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KMK CONSULTING COMPANY, LLC

# THE CEO RESOURCE

April, 2011

## ENERGY: A Shareholders' Opportunity

*Be sure your company is giving energy management the attention it deserves*

By: Greg Elam

The CEO Resource is a periodic hot sheet of resource information for our colleagues, Chief Executives and Senior Management in business and leadership.

Our focus is to help senior management and company owners accelerate their pathways, first to "success" and then to "making a difference"- a significant difference for their families, their stakeholders and their communities. The CEO Resource is a time sensitive tool directly responsive to this critical focus.

After hitting some of the lowest prices for electricity and natural gas that we have seen for some time, it is healthy to [re]examine what has taken place in the marketplace and why. For approximately the past 18 months (with some up and downs) we have seen commodity prices fall and a surge of procurement opportunities benefiting many company budgets and shareholders, with some still wondering; "what happened?". If you have not enjoyed the fruit of these times, you should be doing so, and you should seriously examine what has [not] transpired within your company, which has left significant money on the table or in others [not your shareholders'] pockets.

### The Customer's Opportunity is Now

Some customers have been blinded by the price game. That is, some suppliers simply are selling price to lure customers, but that is where the advantage stops. Customers are not immune to this [shopping for price] type of behavior. In many cases, customers look for the lowest price and forget about the other conditions and added values that are important. On the surface, many customers sign up for the "low" price, only to learn [via the fine print] that the price was not "all inclusive" and did not include all of the adders, thus making an apples-to-apples comparison more like an apples to bananas evaluation, which requires an entirely different skill set to evaluate. Further, some customers tend to get lost in the price for the moment and forget that it is not necessarily

only a commodity they are managing, it is a supply portfolio that has to be managed to obtain price, meet budgets, and must be done over and over. Maximizing savings and energy costs does not always mean switching suppliers. Simply put, especially for larger accounts, you do not manage supply by one big transaction.

There are three categories of managing price risk: 1) Passive; 2) Semi-Active; and 3) Active, all which can be summarized as follows:

- **Passive**- Allowing the utilities and market to decide cost factors
  - **Pros**- Little if any funds are spent on managing costs
  - **Con**- Often results in higher cost than competitors that seek more aggressive options
- **Semi Active**- Once a year or Crises Management
  - **Pros**- Changes made to usage or supply options that provide positive impact to bottom line
  - **Con**- Data is gathered but lags be behind- become reactionary
- **Active**
  - **Pros**- Usually can be proactive to issues prior to a problem, and allows for opportunities to be executed. Benefits far out weigh the cost
  - **Con**- Requires more resources or costs

While reading the descriptions, each company should examine where it fits within the "energy" food chain. Yes, that is correct. We liken this to the food chain in that those that move toward the Active role are less likely to be eaten. That is, being an Active participant allows one to actively manage costs by constantly monitoring market changes, impacts on budgets, and to execute on the same. The Active role allows the customer to be engaged and

Continued on Page 3

**"Congratulations to Mark Julian and Todd Hooker at the West Virginia Development Office for bringing one of the largest deals in West Virginia history to the state. This month, one of KMKC's Fortune 100 companies broke ground on a \$150 million customer fulfillment center, creating 1,900 jobs for the state of West Virginia."**



## Diversifying Our Economic Engines

### *The Success of a Strategic Plan When It Is Needed The Most*

**By: Joe Snell, President, Tucson Regional Economic Opportunities**

*Just months after the Gabrielle Giffords shooting incident rocked the their community, Tucson is driving impressive economic growth grounded in large measure by leadership unified around a long term plan known as "The Economic Blueprint."*

Over the past 30 years, spurred by its climate and quality of life, the population growth rate of the Tucson region has far surpassed the nation as a whole. The region nears one million residents and economists project that our population base will grow to 1.7 million by 2036.

