

Accelerate Economic Development With Innovative Analytics

High-performing economic development organizations are missing a growth opportunity right under our noses. We need to move beyond the traditional mantra of business attraction and business retention to increase growth and value in our communities. Growing value from existing businesses has been a traditional challenge for even the savviest economic developer, because the necessary tools were unavailable. Now, more sophisticated data and analytical tools are available to accelerate our ability to identify, target and accelerate economic development of existing businesses.

The Challenge of Quantifying Economic Development Potential

The typical company falls short of its economic potential by about one-fourth. This means an average company with \$12 million in annual revenue has a "value gap" of about \$3 million between what it is currently worth and what it could be worth. Economic development strategies designed to close this gap—to help local businesses prosper to the fullest extent, benefitting the community as well as the owners-- often include a combination of technical assistance, financing, taxation, land or facility programs, and other initiatives.

Many companies lacking operational effectiveness are not strong enough to benefit from traditional economic development efforts. Strengthening those companies by knowing and targeting specific value gaps makes development strategies more effective. Improving a company's operational effectiveness, even without immediately increasing its revenue or employment numbers, increases a company's economic value. Efficient companies are better able to take advantage of market focused economic development strategies, positioning them for growth in revenue and jobs...and leading to an increase in tax revenues for the community.

In economic development, as in medicine, prescription without diagnosis is malpractice. Without knowing specifically the size and nature of these gaps across local businesses, a generic economic development strategy is unlikely to generate growth. The ongoing challenge for traditional approaches to economic development is proving empirically which strategies will actually work.

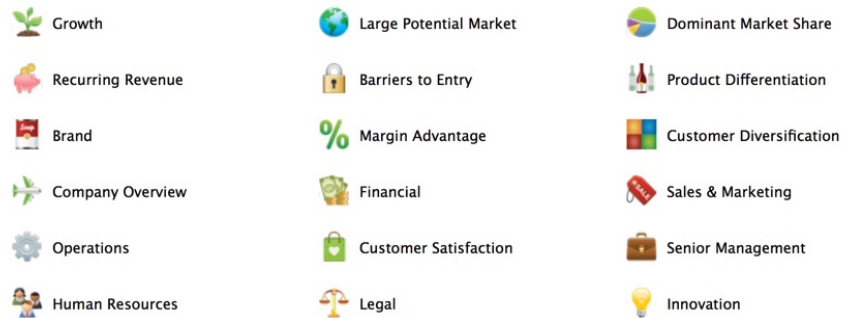
What if we could know, for each company and in aggregate, how big and where these value gaps are and design an efficient, evidence-based regional economic development strategy? What if, based on these data, we could fine tune development to most efficiently target our highest priority sectors? Finally, what if we could quantify the year-over-year economic development delivered and measure return on investment?

The challenge in accelerating economic development is being able to identify value gaps across a regional economy. Each company differs by industry, location, size and stage of growth, but research shows that the key drivers of value are now known. If the owner of a typical private small business only knew which operational or market functions were working well and which were not, he or she could strengthen company value and quickly contribute to rising economic power in the region.

Use CoreValue to Grow Company and Community Value

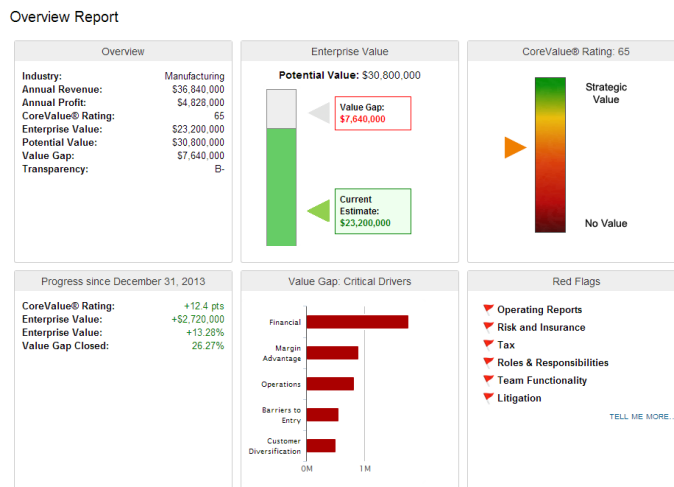
A new tool, CoreValue is being used by thousands of individual private companies, but not yet by communities, to grow economic value. Companies using CoreValue have, on average, a value gap of 27%. Once identified and with active management, they are growing company value by 21% annually.

