



# Stimulating Economic Growth Through Modern Business Licensing

As communities seek to stimulate growth and spur economic development, they must evaluate their local government's role in attracting new businesses and retaining existing ones, the factors impacting new business growth, and the effectiveness of growth incentives and disincentives.

## Introduction

*Business incentives can be explicit – such as favorable zoning, taxation, and regulation – or implicit – such as the local real estate market, nearby natural resources, or an available skilled local workforce. Disincentives can also be similarly defined or implied, such as unfavorable zoning, high taxation, complex business regulation, a high crime rate, or poor available infrastructure.*

*This unique combination of favorable and unfavorable conditions determines, to a large extent, the economic growth of a community. A favorable business ecosystem attracts new business and encourages expansion; an unfavorable ecosystem discourages new business growth.*

An important component of this ecosystem is the level of difficulty businesses experience in obtaining the required licenses and permits to operate – a key component to how easy it is to do business with a community. The process of filling out applications, finding and submitting supporting documentation, paying required fees, and scheduling on-site inspections can be a daunting prospect for a new business owner or an existing owner looking to expand operations.

In some communities these processes may not be conducive to development. Communities have often unwittingly created an unfavorable business climate by structuring a licensing and permitting process that is unnecessarily cumbersome, time consuming, and difficult to navigate for business owners. The licensing process for many communities has become so confusing that a cottage industry has sprung up around business licensing – from vendors who provide guidance on how to navigate the process to vendors who take on the onerous task of obtaining licenses (for a fee) on behalf of the business owner.



This much is clear: delays in the licensing process are costly, both for the city and the business. In one example, a restaurant owner in Salt Lake City complained that he could not get a city engineer out for a required inspection until eight weeks after his new restaurant location was supposed to open. At \$15,000 in anticipated revenue per week, an eight-week delay becomes a loss of over \$100,000 in revenue – a significant amount to a small business owner taking on the risk of expansion to a new location.

The craft brew industry, as another example on a larger scale, suffered a serious setback during the federal government shutdown from late 2018 to January 2019. Brewers were prevented from launching new craft beers because they could not obtain the required licenses due to the closure of the federal agency that regulates alcohol production and distribution. One unfortunate brewer had a brand-new location ready to open for business but was prevented from opening due to the licensing delay. Meanwhile, the costs for rent, utilities and equipment loans were mounting with no incoming revenue to offset the cost.

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In addition to lost tax revenue due to delays, a difficult licensing process may cost the city lost revenue from businesses who choose to operate outside the legal requirements. Home-based businesses, small trade services, and short-term rental hosts often become daunted by the licensing process and choose to operate under the radar, costing municipalities tax and fee revenue to which they are entitled. Evidence has shown that a clear, simple licensing process coupled with a communication outreach initiative can spur many of these operators to cross over and become legally licensed and taxed.

An example of this is Denver, Colorado, which launched a new, modern licensing system and initiated a targeted outreach campaign for short-term rental hosts. They saw an increase from an estimated 25% of all hosts licensed to an estimated 62% of hosts licensed – a compliance rate far higher than average for the short-term rental industry. When business owners were presented with a simple pathway to compliance, including a fully online registration system and online payment options, they showed a clear willingness to comply.

### Meeting Business Owner’s Expectations

Consumers of goods and services have a dizzying array of choices for virtually every conceivable purchase. Whether shopping for cars, shoes, legal services, or medical care, numerous options are available at multiple price points and service levels. When choosing business services, business owners are accustomed to having options for phone service, internet, package shipment, banking, payroll services, supply chain, and virtually every other service necessary to run a business.

However, government services have no competitive environment. Licensing and inspections are an effective monopoly for a critical business requirement. But while business owners may not have a choice of vendors for government services within municipal boundaries, business owners do have a choice of where to locate a business.

Government services exist in the same market as other services. Business owners expect services that are of high quality, delivered quickly, and at a reasonable cost. The consumerization of transactions has set the expectation that all services can be contracted and paid for online, at any time of day or night, as easily as buying something on Amazon or eBay. Services once considered too complex for online delivery – car sales, home sales, rental agreements, document signing, and healthcare services – are now routinely transacted online. Expectations for what constitutes a satisfactory transaction have changed. The default expectation now is 24/7 access, fully online-enabled, with constant communication throughout the transaction.

Business owners compare their experience with government services against all other business transactions the owner conducts, and the satisfaction level of the transaction is largely dependent on the convenience, speed, and service level offered compared with other vendors of business goods and services.

Municipalities that offer government services that meet these expectations of convenience and accessibility have the advantage in attracting new business over communities with outdated licensing systems, manual processes, and slow lines at the counter. As local governments look for ways to improve the experience of business owners, many have turned to a modern licensing system as a key way to improve the licensing and inspection process.



## Business Licensing for Today's Business Environment

Similar to the choices businesses face when contracting for services, government agencies face a wide array of options for handling the task of business licensing – from manual, paper-based processes up to large ERP systems and everything in between. To prevent becoming overwhelmed by options, it is helpful to focus on three key areas: the agency's needs (both short-term and long-term), the agency user experience, and the customer experience.

