

Groundwork, Homework, Site Work, Clockwork

There is a lot of work involved. A deliberate analysis and a solid road map will lead you to a welcoming community, well suited to the new operation.

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For most executives, picking a location for a business is a task that appears only a few times over a career. The job of choosing the right community for an important operation is exciting, but also daunting. This checklist focuses on keeping the process as efficient as possible while keeping focused on a successful location.

Laying the Groundwork

Before you search actual markets and locations, look inward to understand your goals, geography, and project requirements. Invest the time to build consensus, assemble the right team, and gather pertinent data and projections.

- Build the selection team.** Be sure to include a cross-section of expertise, including financial, human resources, operations, and real estate.
 - Designate one person as project lead with time to devote to that role. This person should be adept at managing large amounts of data. This needn't be the most senior person on the team, but the project will need senior-level attention.
 - Decide on and engage outside professional assistance as required. Depending on the complexity of the business location decision and the availability of internal expertise, hiring outside assistance may ultimately

result in a quicker, more effective, and less expensive process.

- Accountant
 - Business location/site selection consultant
 - Real estate broker
 - Lawyer
 - Architect
 - Construction manager
 - Engineer
- Talk to peers from other companies who have recently chosen new locations.
 - Establish a timeframe for the process. Make sure it builds toward the desired "doors open" date.
 - Identify success drivers for the proposed location. Is labor availability the critical factor? Electric rates? (See Example 1 for more information.)
 - Define your project. You'll need this information as you move forward.
 - **Real estate options** — lease, build, retrofit, purchase, co-locate, etc. Consider how coming Financial Accounting Standards Board (FASB) changes relative to operating leases might affect your selection.
 - **Job creation** — How many jobs will your project create and/or retain? What does your ramp-up schedule look like?
 - **Investment** — What do you plan to invest in real and personal property? What does your ramp-up schedule look like?
 - **Wages** — What will you pay for key positions, and what do you esti-

mate as your average wage?

■ **Externalities** — Pollutants, environmental assessments

■ **Utilities** — Water and electric usage, and telecommunications requirements

✓ Determine the geographic scope of your search. Defining factors include:

- Supplier and customer locations
- Transportation requirements for people and/or cargo
- Time zones
- Weather patterns and risk of natural disaster
- Proximity to other internal functions
- International trade agreements
- Population/demographic constraints
- Language skills

✓ Get ready to pitch your project — Build a compelling story. You want your ultimate host community to feel good about your project. Identify the positives you bring, be they good-paying jobs, cutting-edge technology, increased tax base, etc. Be honest about the negatives involved such as traffic congestion and environmental impact, and be willing to look for creative solutions to offset them.

Doing Your Homework

The goal of this first phase — location assessment — is a list of communities that fit the project. The ideal starting point for assembling the list of location-specific factors is the information gathered in the groundwork

phase. Next, look at a broad list of possible communities and apply these criteria. The search could be as broad as an entire country, or it could be a comparison of 10 nearby markets.

✓ Assemble information about each location that measures your ability to succeed there.

■ **Demographics** — How does your industry fit into current demographic trends? Will the age of the population affect your business? Is the area growing or declining? Is the population base large enough to sustain your operation?

- **Wages** for your key positions
- **Risk** of natural disaster
- **Existing industry base** — Are there potential synergies with existing

Exhibit 1		Type of Operation						
		Manufacturing	Distribution	Headquarters	R&D	Call Center/Back Office	Data Center	
Labor	Labor Availability	✓✓	✓	✓✓	✓✓	✓✓✓	✓	
	Labor Quality	✓✓✓	✓	✓✓✓	✓✓✓	✓	✓✓	
	Labor Cost	✓✓✓	✓✓	✓✓	✓✓	✓✓✓	✓✓	
Cost	Cost of Doing Business	✓✓✓	✓✓	✓✓✓	✓✓	✓✓✓	✓✓	
	Energy Cost	✓✓✓	✓	✓	✓✓	✓	✓✓✓	
Utilities	Fiber Availability	✓	✓	✓✓	✓✓✓	✓✓✓	✓✓✓	
	Water	Varies	✓	✓	Varies	✓	✓✓✓	
	Large-Scale Power	✓✓✓	✓✓	✓	✓✓	✓✓	✓✓✓	
Access	Highway Accessibility	✓✓✓	✓✓✓	✓✓	✓✓	✓✓	✓	
	Air Accessibility (People)	✓	✓	✓✓✓	✓✓✓	✓	✓	
	Air Accessibility (Cargo)	Varies	Varies	✓	✓	✓	✓	
	Rail	Varies	Varies	✓	✓	✓	✓	
Business Continuity	Power Redundancy	Varies	✓	✓	✓✓	✓✓	✓✓✓	
	Natural Disaster Risk	✓✓	✓	✓	✓	✓	✓✓✓	
Amenities	Quality of Life	✓	✓	✓✓✓	✓✓	✓	✓	
Existing Business Base	Proximity to Suppliers	✓✓✓	✓✓✓	✓	✓	✓	✓	
Incentives	Incentives Environment	✓✓✓	✓✓	✓✓✓	✓✓✓	✓	✓✓✓	

