

## Closing the Sale

### What the Electrolux deal means for economic development

By Andy Meek

It started with a phone call.

A few months ago, a consultant working for Swedish appliance maker Electrolux reached out to Mark Herbison, the Greater Memphis Chamber's senior vice president of economic development, with an enticing prospect.

Electrolux was eyeing a handful of sites in North America for what became known in Memphis as "Project Journey" – the company's development of a new North American cooking products manufacturing center.

Very quickly, selling Electrolux on the merits of Memphis became what Herbison described as "the largest project I've ever worked on in my entire career."

The Electrolux consultant and Herbison had worked together before, which is why Herbison got the call before anyone in Nashville – even though it was state involvement that helped seal the deal via a promise of state incentives worth more than \$100 million to help Electrolux build a 700,000-square-foot plant in Memphis.

The incentives were part of a sales pitch put together after Herbison shared the consultant's overture with Matt Kisber, Tennessee's now-departed commissioner of economic development. After preparing a presentation, Herbison and a Kisber representative were part of a team that flew a few months ago to Charlotte, N.C.

That's the home of Electrolux's North American headquarters. It was there Memphis officials put their offer on the table in a bid to recruit Electrolux to the city, despite facing competition from more than one U.S. state – as well as Mexico – to win the new plant.

Frank C. Pidgeon Industrial Park in southwest Memphis emerged as Electrolux's choice for the plant site, the news of which was announced Dec. 15 at the chamber's annual chairman's luncheon.

In hindsight, it took a lot to get there.

Memphis Mayor A C Wharton Jr. said the recruitment discussions represented one of the most intense scrambles of his career. Out of those discussions came a development agreement that included the state of Tennessee providing \$92 million for infrastructure items and related needs and Memphis and Shelby County governments chipping in \$20 million each.

The agreement with Electrolux also calls for the state committing a minimum of \$3.1 million for job training assistance and for the Tennessee Valley Authority to pay the company up to \$1.5 million for electrical infrastructure improvement costs. And that only scratches the surface.

Behind the scenes, the stakes were high. It was understood that winning would require a lot because of what losing could have meant for the city, county and state.



**Local and state officials gathered with Electrolux executives last month to announce a \$190 million appliance manufacturing plant to be built in Memphis, one of the biggest economic development deals in recent memory. (Photo: Lance Murphey)**

“One thing that I think played a huge role in this was that (Electrolux has) a plant in Springfield, Tenn., that’s got right at 2,900 people working there, and they were going to close that had this facility not come to Tennessee,” Herbison said. “So we already had about 3,000 jobs at risk before we even got into the negotiations.”

Also, Nashville learning of Electrolux’s interest in bringing the new plant to this side of the state apparently provided a useful motivating force.

State officials “had really worked hard to locate these big projects over the course of Gov. (Phil) Bredesen’s term in office, and they’d had success in East and Middle Tennessee,” Herbison said.

“They’d had Volkswagen in the Chattanooga area, they had Hemlock Semiconductor in the Clarksville area, but West Tennessee really had not seen a mega-project like this. And I think all along, they had a goal of trying to bring at least one big mega-project to each grand division of the state.”

With Electrolux, that effort now can be called a success. Meanwhile, Memphis’ success with Electrolux is the reason areas from North Carolina to Quebec, Canada, are either licking their wounds or pondering what might have been.

State and local officials in North Carolina, for example, also had courted Electrolux. Electrolux reportedly eyed a 500-acre site around the town of Selma, and Selma Mayor [Charles Hester](#) told a local newspaper it would have doubled the tax base overnight had Electrolux chosen the area for its new manufacturing center.

The news was worse for the Canadian town of L’Assomption. Electrolux is closing its manufacturing center there and transferring production to Memphis.

The decision apparently came as a shock to Canadians for reasons that included Electrolux being recently granted local incentives for that plant. Shutting it down will affect 1,300 workers. Electrolux reportedly told a Quebec government official the relocation to Memphis was about more than the offer of state and local incentives, according to the Canadian newspaper La Presse. The newspaper reported the move also was about lower operating costs in Tennessee compared to Quebec.

In a last-ditch attempt to get Electrolux to reconsider, the newspaper said a Quebec government official would try and meet this month with the employee union at Electrolux’s facility there to negotiate wage concessions.

“(This) was all about supply and demand,” reads a commentary published last month in The Montreal Gazette. “The Electrolux story is about the cost of doing business in Quebec at a time when economic growth is slow. If wages, taxes and regulatory costs were more competitive and the workforce was more productive, this wouldn’t be happening.”

Welcome to the world of economic development, where the game is a Darwinian fight among cities, states and countries vying for economic survival.

Memphian Joe Saino, a self-appointed public watchdog who blogs frequently about the costs and perceived flubs of local government, recently requested an analysis of the Electrolux project from state and local officials.

He’s still researching the project but already has decided there’s a deeper force at work – irrespective of whether the new plant represents a good deal for the area.

