



THE **Ten** Percenters

A consistent 10 to 15 percent of those surveyed believe they are doing a good job of collecting incentives and don't feel their process needs any improvement.

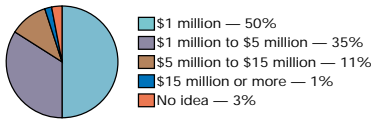
Who's CASHing In?

A recent survey reveals companies are not **cashing in** on all the **incentives** available to them, and fewer than half plan to do something about it.

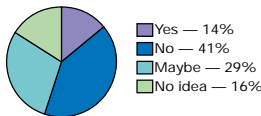
By James Renzas,
President, Location Management Services (LMS)

In the latter part of 2004, Location Management Services, an expert in incentives management and compliance with Sarbanes-Oxley, in cooperation with *Area Development* magazine, delved into the subject of incentives negotiations, management, and collection. Surveys were sent to a proprietary list of chief executives and real estate, tax, and finance officers at Fortune 500 companies throughout the United States. The results of the survey show that a majority of companies are doing a poor job of collecting incentives and are unprepared for Sarbanes-Oxley compliance.

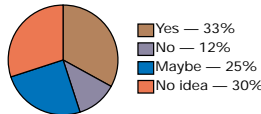
Can you estimate roughly how much your company has benefited from incentives during the last year?



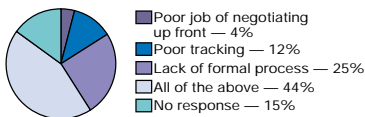
Are you confident that your company is collecting all of the incentives available?



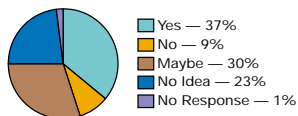
Do you believe that other companies in your industry are getting more incentives than your company?



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



Do you plan to improve your company's incentives management and collection?



Don't Believe Everything You Hear

Our research shows that rumors of companies making extravagant profit from incentives are not true. On the contrary, the majority of Fortune 500 companies are collecting a very small percentage of their profit from incentives.

A vast majority reported collecting less than \$5 million in incentives in 2004. Bearing in mind that the smallest Fortune 500 company, Newmont Mining, reported revenue of \$3.2 billion, this means that even the smallest company in the Fortune 500 is collecting

less than one sixth of 1 percent of its annual revenue through incentives.

However, a few smaller, privately held companies that preferred

Everybody ELSE IS Getting Some

Only 12 percent of those companies surveyed are confident they are collecting all the incentives available to them; the rest feel everyone else is getting more than they are.

not to be named in this article did anecdotally report collecting more than \$1 million in incentives. Therefore, it seems that a few smaller companies are collecting as much as 5 percent of annual revenue through incentives.

Our research then determines that there exists a huge disparity in what companies collect in terms of incentives. Most companies indicated that they are aware of missing out on something they deserve in incentives. When

asked, most company officers responded that they had a suspicion that they were not collecting all of the incentives they could.

A majority also responded that they had a further suspicion that other companies were getting a lot more than they were. This phenomenon is much like the paranoia of an entry-level employee who is convinced other people must be getting paid much more than he is and cannot be working nearly as hard.

These same officers tended to blame the situation not on poor negotiations up front, but the lack of a formalized process of tracking and collecting the funds from incentives negotiated. There appears to be a lack of coordination among the groups that are tasked with collecting incentives. In most cases, there is no clear leader in the process and multiple departments are involved. This is a recipe for chaos.

Get Organized

The process that many corporations currently use is surprisingly akin to putting together a football team and having no playbook. Worse — just like in football — the opposition, which is entrenched and well-organized, is trying to stop you from achieving your goals. This opposition is the bureaucracy that is in place to design and distribute the incentives.

Make no mistake; the bureaucrats are not rewarded for assisting corporations in their collection process. Rather, they lean toward protecting the public coffers. Any money a corporation collects is being taken out of the



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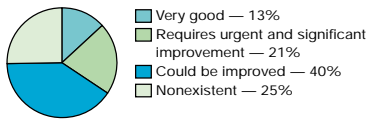
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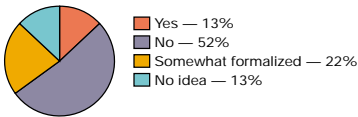
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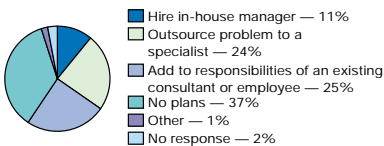
Would you say that your company's system of negotiating, managing, and collecting incentives is:



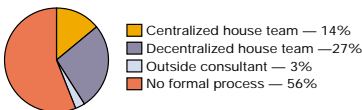
Do you have a formal system in place for negotiating, managing, and collecting incentives?



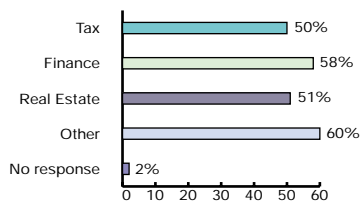
What options are you considering to improve the process of incentives negotiations, management, and collection?