### Agency Needs

Consideration of a new licensing system often stems from dissatisfaction with the existing system. Perhaps the current system is cumbersome, doesn't scale well with additional volume, or doesn't have the modern features users expect. Maybe due to its age the legacy system is costly to maintain or causes lost productivity and efficiency. The existing system may even be a paper-based process and this is the first attempt to move to an electronic system. Whatever the reasons for dissatisfaction, it is imperative the new system resolve those issues – and hopefully a host of other issues as well.

When considering agency needs, both current and future needs must be taken into account to ensure the replacement system will have longevity. For example, agencies should consider the following:

- **Scalability** – Can the system adapt to changes in volume? Can system users, customer users, and transaction load increase without negatively impacting system performance?
- **System integrations** – Agencies are often impacted with changing requirements when an external agency with a data exchange requirement moves to a new computer system. Choosing a licensing system with an open API makes a big difference in cost and time requirements when faced with an unplanned system integration down the road.
- **Hosting environment** – Flexible hosting options are critical to ensuring a system can fit current and future needs. Modern licensing systems offer flexibility in hosting environments, from fully self-hosted up to SaaS-based systems hosted in the cloud.
- **Configurable** – Change is inevitable: systems change, processes change, requirements change. A modern licensing system must be configurable and easy to adapt for changing workflows and processes. The highly configurable nature of the system greatly extends the system's usable lifespan and lowers total cost over time.

### Agency User Experience

The experience of the day-to-day agency user must be given careful consideration when evaluating a licensing system. Poor workflows, unnecessary tasks, and repetitive actions create frustration and dissatisfaction among front-line workers who use the system daily. For optimum usability, a modern licensing system should have:

- **Automated workflows** – Modern licensing systems are capable of handling routine tasks automatically, without user intervention. Through a series of logic rules – customizable according to unique agency needs – the licensing system can automatically handle tasks such as route an application to a review queue, flag an application for manual review, or issue a license once all requirements are met. Staff involvement is only necessary to handle exception cases; the system handles all routine tasks in the background.
- **User dashboard** – The user experience is enhanced when users have a clear view of assigned tasks. Modern licensing systems present users with a dashboard of their assigned tasks. Users can work on tasks directly form the dashboard, and, as tasks are completed, the task is removed from the user dashboard. Users can also re-assign tasks to another user, or accept tasks from another user, to smooth out workload among the team.
- **Simultaneous review** – A limiting factor of outdated licensing systems is the imposition of a single-threaded review process. For license applications that must be reviewed by multiple agencies, this adds unnecessary delay to the review and license issuance process, as only one agency can work the application at a time. A modern licensing system allows simultaneous review by multiple agencies concurrently, with all users working from a single, shared record.
- **Mobile applications** – Business license approval frequently requires on-site inspections for fire, health, or building code compliance. Field inspectors are more productive with mobile applications that can work in an offline or online status, capture the inspection detail – including video or photographic evidence – and sync back with the main platform when online. Information from the onsite inspection is then used by the system to automatically move the application to the next step: route to another agency for review, schedule a re-inspection (for a failed inspection result), or issue a license (if a passed inspection was the final requirement).

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## Customer Experience

The end goal of stimulating economic growth through a modern licensing system can only be achieved if license applicants experience a smooth, hassle-free registration process. Modern licensing systems make it easy for customers to initiate an application, submit supporting documentation, pay associated fees, and schedule inspections online. To satisfy the expectations of today's business customer, a licensing system should offer:

- > **Online application** – Customers should be able to perform all licensing tasks through an online portal. From initiating an application, to uploading supporting documentation, paying fees, and tracking the application through the review process. Additionally, the customer should be notified of required inspections and be able to schedule an inspection date/time for all inspections online.
- > **Notifications** – Busy customers appreciate the convenience of email or text notification when the status of an application changes. The licensing system should notify customers by their preferred communication method once the application process reaches certain review milestones.
- > **Convenient online payment** – Customers should have a variety of online payment options to fit their preferred method of payment. Online systems should accept payments from credit and debit cards, eCheck or ACH, trust accounts, or bank accounts for maximum customer convenience.
- > **Account management** – Customers should be able to manage licensing and make payments online for multiple businesses through a single user account. This is especially helpful for customers with multiple locations of the same business type (such as franchise businesses) or who own multiple related businesses.
- > **Mobile access** – We live in a mobile society. Because of the consumerization of transactions, customers expect to be able to perform any task on a mobile phone or tablet device that they can perform on a desktop – including citizens interacting with their government. A modern licensing system must be fully functional to a mobile user, including the ability to initiate applications, review applications, upload documentation, make payments, and schedule inspections.

## Conclusion

While a city's licensing process is not the only factor that determines business owner satisfaction with a community, a modern licensing system can increase the overall satisfaction of business owners, making them more likely to continue to do business or expand operations within city limits. Outdated licensing systems can increase the time, cost and effort involved, thereby discouraging business owners from wanting to suffer through the process again.

An efficient licensing process can generate new revenue by encouraging non-compliant businesses to register and become compliant, as well as shortening the time to revenue by reducing the time required from initial application to license issuance.

Modern licensing systems offer a host of features that reduce processing times, allow staff to focus on higher-value tasks, and meet the usability expectations of staff users and customers alike. Upgrading to a modern licensing system can play an important role in improving the overall favorability of the local business environment, stimulating economic growth, and helping the community they work in thrive.



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