The rapid population growth has presented many challenging issues for the Tucson region, and will continue to do so in the future. Our region needs to provide services and infrastructure to meet the needs of these new families and residents. Equally important, we need to provide quality jobs and career opportunities so our current workforce, our children and new residents to the community can build the life they desire.

From an economic standpoint, industries like home building and construction have expanded along with the explosive population growth, resulting in an over-reliance on these types of service and growth-related jobs to fuel the economy. As long as these non-primary jobs remain the main economic drivers, we will continue to suffer the consequences of a "population boom or bust" economy. Our current situation points out how important it is to diversify our economic engines.

In 2007, community leaders launched the Economic Blueprint - a strategic plan that defines a performance-based strategy and economic vision to effectively position the Tucson region to capitalize on its best economic development opportunities in the coming decades. The Blueprint turned the community's attention to the development of "primary jobs", moving us away from the "boom or bust" cycle of a focus on growth, housing and retail.

Primary jobs are those which produce goods and services in excess of what can be consumed by the local market. Those goods are exported to other markets in exchange for money. For example, an Oro Valley company produces more aerospace parts than can be bought by its customers in the region. The parts are then "exported" to another market and money is returned to Southern Arizona . This is what creates the flow of new wealth into a community.

The demand for goods and services generated by the primary employer is increased and "indirect" or "spin-off" jobs are created. Generally, these are jobs such as lawyers, doctors, non-profit employment, etc. -jobs and income that then get circulated in the community. For example, in response to higher employment or new orders, Sanofi-aventis increases business to suppliers or services locally, such as printers, hotels and restaurants. Those businesses hire more employees to provide the services. When a project lands in one jurisdiction, all jurisdictions benefit financially as employees and suppliers spread across the region.

The Economic Blueprint identified the top four higher-paying, "primary job" industry clusters on which to focus proactive busi-

ness development efforts: Aerospace & Defense, Biosciences, Solar, and Transportation/Logistics. TREO's Business Development team proactively targets companies in these industries for potential relocation to, and expansion in, Southern Arizona . The targeted industries represent our region's best opportunity to create higher wage opportunities.

Since the launch of the Blueprint, nearly 40 companies - many in the targeted industries - have announced their relocation or expansion in the region, adding over 10,000 new high-skilled, high-wage jobs and contributing more than \$2 billion in fiscal and economic impact.

Now, we are all working together to focus on more sustainable job development for our quickly growing workforce and young professionals. Now, there is a coordinated effort to position Tucson as a national and global competitor as the economy improves. Take a close look at our progress, our commitment, and our community.

*KMK Consulting is proud to represent TREO in a number of capacities, including being the author of the Economic Blueprint for Tucson and Pima County, which has been formally endorsed by over 80 organizations in the community. For more information, contact either Joe Snell ([joe.snell@treoaz.org](mailto:joe.snell@treoaz.org) or 520-243-1970) or Jim McGraw ([jmcgraw@kmkconsulting.com](mailto:jmcgraw@kmkconsulting.com) or 513-693-3968).*



## Corporate Savings – Headquarters Relocations Increase

### *As costs of operating corporate and regional headquarters rise, executives look to new locations for potential savings*

As companies receive increasing pressure to analyze cost centers and rebrand themselves as being more fiscally prudent, corporate executives are reconsidering the notion that corporate headquarters are generally off the table in terms of companies cutting costs. In the past, manufacturing plants and distribution centers were the main cost centers that were considered ripe for relocation to less expensive regions. However, as companies continue to compete globally, more executives are beginning to shop for optimum headquarters sites.

The result of these considerations could lead to an increased decentralization of corporate and administrative functions away from their traditional headquarters and to a distant site that costs less to operate, but likely includes a market with a strong workforce and related benefits. For example, a company based in Chicago, especially thanks to their significant tax increase, may begin looking at smaller market sites in the Southeast for in-house accounting or IT services. This trend also applies to regional offices.

