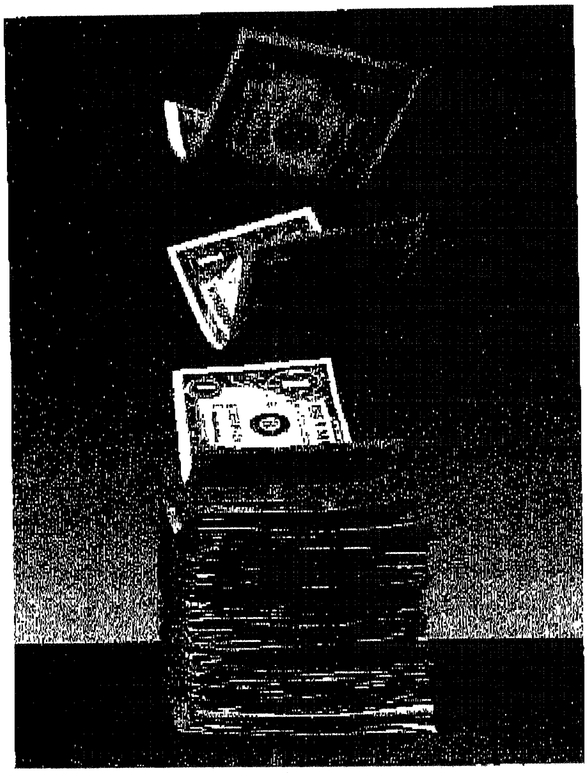
Incentives Unrealized



How Companies Are Leaving Millions of Dollars on the Table and What You Can Do

By James Renzas

A majority of CFOs recently polled reported that they experience a sinking feeling when they consider whether their company is receiving all of the tax benefits and incentives that it is eligible to receive. Many will spend their entire career with a lingering fear that they are missing something important, or perhaps not getting all that is due their corporation.

Managers worry that they are not filing all the paperwork they need to sustain their incentive deals. Auditors fear they are not complying with Sarbanes-Oxley when they deal with incentives.

Why do they have this feeling? For a good reason. An overwhelming majority of CFOs in corporate America actually are missing out on large financial benefits due their company. This is largely due to structural problems with the way companies, seek, execute and track incentives that make collection difficult.

These problems include the decentralization of the incentive process, lack of proper tracking systems and confusion as to whose responsibility it is to negotiate, track and collect incentives.

Those responsible for handling incentives are often not specialists and don't have local knowledge or relationships to assure the maximum amount of available incentives are being realized. In addition, those tasked with negotiating and collecting incentives are often not financially rewarded for doing so.

Whose Job Is It, Anyway?

Most companies don't have a centralized incentive management function. Various departments including finance, tax, real estate and operations touch various parts of the process of incentive management but don't handle the big picture.

Most of the time the individuals involved in the process handle incentives as an aside. It is frequently not a part of their core competency or a key element of their job description.

As the responsibility for the incentive follow up is shared among departments, their differing priorities can get in the way of the company gaining the best results.

For example, the real estate department knows it needs to locate a new distribution center in a particular region of the United States. They find a location that makes sense geographically and has good lease rates on suitable property. They then tell the tax and finance departments to negotiate the incentives in that location.

Tax and finance negotiate what they can and the deal is set. They are unaware of the fact that, had they simply located the new site on the other side of the highway they would be in an area that offers tax incentives that more than double what the real estate department thought was a great savings to the company.

The disconnect between departments can take many different forms but it is the department most directly responsible for closing the deal that often is the driver. That can mean what looks like a great deal from one perspective, is not such a great deal after all.

Long-Term Pursuit

With states becoming more and more budget conscious in recent years, there has been a shift to performance-based incentives. A company has to fulfill certain requirements on an ongoing basis to continue to gain payments over time from the government. This prevents the government from giving a company a large grant then losing out on its benefits if a company unexpectedly shuts down or leaves the state.