How are incentives negotiations, management, and tracking handled by your company?



What departments are involved in the negotiations, management, and collection of incentives?



bureaucracy, and its officers will seek to keep it. The rigorous processes that govern and sometimes impede the collection of incentives are not accidental. In order to succeed at collecting incentives, a corporation must have an organized process in place to negotiate, manage, and collect incentives.

An interesting pattern emerged from the survey results: 10 to 15 percent consistently answered the questions very positively. This 10 to 15 percent thinks they are doing a good job of collecting incentives, and they do not appear to think other firms are collecting much more than they are. This group also responded that they do not

Why Should I Worry?

Although only 14 percent of companies surveyed expressed confidence that they are collecting all of the incentives available to them, and 87 percent indicated that the incentives process needed improvement, only 37 percent reported they plan to do anything about it.

percent said "yes."

Without extensive cross-tabbing of the survey it can not be stated positively that this 13 percent is the same 10 to 15 percent that are doing a good job and are happy with the process, but the logical leap is not hard to make. The company, or team, with a plan and process will generally be more successful than the company without one.

Why Do Nothing?

But it is in the examination of the depth of the problem and possible solutions that the survey results took a turn for the absurd: 86 percent of those surveyed reported a need for improvement in their company's process of negotiating, collecting, and managing incentives; 87 percent reported that they do not have a formal incentives process in place. Yet, when asked what they intended to do to fix the problem, 63 percent said they had no plans to improve the process. Asked a different way, 37 percent still insisted they had no plans to improve the process, and a smaller but significant percentage replied they intended to add the task of managing the incentives process to an existing employee's current workload.

plan to improve the collection process. Interestingly, when asked if they had a "formal process in place for negotiating, managing, and collecting incentives," 13

During the past three years, when *Area Development* has conducted its annual survey, "incentives" has consistently scored at the top of the list of factors considered most important when determining where to site a new facility. So, how can these findings all be true?

- Incentives are extremely important to companies when considering a site.

- Most companies realize they do a poor job of collecting incentives.

- Almost half plan to do nothing to fix the problem they have collecting them.

It is likely that some managers at major corporations have simply given up on ever improving the collection and management of incentives — even though they realize it is a major problem. There are several reasons why this could be. The first is the apparently well-founded fear (according to the survey results) that they will be tasked with managing the improvement of the incentives process themselves, in addition to their heavy load of responsibilities. Another fear could be that if they hire someone in-house to improve the process and they start collecting millions of dollars in incentives, the finger will be pointed at them when the inevitable question comes up: "Why haven't we been collecting incentives like this all along?"

Another possible explanation is that the negotiation, management, and collection of incentives is a long and arduous process that may not show a positive return on investment for several years. What ambitious corporate officer would want to lead an effort that could cost the company hundreds of thousands of dollars in salary and benefits, yet may not show positive results for three to five years?

One solution for these problems is to find a revenue-neutral means for collecting incentives. For example, a company could hire an outside specialist working for a contingency fee or commission on what incentives revenue it provides for the company. However, only 24 percent of the companies surveyed are currently considering this approach as a solution. Per-

haps many companies are unaware that there are firms that specialize in the negotiation, management, and collection of incentives that will work on commission and will turn the project of managing incentives from a cost center to a revenue-generator.

THE Pressure Is On

The incentives problem is eventually going to be too big to sweep under the rug. As companies get better at managing the process and collections, pressure will increase on other companies in that sector to do likewise. Eventually, management at the top level will begin to notice that other companies are collecting more than they are and ask why.

A Recipe FOR Chaos

A majority of companies surveyed indicated that multiple departments, as many as four or more, are involved in the incentives negotiation, management, and collection process. This indicates a lack of a consistent pattern of involvement or clear leadership.

Further, questions could come from the media as they investigate which companies are collecting incentives and why. Worse yet, the questions could come from stockholders who will want to know why other companies are showing bottom-line benefits from incentives that their corporation is not.

Finally, in the true nightmare scenario for financial officers at publicly traded companies, analysts and auditors might start to ask about incentives. Analysts will look at how much companies in certain sectors are collecting and start to compare notes. Inevitably a company that is collecting many incentives will be seen as having good management and one that does not will be seen as having poor management. This could impact the stock value.

Eventually, when the auditors ask, financial officers might not just be looking at a bad review and a PR problem; they could be facing legal problems as well. How? Let's say a corporation negotiates an incentives deal to annually collect a \$30,000 Enterprise Zone Tax Credit for each employee hired from the welfare or unemployment roles. That amount is included in profit projections. Now suppose the Human Resources department does not know it has to file certain paperwork quarterly and that incentive goes unrealized. The corporation now could be out of compliance with Sarbanes-Oxley.

The bottom line is that incentives are going unrealized by many companies. The main obstacle appears to be a lack of organizational will to solve the problem. This issue must be dealt with. It is a ticking time bomb in the boardroom, and the individual who can defuse it before it goes off will be the corporation's hero. **AREA**

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