A recent study analyzed the cost of operating traditional corporate functions in several markets across the country. This analysis found that, on the East coast, New York City was the most expensive city in the U.S. for operating a corporate headquarters, with average total costs of \$28.4 million a year. Stamford, CT was also found to be on the high end of operating expenses in that region. On the West coast, San Francisco and San Jose, Calif., were the next most expensive locations, followed by Los Angeles.

On the other end of the scale, Orlando was found to be the least expensive headquarters city, with total average operating costs of \$19.9 million a year. The next least expensive locations were, in order, Oklahoma City, Jacksonville, Birmingham and San Antonio. On the whole, Florida was found to have generally low operating costs and attractive incentive programs. While this may be due in some part to the real estate bust, Florida is also rich in logistical opportunities. For example, companies in the Broward County region have easy access to three international airports. South Florida is also considered to be ideal for many industry headquarters because many Latin American companies operate regional headquarters there.

What does this increased focus on comparative economics within the site selection process mean for your business? As a business leader, it is important that you remain informed of the next frontier of corporate cost-cutting and strategic planning. For example, KMK Consulting has been engaged by clients to perform cost and incentive analyses for potential headquarters relocations from major traditional urban headquarters centers to smaller, more cost-effective markets. While the move to such a market is not appropriate in every situation, the amount a company can save by way of operating costs and attractive incentives deals is often eye-opening.

<sup>1</sup>BizCosts Annual Study, performed by *The Boyd Company, Inc.*

### **Energy: A Shareholders' Opportunity** **Continued from Page 1**

in-tune with the happenings of the markets, and hedging when needed or capturing a transaction when an opportunity arises. While we will discuss the “hedging” discussion in a later article, our quick note is that many publically traded companies are allowing shareholders to miss significant opportunities to add dollars to the bottom line (don't forget energy goes to the bottom line dollar for dollar) because their accounting firm has told them that they have to report the procurement of utilities [if done under a fixed priced or financial contract] on their income statement. The irony of such accounting treatment is that the company can enter into or stay in a bad deal with a utility and it does not have to be reported, but yet if a good fixed priced deal is made, which can provide or lock in significant profits, it has to be reported as a loss if [even for one month] the forward market price is lower than the fixed price achieved via a financial transaction. This is another subject for another day, but one that needs discussion and vetting.

Regardless of the accounting, some publically traded companies have moved forward, locking in millions of dollars in margins. They understand that managing energy or utilities is not their core competency. They much prefer to focus on producing and selling their product. As such, we recently moved a public company from the Passive to the Active category in managing their electricity spending. They did not hire an internal staff to manage their energy needs, they outsourced it to us, and we have reduced their per unit cost of electricity by 33.8%, much of which can be attributed to a sophisticated negotiation allowing the municipal utility to offer our client direct access to the market. The cost to make this transition was miniscule when compared to the millions of dollars that are being added to this company's bottom line, thus enhancing shareholder value.

To help companies to “sit up and pay attention”, we spend a majority of our time educating customers about the markets, the various products that are available, as well as the terms and conditions that impact the bottom line. This education enables company executives and facility managers to become well aware of the options available and the impacts to their bottom line. Clearly, an educated customer can be a strategic decision maker so that when an opportunity is presented and time is of the essence they can pull the trigger on one or more transactions, and precious time is not spent scrambling to gain an understanding or to get corporate approval.

Indeed, every company should have an honest and periodic self-assessment of where it is in the procurement/energy management process. If you are unsure, have a professional firm provide one for you. Good, bad or indifferent, we will provide you an assessment that you can hang your hat on. With this assessment in hand, you can then move into the market with confidence and execute on a well thought out strategy, driving significant value to your bottom line. *For more information, contact Greg Elam at 513-442-8397 or [gelam@step-resources.com](mailto:gelam@step-resources.com).*



## Site Selection: It's Not Just Tax Breaks and Cost, The Community Matters

### *The Three C's to Successful Company-Community Integration: Communication, Collaboration and Creativity*

By: **Bradford Meacham**

My last article provided an introduction that discusses various aspects of the site selection and economic development process. This article will discuss the three most important concepts in successful integrations of a company to a new location: Communication, Collaboration and Creativity.