CoreValue was developed at MIT using private sector transaction data to identify 18 key drivers (shown below) of a company’s value. Using this validated methodology, business owners can see how much value their company is missing for each driver and can develop strategies needed to capture that missing value – and position the company to benefit the region by adding jobs, growing the tax base and supporting other local businesses.



These data are collected for individual companies and aggregated to show value gaps by whatever segmentation an economic development organization needs. Each company enters data through a web-based survey of its operations and challenges. CoreValue estimates the value gap and key drivers and then emails each company its own analysis. It aggregates data across companies to show where alternative economic development needs are greatest by sector.

This example is a mid-sized company, both profitable and growing, but missing over \$7 million in enterprise value due to both operational and market factors. It also has “Red Flags” that may compromise some or all of its value, often invisible until a company decides to capitalize, partner or sell.



Using CoreValue across an industry or community can reveal undetected challenges or growth opportunities. A CoreValue assessment of 140 technology companies in Rochester, NY, found that they had an aggregate value of \$1.1 billion, but a value gap of \$440 million. Contrary to the assumption that finance was a major challenge, CoreValue showed that innovation was holding back more of these companies. This led to a rethinking of how best to collectively stimulate the innovation using the strategies available. Given this baseline, using CoreValue with individual companies across a region can

show whether and which development strategies could be effective. Annual tracking of company value added using CoreValue shows which strategies are actually working and how and where the regional economy is growing.

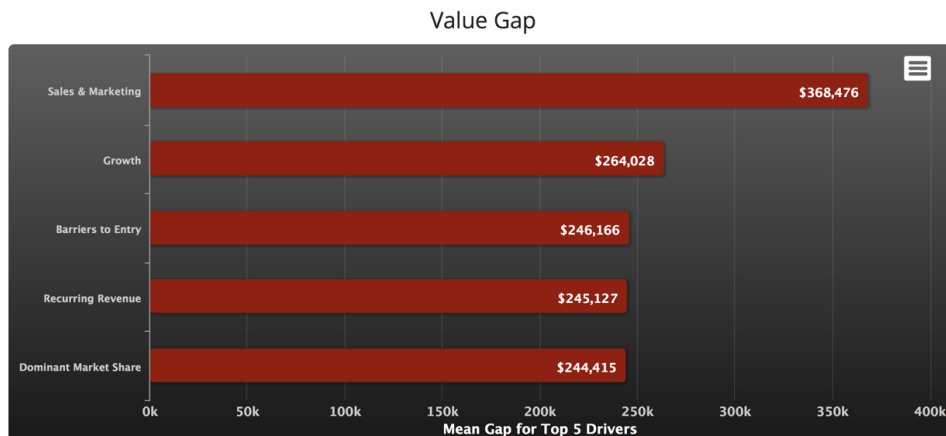
The histogram below shows the proportion of companies that score high (i.e., current operations are efficient and effective) and those that are weak. The left graph is for finance, the presumed weakness of companies that turned out to be a relative strength, and shows that most companies are doing well in this area. The graph on the right is for innovation, showing that many companies are struggling, with the average company only half as effective in innovation as they could be. As a result, regional development strategies shifted to emphasize innovation.



Identifying Key Value Drivers For Your Community Is Critical, Fast, and Easy

CoreValue’s Roundtable process, which is based on the kind of analysis described above, allows large groups of companies, just like those in Rochester, to find out their value gaps and key drivers of that gap in minutes. Individual company managers use these data to close the highest ROI value gaps. Economic development organizations aggregate data and use it to determine the most effective overall or targeted strategies by location, industry or size. Completing Roundtable, which is free, takes 15 minutes for each company and, with sufficient responsiveness, less than a week for the community as a whole.

Data aggregated across companies is a powerful indicator of where to focus development strategies. In the example below, a group of 53 Washington, DC region companies, with average revenues of \$12 million, had their greatest common challenges in Sales and Marketing. Improving operations in this area would add an average of \$368,000 in value, which would be the same as a 3% growth in revenue. A company eliminating the gaps in the top five drivers would increase its value and operational effectiveness equivalent to increasing profit margin by about 1.1%, all without even growing revenue.