As a result, the process of collecting on incentive payments requires effort, often in the collection of information and submitting the proper paperwork to meet specific deadlines. This can present a problem, as internally, there is often no coordinated long-term effort to manage the collection process. As a result, deadlines are missed, forms are not filed, and companies lose out on millions of dollars they worked hard to obtain.

Loss of Institutional Memory

Sometimes when a merger or acquisition takes place, incentives are lost. One negotiation can be paying over a 20-year period. If there is little or no document trail, it can get lost in the transition. Even a management change can produce this problem because the institutional memory tracking the incentive can leave.

Sarbanes-Oxley

With the introduction of Sarbanes-Oxley, a new level of control and reporting is required. The new rules call for an internal report as well for the development of internal management controls of financial and tax related issues.

These new regulations are often not being met by companies. This creates a potential for damaging liability.

Solutions: One Point of Contact

In order to actively manage the process of negotiating, collecting and tracking incentives, a single point of contact should coordinate the process.

Often when companies have already made location decisions, they lose their ability to negotiate and miss out on incentives. Due to downsizing, corporate operatives are busier than ever. It is difficult to expect anyone but a trained incentive specialist to spend the time hunting for and gathering all the money that is available in incentives.

Also, if this point person is financially motivated to garner incentives, the results will tend to be much better. >>

James Renzas

James Renzas is the Chief Executive of Location Management Services, a site-selection firm that specializes in negotiating incentives for Fortune 500 companies. Renzas has been helping companies find competitive sites in the United States for more than 25 years and holds an advanced degree in economic geography.

Local Knowledge and Ties

The point person negotiating incentives should also have local relationships and experience in the state, city or county they are negotiating with. This allows them to successfully negotiate the best site deals, as they will know what is available and how far a city or state will go to attract a new business.

For example, a company based in New York that is trying to negotiate a location in Texas will likely not succeed in gaining all possible financial incentives without an understanding of the social, political and economic climate in the region.

Negotiations are often impacted by individual relationships. People often enjoy doing business with people they are familiar with, and someone who knows the person they are negotiating with has a much better chance of success.

Tracking and Collecting

It is key to create and manage a solid tracking system that documents the follow up required to collect on incentives. Many companies negotiate great incentive packages and then fail to collect on them because of missed filing deadlines and lapses in tracking.

Companies are often required to provide documentation that it is holding up its end of the deal in order to get paid the incentives. These requirements must be carefully tracked. Incentive deals are often negotiated by one division of the company and then shifted over to another division to collect. When this happens, the financial perks can easily get lost in the shuffle.

If the company does not adhere strictly to the compliance requirements it will lose some or all of the benefits that were negotiated. Communities and states certainly cannot be expected to track down a company to deliver money. Missed deadlines are all it takes to lose this money.

A single point of contact should oversee the compliance requirements, since the collection of data could require as much as a daily, weekly or monthly system of reporting.

For example, with a Community Development Block Grant, a federal grant program that requires the hiring of low and moderate income individuals, firms must have a tracking process through their human resources department. This paperwork proves it is in compliance with the grant or the company will forfeit the grant money. If the human resources department is not motivated to track this closely, funds can easily be lost.

The Need

This is what a company needs to collect more money in incentives: A single point of contact with expertise in garnering incentives, local knowledge and relationships all over the United States, familiarity with recent legislation and compliance issues and a long term ability to track and file appropriate paperwork. This will ensure the ongoing delivery of incentives and financial rewards based on the incentives generated.

It sounds daunting and could take years to develop this internally. Rather than build up the internal infrastructure at a great cost of time and money you can outsource the process to an expert.

Due to the growing complexity and need for companies to garner, track and collect incentives, a new type of real estate company is emerging in the marketplace. Companies that look at incentives negotiations as a key profit center, not an afterthought.

These companies will negotiate, manage, track and execute incentive programs as their sole function. There is little or no cost to the company because they are paid only on a successful performance. Often this is money that the company never would have received without their services anyway so the company can't lose.

With a partner managing the incentive process as its sole focus and source of revenue, CFOs will be able to forget that sinking feeling and rest easier knowing that everything possible is being done to see that their company is getting all that it deserves. **>LEADER<**