#### Communication

As everyone reading this discussion already knows, negotiations between parties for *anything* are full of give and take, back and forth, information revealed and information concealed as parties work to obtain the best position for them while working with the other.

However, once a company has selected a location for its new offices or facility, and the initial agreement has been completed, too often neither party realizes that the nature of their relationship has just shifted from adversaries to partners.

This is understandably not an easy jump to make. In a merger or other type of unifying transaction, the idea of two parties becoming one is easy to conceptualize, as parties often share finances, personnel and a common name after the agreement has been reached. However, in the case of an agreement between a government and a business no such tangible union occurs.

Because governments and private sector companies so often find themselves at odds with each other, trust issues often under-ride the overlying relationship. Tax policies, political posturing, and overly aggressive regulations are unending concerns for companies as they try to establish themselves in a new environment and continue to operate profitably. On the other hand, the risk that a company will "take the incentives and run" is always a concern for governments.

These concerns often cause communications between both parties to remain strained even after they have agreed to share an environment, and this is where transactions that start very well can sour.

Instead of becoming community partners, the government and the company remain adversaries, communicating only when necessary and trying to one-up each other whenever they do communicate. Trust breaks down on both ends under those circumstances, and the ultimate result is uncomfortable for all parties involved.

An example of this is a recent site selection transaction that we performed for a large client looking to expand its operations in the northeast corridor. After a multi-state search, we selected the location whose state had the best property and that offered the best overall incentives package. While there was quite a bit of negotiating and positioning throughout the site selection process, we fully expected this to cease once we awarded project to this location. Unfortunately, it did not, as the local government continuously strained post site selection negotiations by attempting to insert costs and requirements that had long been negotiated out of the transaction. This became so frustrating for the client that at a certain point we began communicating almost solely with the State's economic development officials where possible, and only working with the local government's economic development officials when absolutely necessary. In the end, the post site selection process concluded and all parties were satisfied. However, the client will not forget the local government's adversarial behavior after the initial agreement was made. Going forward, it will be quite a while before the local government's economic development officials regain the client's trust, if they ever do.

To be clear, the aforementioned under-riding tensions between governments and businesses will likely always exist because there are strong interests that both parties possess that can fall into misalignment with the other party's goals or needs. But the one interest that both government and business always have in common is the desire for a vibrant local economy from which both entities can

prosper. Had the local government in the example above kept this in mind during post site selection negotiations, it would now have a very influential and dynamic and new partner in its community. Instead, the client will likely circumvent the local government whenever practicable.

Once the initial deal is struck, the common interest of building a vibrant community should be the interest around which all subsequent conversations should be framed and upon which the core relationship between the government and the company should be built going forward. Focusing on this common interest will help keep the channels of communication clear as to what is happening with each party, what each party needs from the other, and where potential problems could arise that need to be addressed quickly. This type of healthy and transparent communicative relationship sows the seeds for a healthy business relationship as time progresses.

#### Collaboration

Building on that concept, each party's perspective on the nature of their relationship to the other is critical. Once the choice has been made for a company to come to a location, the company and that location's government are now partners - whether they like it or not.

Few companies come to a location with the intent of being disengaged from the broader community. In fact, most companies realize that a healthy community is a fruitful community, both from a workforce standpoint and a sales standpoint. However, because companies must focus on their core activities - driving revenue and profitability - they are often not able to develop community enhancement agendas on their own.

