. A fast reaction capability is needed, with a list of local firms, profiles and their partnering interest to match against the incoming interest. As with all 'active' opportunities, it is vital to learn about them quickly through some mechanism. Unless the jurisdiction is an obvious place for people to contact, only a pro-active posture has any hope of being considered.

In a ***quiescent investment*** posture, the existing local firms are, once more, the barometers of performance in many cases. Again, it is essential to know the local industry and to have willing local companies ready to partner in some manner. A pro-active stance is possible, with a list of local firms, profiles and their partnering interest that is actively promoted to likely target industry associations and companies outside of the local jurisdiction.

Small firms:

These are often not considered as investment targets mainly because of the size of the firms and the limited resources they have to invest. Most small firms come about in two similar ways:

- *From local people starting a family business, and*
- *From a family moving to a jurisdiction because they like the area and then starting a business in the same manner as might a local inhabitant.*

If the opportunity does arise where a small company wishes to invest in a particular jurisdiction, the case is analogous to that of investments and start-ups of medium-small size firms.

77 WARD AVENUE, SHARON, ONTARIO, LOG IVO – TEL: (905) 478-8523 FAX: (905) 478-8598
www.wcmconsulting.com E-MAIL: ecodev@wcmconsulting.com