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# BAITING THE HOOK

With lavish entertaining, state officials are selling Oregon. Will the efforts pay off with new business growth, or will prospects eat and run?

BY GAIL KINSEY HILL

Silverware glistened against black tablecloths and candlelight reflected off crystal goblets. Waiters glided through the stately setting, serving smoked salmon, pates, and Oregon wines to the guests, most of whom had come to the San Jose hotel from homes in Santa Clara County. Off to one side a musician played, lacing talk of technology and economic growth with the soft sounds of a harp. For dinner, more Oregon specialties were served — medallions of beef, chanterelle mushrooms, fruits and vegetables, and bottle after bottle of wine.

Governor Victor Atiyeh, still glowing from a well-received mission to Japan, mingled with 100 executives from such companies as Tandem Computers, Apple Computers, and Signetics, Inc. John Anderson, director of the Oregon Economic Development Department (EDD) never tired of telling the movers and shakers of Silicon Valley how his state had snagged six high-powered high technology companies in as many months. The party's intent was to get yet more to move to Oregon.

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**OREGON PAVILION:** An elaborate booth at a San Francisco conference was to entice Silicon Valley business prospects. But quarry was scarce, and Oregonians ended up entertaining each other.

The lavish affair cost sponsors — public and private — $12,000, but almost everyone agreed the recruitment effort was a success. Not only did it reinforce hopes that Oregon is, indeed, becoming a high tech hot spot, but it coaxed several new prospects into more serious negotiations. Anderson says at least two companies are seriously considering moving into the state, and development directors from such areas as Bend and Klamath Falls say they soon will announce specific investments by northern California electronics companies. In fact, the dinner's success in attracting electronics company executives became the envy of economic development groups in several other states, and without it, a number of people from Oregon might have wasted a lot of time and money in California.

Oregon's "state" dinner was only part of a week-long push in October to show off the state to technology companies in the fabled Silicon Valley. The main event, called Insite '84, a three-day convention in San Francisco's Civic Auditorium, was a disaster. More than 20 states and 10 foreign countries filled Brooks Hall with elaborate booths, some with fountains and even — in the case of Louisiana — sequined southern belles, aimed at luring Silicon Valley executives into expansion or relocation commitments. But the CEOs failed to show up in any significant numbers, despite promises from convention sponsors that 1,000 companies had pre-registered. It wasn't long after the convention had begun that exhibitors, who numbered in the thousands, began grumbling about wasted time and money.

"This is ridiculous," said an exasperated representative of Washington state as he watched exhibitors from other states gobble handfuls of his shrimp hors d'oeuvres. The food and drinks, which drew crowds to the Washington booth every evening, were intended to please the palates of high technology executives, not the competition.

The exhibitors' views of the conference were perhaps best summed up by a developer from Phoenix, Ariz., on the final day of the convention: "It stinks."

Oregonians, giddy from the success of the San Jose dinner and a subsequent eggs Benedict breakfast for California executives at the posh Hyatt Regency Hotel on Union Square in San Francisco, were less bitter, but disappointed nevertheless. More than 30 public and private organizations from throughout the state had pooled resources in an unusual act of unity for the event only to find their cooperative endeavor thwarted by a poorly marketed event and a disinterested high technology community. The Oregon pavilion, with mirrored fountain, potted plants, and unending supply of Tillamook cheese, Henry Weinhard's Private Reserve beer, and Oregon wines, was one of the most impressive in the hall. But the total bill exceeded $100,000 and some estimate total expenditures by the Oregon contingent may have reached $300,000 when all the privately financed expenditures are included. Many of the small agencies involved ended up paying large portions of their relatively meager economic development budgets to foot their part of the bill.

Certainly few, if any, new contacts were made in the convention hall during the three-day event. And any further business investment will be difficult, if not impossible, to trace directly to the San Francisco mission. But economic development officials say the competitive, fast-tracking world of the electronics industry demands aggressive marketing efforts on the part of the state. And, they add, the approach is particularly critical for Oregon if it wants to take advantage of the momentum created by recent announcements that National Semiconductor, NEC America, Epson, and Fujitsu soon will make Oregon their home.