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“I’m sure there are other cities out there that would snap this up in a minute,” Saino said. “That’s what you’re faced with. This battle between – there’s a little bit of meat out there, and you’ve got a bunch of dogs and cats fighting over it. But whatever we’re going to spend, is this going to create more wealth than it’s going to give away? That’s the base question.”

– **Mark Herbison**, *The Greater Memphis Chamber’s senior vice president of economic development*

Wharton said local economists, as well as economists from the University of Tennessee, analyzed the deal terms to make sure it results in a net positive.

“Looking at how much is being (statistically) spent for each job – that’s not how you’d conduct a cost-benefit analysis on this,” Herbison said. “What you have to look at is what is this company, and what are these jobs going to bring to this community.

“First of all, just the 1,250 people Electrolux is going to employ themselves will generate hundreds of millions of dollars of revenue in the community. These people are making close to \$14 an hour, and they’re spending that money in the community. They’re buying cars. They’re buying appliances. They’re building houses.”

The incentives made Memphis work for Electrolux – but so did the area’s fundamentals. That’s a fact even some Canadians acknowledged.

On one hand, the Montreal Gazette commentary said “companies that hold up taxpayers for huge subsidies” aren’t worth chasing or holding on to.

But economic development experts say that’s the nature of the game, and that skepticism sometimes follows a package of front-end incentives, since the thing the package is incentivizing has not yet materialized.

“I will say this, we sure are giving a lot to win the company relocation,” said one member of the Memphis City Council.

Incentives sometimes come in for a lot of flak anytime a big economic development project is on the table. That certainly was the case a few years ago for another large-scale project in Tennessee – a new \$1 billion auto assembly plant Volkswagen decided to put in Chattanooga.

Government officials put together a \$577 million package of sweeteners for the car company, far more than what’s being given to Electrolux for its \$190 million Memphis plant.

Local officials used the Volkswagen development agreement as a model for the Memphis project. Projects like those also serve as object lessons in big business recruitment.

In “Practical Wisdom: The Right Way to do the Right Thing,” a new book published by [Barry Schwartz](#) and [Kenneth Sharpe](#), the authors caution that financial incentives work if they’re given for the right reason and if they don’t “crowd out” more useful motivating forces.

The authors noted the case study of a day care that was trying to figure out what to do about parents regularly showing up late to pick up their children.

Pleading hadn’t worked, so the day care decided to fine the latecomers.

The result, however, was a surprise. The authors noted lateness actually increased with the imposition of fines. Apparently, parents regarded the fine as a price, rather than a punishment, the authors noted.

The parents began weighing whether it was worth it to pay a small fine if it meant staying a little longer at the office to get work done. Not surprisingly, lateness increased even more when the fines

were discontinued.

“What’s the harm in using incentives?” the authors wrote. “There is potential harm, even if the incentives work. ... Whether (the harm exists) depends on the situation.”

The existence of competition, for example, presumably merits unique attention and might have changed the day care center’s late-parents scenario.

“One thing we know is it’s very expensive to recruit jobs,” said Dr. John Gnuschke, director of the Sparks Bureau of Business and Economic Research at the University of Memphis. “And that’s true whether it’s an Electrolux plant, an auto plant, or whatever.

“If you look narrowly at the Electrolux plant and say, ‘Hey, is this a good deal,’ well, they have to stay here a fairly long period of time before it is a break-even point for local and state government. But that’s OK. You still have to put up money on the front end. This is a move in the right direction to help rebuild our manufacturing base.”

But even more important than the money an area is willing to put up is whether it’s got the necessary fundamentals that make it attractive and show up on corporate radars in the first place.

“Sure, there are cheaper places to set up a manufacturing plant,” the Montreal Gazette commentary reads. “But companies don’t move to Mexico, India (or even Tennessee) at the drop of a hat. They need skilled workers who can operate computerized equipment.

“Quebec should be the kind of place that attracts employers because we have a relatively well-schooled and well-trained workforce. But we wind up shooting ourselves in the foot, with social policies that cost too much and with a tax system that’s uncompetitive.”

The commentary noted a variety of charges and payroll taxes levied on employers to pay for social programs. It also noted an income tax system that pays for day care, university tuition and health care.

“These are policy choices that are popular among Quebecers, but they do carry a cost,” the commentary pointed out.

In Memphis, the inherent strength of the local fundamentals apparently will only rise in importance as more corporations pull money off the sidelines and decide the economy is improving enough to make big investments and strategic relocations.

That means incentives will play a part in how Memphis competes – but so will whether the area’s political leadership and a planned streamlining of business recruitment efforts in the future combine to strengthen the local competitive advantage.

“Here’s something else to think about,” Herbison said. “We’ve been through the most unique, complex period in our nation’s history as far as the economy is concerned. And now there’s so much pent-up demand, there is so much money corporations are holding onto, plus all these companies are looking toward doing things a different way.

“You’re going to see the economy turn around. It can’t stay like this forever. And we’re going to be at the table competing. Who else has five railroads, FedEx, the world’s best airport – just a lot of basic, inherent things that you can’t go out and build overnight? I think the stars are lining up for us. I really do.”