Roundtable provides benefits for the community, for the economic development organization and for individual companies:

Benefits for the Community

- Create a common, quantitative understanding of community development potential
- Develop a shared language around how to collaborate on best practices
- Provide baselines/benchmarks for operational effectiveness across the community
- Create a defensible foundation for evidence-based regional investments

Benefits for the EDO

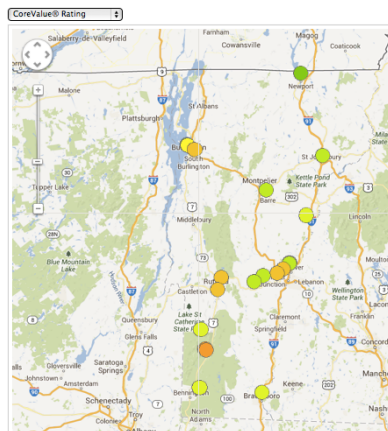
- Increase visibility of EDO within community by showing innovative approaches
- Increase value of EDO by being able to quantify development potential
- Provide a clear focus around which to organize education, advocacy and conferences
- Show that EDO leadership is responsive to clearly defined member needs

Benefits for Individual Companies

- Participate in EDO sponsored research
- Gain insight into how their strengths and challenges compare to peers
- Identify how much and where enterprise value could be increased
- Provide clarity on what company needs most from EDO

Beyond the benefits of *Roundtable*, many companies recognize in these data the potential for significant internal growth opportunities beyond those offered by economic development activities. Provided with the insights from exposure to CoreValue, 60% of companies choose to use the more detailed CoreValue Assess to build a more customized, actionable strategy to grow value. The *Assess* process takes a few hours and is a fee-based service that includes professional analysis and recommendations by specially trained professionals.

Economic development organizations can coordinate the use of *Assess* across their communities for greater proof of aggregate impact. An effectively designed community implementation of *Assess* stimulates faster value growth and provides a non-dues revenue share for the economic development organization, since your organization will work with us to implement the community-wide application. CoreValue works for nonprofits as well, which can be very important in communities in which they are significant employers.



The ability to identify who, what and where the greatest challenges and potential lie is a powerful validation of a development organization's value and impact. At left is a map showing where companies with the greatest deficits in a given driver are located. Beyond being able to know which companies have particular growth opportunities, a community can target support to specific geographic areas as needed.

This greater transparency and validity of impact estimates can drive more effective strategies and greater community confidence in an economic development organization.

Next Steps To Increase Business Value in your Community – and Accelerate Impact

Arrange for a CoreValue *Roundtable* in your community now. Within a week you could engage your community, provide a valuable tool to individual companies (both for-profit and nonprofit), create insights into the effectiveness of your current development strategies, more effectively target your future efforts to where the greatest development opportunities lie, and begin to quantify your impact on increasing business value.

The process is straightforward and quick. The typical process to diagnose, design and implement enhanced economic development using CoreValue is:

1. Discuss regional and industry economic development needs and constraints with EDO executives.
2. Work with EDO leaders to design a broad-based and valid assessment of member and/or non-member business enterprise value and identify target businesses.
3. Communicate with regional businesses to describe the process, benefits and opportunities to grow their businesses using CoreValue.
4. Design the administration of *Roundtable* and provide for confidentiality and support.
5. Administer CoreValue *Roundtable* process to members who want to participate (although the initial process takes less than 15 minutes for a company, allow 1-2 weeks for selective follow up to assure a representative sample).
6. Evaluate results by comparing with existing valuation data and regional trends.
7. Publicize and discuss findings with membership and community over the subsequent month (possibly making this a part of annual meeting or conference programs)
8. Assist the EDO to design, implement and manage development programs that target common growth opportunities and reduce key value gaps.
9. Provide CoreValue *Assess* to local companies to give greater insight into industry and member needs (potential non-dues revenue share to EDO).
10. If sample size is sufficient, segment *Assess* data by member size, region, or type of company.
11. Refine economic development offerings, as appropriate, based on more detailed data.
12. Coordinate designation of appropriate advisory services through local professional service providers.
13. Monitor and publicize value delivered for regional companies, including demonstrating quantifiable value created by the EDO.
14. Repeat annually to track value growth and adapt development strategies as needed.

There is no cost to the EDO for Steps 1-7 of this service but we do ask that you provide administrative support in the communication and administration of the *Roundtable*. Steps 8-14 are provided on a fee basis as mutually agreed to between the EDO and us and/or local professional service providers.

Our team will work with you on the implementation and is prepared to continue to support your economic development organization's effort to derive maximum value from CoreValue.

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