"These are the kinds of things we have to do and continue doing if we want to be successful," says Anderson, who stepped in as EDD director last fall, taking over a $13 million budget for the 1983-85 biennium. "There are no shortcuts; there are no cheap ways to do it."

## Oregon On A Roll

There's little question Oregon is on a roll. In the last six months, the Portland area has attracted more than $500 million in investment dollars. (For details on the investments, see the November *Oregon Business*, page 9.)

During that six-month period, the only foreign prospect Oregon lost was that of Kyocera International, Inc., the American-based subsidiary of a Japanese computer components manufacturer. Kyocera announced in August it would build a plant in Clark County, Washington.

"We have a certain mystique now, a certain aura," said Anderson. "Other states are beginning to see us as Superman."

Oregon comes by much of its strength naturally. Electronics companies in northern California, prodded by soaring

# THE REAL HOOK FOR NEW INDUSTRY

State and local economic development programs, of course, must go beyond jazzy advertising campaigns. They must have a worthwhile "product" to sell in terms of available industrial land, pro-business tax policies, financial incentive packages, and lack of regulatory red tape. The ads draw attention; the product makes the sale.

Oregon, for example, gained international attention when it modified its method of unitary taxation during a special legislative session in August. The repeal of the taxing method hit the front pages of major Japanese newspapers, and representatives of both Fujitsu and Epson have said Oregon's action influenced their decisions to move to the state.

In addition, the 1983 legislature addressed criticism from developers that long, convoluted land use policies were blocking economic growth. Regulatory changes included streamlining permit and appeal procedures and requiring cities with populations greater than 2,500 to develop sewer, water, and transportation plans for anticipated development.

Though many have scrutinized and debated the state's tax system recently, few substantive changes have occurred aside from the revision of the unitary tax. With critics continuing to blast the state for high personal income taxes and a politically volatile property tax structure, the legislature likely will grapple with alternatives when the new session convenes in January. A sales tax

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proposal may come out of the session, but Oregonians carry a history of inexorable opposition to the tax.

Like a growing number of states, Oregon has become more involved in financing business investment. The state offers the following programs: industrial revenue bonds which have been available since 1975; umbrella revenue bonds which are similar to IRBs but allow borrowings by smaller businesses; the Port Revolving Loan Fund and the Oregon Business Development Fund, which comprise the state's direct loan program; and a loan guarantee program.

Though Oregon gradually has increased its participation in private business investment and in capital markets — the umbrella bonds and the business development fund were enacted in 1983 — it is by no means a pioneer. The most aggressive states include Connecticut, Pennsylvania, Massachusetts, and New York. Also, a growing number of states — there are 10 now — have equity investment programs. Oregon has yet to get into the venture capital field. It, like many other states, has moved cautiously into financial territories, at each step debating the legitimacy and risks of government involvement.

Those who want the state to offer more financial opportunities say the programs would increase business investment and, in turn, jobs. But results are inconclusive. Most of the existing programs are too new to evaluate and even the older ones, though well-established, have had their problems. Maine's and Vermont's loan guarantee programs, for example, have faced serious defaults over the years. And Pennsylvania's direct loan program, one of the oldest and largest in the country, has generated far fewer jobs than predicted.

land values, stressful lifestyles, high employee turnover rates, and a desire to decentralize operations, have found nearby Oregon a convenient location for branch facilities. The Willamette Valley corridor and Portland are just within the boundaries many Bay area companies set for satellite facilities.

"It's devastating" to have to travel more than 1½ hours to branch plants, says Larry Borgman, manager of corporate facilities planning for Intel Corp. "To be honest, we don't even look east of the Rockies." Intel, a $1.6 billion company that manufactures semiconductors, has three plants west of Portland. Other locations include Phoenix, Ariz., and Albuquerque, N.M.

With the industry growing rapidly and with northern California holding the highest concentration of technology companies in the country, Oregon can expect to experience this "spillover effect" for quite some time. Also, because Oregon abuts the Pacific Ocean, it can anticipate further investment from Pacific Rim countries seeking greater penetration of U.S. markets.