However, most companies are able, and are interested, in participating in the conversation and being proactive participants in concrete plans. Economic development organizations, both government-led and private sector-led, are critical players in leading these agendas. Under ideal



## EDA Announces Green Energy Funding Opportunity *\$1 Million Grants Available for Commercialization Efforts*

By: Rob Mecklenborg

The Economic Development Administration (EDA) and its Office of Innovation and Entrepreneurship recently announced that it will award \$12 million in 16 Green Challenge grants, in partnership with the U.S. Departments of Agriculture, Energy, the U.S. Environmental Protection Agency, the National Science Foundation, and Commerce's National Institute of Standards and Technology and U.S. Patent and Trademark Office.

EDA will award up to \$1 million to each of six consortium teams around the country with the most innovative ideas to drive technology commercialization and entrepreneurship in support of a green innovation economy, increased U.S. competitiveness and new jobs. EDA's partner agencies will then award an additional \$6 million in supplemental funding to 16 Green winners.

According to a recent nationwide conference call with EDA, ideal teams may consist of economic development organizations, institutions of higher education, business incubators/research parks, and private entities. Teams should focus efforts on accelerating commercialization of qualified green energies such as solar, bio-mass, wind energy, etc.

Teams must address a persistent problem or an unaddressed opportunity and then demonstrate how an 16 Green Proof of Concept Center will accelerate sustainable economic development. Grant applications, which will be reviewed competitively, will examine the applicant's focus on promoting these Proof of Concept Centers, which support all aspects of the entrepreneurship process, from assisting with technology feasibility and business plan development, to providing access to early-stage capital. These Proof of Concept Centers will allow emerging green technologies to mature and demonstrate their market potential, making them more attractive to investors and helping entrepreneurs turn their idea or technology into a business.

Final applications are due to EDA on May 26, 2011.

KMK Consulting has experience in preparing competitive grant applications to be submitted to the EDA. *For more information, contact Rob Mecklenborg at [RMecklenborg@KMKLaw.com](mailto:RMecklenborg@KMKLaw.com) or 513-562-1443.*

## Making the Case for Annual Funding In Tough Economic Times

By: Mary Jane Stanley

As we continue to experience tight budgets at all levels of public and private funding, economic development organizations will undoubtedly compete for these scarce dollars. Community leaders and the business community must know, more than ever, that funds invested in economic development activities are invested wisely. As an interested economic development professional, you need help in telling your story. I found this especially true when I was President of a public private partnership. No matter what your results were last year, someone always wants to know "What have you done lately?" We have to tell the story over and over again. There is that every looming question of "Why should we continue to use public dollars to fund your organization?" And of course you have heard this one, "What return are we getting?" *Impact Data Source* has this information readily available.

*Impact Data Source* has the tools necessary for these funding issues. They can conduct an Annual Economic Development Performance Report that will show the return on investment (ROI) that your community gets from the dollars invested in economic development. The analysis and report will identify all projects recruited by your organization during the year and their community impact. This report also calculates the additional revenues generated for the county, city, and local taxing districts by firms that you recruited or assisted to expand and calculate a cost-benefit ratio.

*Impact Data Source* also specializes in Economic and Fiscal Impact Reports and Incentive Analysis. The individual reports and customized computer models typically evaluate a project over a 10-year period, but can be customized to cover any period of time. The Economic Impact Report will look at direct and in-direct economic output; new taxable sales; additional out-of-town visitors; residential and commercial property to be added to the tax rolls. The Fiscal Impact Report will look at revenues such as sales tax, local income tax, property tax, utility revenue, franchise fees, hotel occupancy tax and other taxes and user fees; while also looking at additional costs such as providing services to new workers and associated infrastructure cost for a new industry.

I have used these reports and found the cost to be extremely reasonable and the turn-around quick. A number of top competitor communities and economic development organizations are taking advantage of this powerful report, including Metro Orlando Economic Development Commission, State of New Mexico Economic Development Department, Dallas Regional Chamber, and the Forth Worth Chamber.