Just as states have no control over their geographical location, they can do little to influence the international economy. According to a study by supply-side economist Arthur Laffer, national and worldwide economic trends account for 50% of a state's growth. Local governments can't do much to change these conditions, the study reports; the factors are "outside a state's purview." (A state must also do something about correcting problems within its control, if it is to succeed at industrial recruitment. See story, page 16.)

Nevertheless, state and local programs are proliferating and, along with them, promotional campaigns. Fearing a laissez-faire strategy will rob them of business investment, states are beefing up advertising budgets. The key, officials say, is to get the word out and get it out fast before a neighboring state gains an advantage.

Oregon didn't even have a budget specifically allocated for industrial recruitment until 1982, when a special session of the legislature allocated $250,000 for marketing and promotional purposes for the remainder of the 1981-83 biennium.

## Idaho Seeks High Tech Potatoes

Neighboring states took similar tacks. Idaho established a $190,000 promotional budget in 1983, the first of its kind for the state. Washington moved from a budget of $33,000 in 1982 to $300,000 in 1983. No fewer than 23 states increased recruitment budgets in 1983, a trend that seems likely to continue. The big spenders include Maryland, Massachusetts, Michigan, New Mexico, and New York, all with budgets of more than $1 million.

If Governor Atiyeh had gotten his way, Oregon would have been among the major spenders. He recommended a $2.5 million recruitment budget for 1983-85, but the legislature, arguing that substantative programs, not glossy advertising, should be the thrust of business development efforts, whittled the figure down to $850,000. Atiyeh is expected to unveil his budget recommendations for the 1985-87 biennium this month. A departmental request is asking for $1.2 million, a 41% increase from current levels. The department also wants funding for six new staff positions, bringing the total request to $1.6 million.

Peter Tryon, manager of the business recruitment division, says a bigger budget would broaden marketing efforts and improve the state's image and visibility. Advertising, he said, could include space in *Forbes* and *Fortune* magazines and stepped-up recruitment missions.

But, "choosing an industrial site is a fundamentally different decision than choosing a consumer product," cautions a staff report of the Joint Legislative Committee on Trade and Economic Development that was released in January. "Advertising and promotion are much less likely to play a pivotal role in site selection."

## At A Critical Juncture

Those behind the marketing push counter that Oregon is at a critical juncture. Oregon stands to benefit from the growth of Silicon Valley companies, they say, but only if it squelches the antibusiness image once and for all. Because the image is superficial and because competition from other states is so intense, promotional campaigns are essential, they say.

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Comments from business executives in Santa Clara County support claims that Oregon is known — or was known — for its no-growth policies.

"If you'd asked me three months ago what my impressions of Oregon were, I would have been very negative," says Klaus Kramer, director of facilities planning for Rolm Corporation of Santa Clara, Calif. "But now things seem to be changing."

Echoed Frank Robinson, real estate manager for Tandem Computers, Cupertino, Calif., "The concept of Oregon is changing. I think they got a bad rap in the '70s, one they're still trying to get over."

Robinson was with Data General in the mid-1970s when the company hit so many snags in negotiations for a plant site in Eugene it finally pulled away entirely. Kramer worked with Hewlett-Packard Co. in a dogged fight to establish a plant in Corvallis. Stories about such experiences quickly spread though Silicon Valley companies, souring site selectors to the idea Oregon could be a future home.

The recent repeal of the state's method of unitary taxation and the momentum generated by the industrial growth in Washington County reportedly are the major forces behind Oregon's changing image.

"I've seen a dramatic shift in perceptions," since the announcements to build plants in the Portland area were made by NEC, Fujitsu, and Epson, said Anderson. "The net effect in the world marketplace has been absolutely stunning. In effect, Oregon has become a household word. I think we've finally buried that self-satisfied, smug image."

Oregon has yet to gain the unconditional endorsement of the entire business community, however. Executive and blue-collar workers alike continue to criticize personal income tax rates, and developers continue to blast land use regulations. Adding fuel to their complaints are several national surveys that have found Oregon one of the less desirable states in the country to do business. The highly publicized study by the accounting firm of Alexander Grant Co. found only Michigan a worse place than Oregon to build a general manufacturing plant. Another survey by *Inc.* magazine of each state's ability to attract and foster small businesses ranked Oregon 39th among the 50 states. Oregon officials have criticized these studies for being based on outdated information.

'Oregonians seem to love the adversarial roll," says Malcolm Russ, executive vice president of Wacker Siltronic Corp., Portland. Though Russ' experience with state and local governments has been predominantly pleasant, he has found that "agencies always seem to be battling each other."

That, too, may be changing. Though squabbles continue, mutual hunger for economic growth seems to have drawn groups together. One of Anderson's pet phrases these days is "Team Oregon," buzzwords with enough substance to have drawn more than cursory attention.

"Our state just isn't as organized as your state," says Jim Fitzgerald, president of Quadrant Corp., a commercial development company headquartered in Bellevue, Wash. "We haven't been able to work together. But you seem to have pulled it off."

Quadrant, a Weyerhaeuser Corp. subsidiary which also has offices in the Portland area, is a key player in the development of the Sunset Corridor, a 2,000-acre section of residential, commercial, and industrial land in Washington county custom-made for the electronics industry. Formed in 1982 by a group of developers and businesses, the corridor reportedly was the first of its kind in the country. Now, with several thriving high technology companies as tenants and commitments from NEC, Epson, and National Semiconductor, the corridor and its industrial sector — the Silicon Forest — have gained repute as major marketing forces.

## Washington Copies Oregon

Fitzgerald wants to repeat Sunset Corridor's success in Seattle. Four developers, including Quadrant and Koll Co., another strong presence in Washington County, recently began promoting the Technology Corridor, an 800-acre swath of industrial and residential land north of Seattle. If successful, the Technology Corridor will strengthen Washington's competitive position, giving expanding companies, particularly those in Pacific Rim countries, a strong alternative to Oregon.

Private developers have taken the lead at this point, but they're not the only ones trying to boost Washington's high technology presence. Economic development agencies, plagued with problems and overlapping responsibilities, recently reorganized jurisdictions. And state legislators soon will review the results of a state-commissioned study on economic policies. Though few substantive changes have evolved yet, the push continues. Stepped-up efforts could touch off more competitive battles between Washington and Oregon, particularly between Portland and Vancouver, where territorial tempers run hot.

But there is talk of cooperation here, too. Anderson and Joe Tanner, the aggressive leader of Vancouver's Columbia River Economic Development Council, are discussing a joint marketing effort that would embrace Clark County in Washington and Multnomah, Washington, and Clackamas counties in Oregon. Only months ago, Tanner's group was trying to lure Portland businesses to new locations on the north side of the river, a strategy that drew the wrath of Portland's development agencies. Now, though suspicions and state loyalties run deep, so too do desires to cooperate for mutual advantage.

Pressures to cooperate with one another, even if state boundaries must be crossed, have increased because competition from other parts of the country has accelerated so dramatically. With groups from throughout the U.S. sending "raiding parties" to Silicon Valley, there is growing fear in the Northwest that parochial attitudes will undermine recruitment efforts.

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Again, promotional techniques are seen as one way to gain a competitive edge. The Portland-Vancouver union doesn't have a name or image yet, but it almost certainly will. Meanwhile, Oregon has the Silicon Forest and Washington the Technology Corridor. And then there is Arizona with the Silicon Desert; Colorado with the Silicon Mountain; and San Diego with the Silicon Beach. There's even the Silicon Bayou in Louisiana, a slogan symbolized by a giant electronic crayfish rising from the waters of a Louisiana river.

There's little question the sophistication and cost of marketing efforts have reached new highs, despite widespread acknowledgment that promotional campaigns have only a marginal effect on a company's decision to expand or move into another state. But most economic developers in Oregon say the state can't afford to slacken its pace, despite drawbacks like the San Francisco conference. This is true particularly now, when the momentum is strong to establish the Willamette Valley as a region conducive to the electronics industry. If the pace is slowed, they say, Oregon risks getting pinched from behind. ■