For sample reports, see <http://www.ImpactDataSource.com/case-studies/economic-development-organization-summary/>.  
*And for more information contact:* Mary Jane Stanley, CEcD, Stanley Advisory Associates, LLC, [maryjanestanley@earthlink.net](mailto:maryjanestanley@earthlink.net) or at (813) 205-2674



## Site Selection: It's Not Just Tax Breaks and Cost, The Community Matters Continued from Page 4

circumstances, both the economic development organization that handles state-level matters, as well as the economic development organization that addresses local matters should always be assessing the status of its economic environment and developing ways to improve it. This includes regular status checks with small and large companies alike to understand how they are doing, and what, if anything, they believe needs improvement in order to make the environment more vibrant.

Areas that economic development organizations should be constantly assessing and seeking feedback from private sector companies include: supporting economy items, workforce training items, workforce recruitment needs, transportation and infrastructure issues, and industry-specific issues.

The State's economic development officials in the transaction discussed in the above section demonstrated this concept very well. After the initial agreement was made, officials from various statewide departments traveled to visit the client in order to express the State's excitement at being chosen as the home for the client's new project. During the visit, these officials proactively discussed their ideas for how best to integrate the client into the community from both a business and a civic standpoint. The client was very impressed, and the client and these officials have had several productive conferences since the initial meeting that have resulted in a great degree of comfort, familiarity and friendship. The client is very much looking forward to participating actively in community initiatives around the State, and State officials are happy to have such an active partner.

Relationships like this do not happen by accident. They can only develop when both parties make great strides to work together. If they do, parties will find that engaging in the community development conversation helps both sides solidify their partner relationship and benefits the community at large in the end.

### Creativity

Finally, creativity in solving problems is critical at both the company integration stage and once the company is an established corporate citizen in a community. In too many transactions, parties find themselves spending more time bickering over why a problem cannot be solved or should not involve them in the solution, instead of finding a way to make an alternate solution possible.

Items that neither party could have predicted invariably arise as a company takes the necessary steps toward establishing its new community presence. While some of these items are easy to resolve, some are very costly to the company and can end up becoming very costly to the community. It is at that point that both parties need to examine their collective issue not from the perspective of what they alone cannot accomplish, but rather what steps they can take together to either resolve the issue or to sidestep it.

The sentence "it cannot be done this way," should never come without the sentence "however, a potentially viable alternative is..." closely trailing. Large corporate cultures can be as guilty

of this as governments. Both are creatures that have a pressing need to institutionalize and mechanize processes. While this promotes stability and predictability when things are proceeding smoothly, it can hinder problem solving when they are not. So, instead of pushing the responsibility for solving a problem to the other party, it would serve both parties well to own the problem and be flexible in developing a solution. This requires an internal change in perspective on both parties' parts. However, with a focus on the common goal, this is entirely possible.

Post site selection incentives negotiations are a perfect example of this. Again, in the same transaction discussed throughout this article, legal and procedural issues arose that could have threatened the project's construction timeline and its budget targets. While the parties had worked throughout the site selection process to address many of these issues, the initial solution was arduous and unnecessarily costly. However, even after the State had been selected, instead of keeping the initial solution, the parties worked to develop a newer solution that previously had not been apparent. This solution accomplished both parties' initial goals, generated significant additional savings for the client, and helped give the project a far stronger chance than it previously had of meeting its construction schedule and its budget. This new solution literally helped pushed the project into full gear.

Communication, Collaboration and Creativity are the most important ingredients to a successful government – business relationship. Without all three, even the most initially successful site expansion or site relocation project is doomed to fail in the long-term. With all three, even the smallest new project can have a large positive impact.

In the next article, I will discuss how a state's economic development infrastructure and delivery system can have a dramatic effect on the state's national and global competitiveness.

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## **KMKC HIGHLIGHTS**

In the last 12 months, KMKC has represented clients on site selection and incentive negotiations that have encompassed 3,500 jobs, \$500 million in capital, and spanning 13 states.