Frequently Used Decision-Making Variables

Legend	
Decision-Making Variable?	Scale
Little Impact on Decision	✓
Important	✓✓
Critical	✓✓✓

CASE HISTORY

Example 1

A Canadian food manufacturer needed a new U.S. headquarters location to improve its access to growing markets in the eastern and southern United States. Because the relocation was across an international border, the company researched payroll, tax structure, and other structural cost differences in advance of pursuing a U.S. location. The company divided tasks between the operations manager and the accountant, based on area of expertise. This division of labor enabled both parties to field questions throughout the business location process without interfering with daily business operations. The company provided detailed information on employment positions, wage levels, capital investment, utility usage, and future year sales and volume projections. Because the client focused on the effect on its total delivered cost of goods, we first analyzed its distribution network to identify the target geography. After selecting a short list of communities, we evaluated the total delivered cost of goods based on candidate locations and compared them to the costs at the existing Canadian plant. This pared the list even further. The last stage was the real estate search, which was defined by predetermined, specific building requirements and a clear timeframe for opening the plant.

CASE HISTORY

Example 2

A Fortune 100 company sought a location for a new data center combined with a customer service center. The focus was on operational and business success and risk mitigation. Like most data center projects, location requirements focused on electric reliability, capacity and rates, and absence of natural disaster risk. Adding the customer service center to the mix brought requirements of air travel connectivity and visibility. Since the site would be a backup for an existing data center, suitable geographies were in a doughnut-shaped pattern (not too close, not too far.) The top-ranked locations were not the “usual suspects” for traditional data center projects because of this hybrid requirement. Even so, the candidate pool had a low risk of natural disaster, low operating costs, and aggressive electricity rates. Finding the unique balance of factors essential to a project’s success can point to both conventional and atypical locations.

CASE HISTORY

Example 3

For a start-up operation the location decision is especially important – and complex. In addition to the traditional factors, some start-ups face pressure from financial backers to locate in certain geographies. Timing becomes especially critical when venture capital funding is involved — or recently, DOE funding for the clean energy companies. Meanwhile, the company’s scientists and engineers may still be working to refine production processes, making it hard to pin down projected employment and investment numbers. Additionally, management isn’t likely to have had prior site selection experience and may require a longer learning curve. At the same time, there are typically fewer levels of management to work through, fewer unrelated distractions, and a lot of excitement and enthusiasm.

companies? Does the industry base create competition for a specific labor pool?

- **Transportation infrastructure** — Does the community have ample highway infrastructure for people and cargo movement? Is there access to alternate forms of transportation such as rail? What is the airport’s domestic and international reach?
- **Utility rate and availability**
- **Tax rates** (income, property, sales, etc.)
- **Government transparency** (most applicable for multi-national searches)
- **Payroll costs** (workers’ comp, unemployment insurance)
- **Occupation and skills assessment** — Balance an ample labor force with necessary skills while controlling for cost.
- **Language skills**
- **Client-specific needs** — Keep perspective on how these factors weigh on the business location decision. Too much emphasis can eliminate stronger overall locations.



Analyze the data

- Compare location ranking for multiple weighting scenarios

- **Test for sensitivity** — When data changes, how much does it matter? For example, our call center clients ask that we analyze what happens to labor availability if a competing call center moves into the same market.

Once you’ve gathered data, weigh the importance of each attribute. The weighting should incorporate the thinking of the entire company, based on interviews with every affected department. In some cases, multiple versions of the weighting exercise are needed to address suitability for all parts of a company. Weightings that emphasize specific factors — such as utility cost or labor pool depth — allow for more objective decision-making. This method can uncover communities that rank high regardless of weighting and also identify locations that can best meet the needs of a specific situation.

Off-the-shelf community rankings and canned analyses don't reflect the specifics of your company — so your analysis should be customized. Yet for each type of business, key variables appear, e.g., labor cost and accessibility for a manufacturing operation. The accompanying matrix (Exhibit 1) assesses six common project types against frequently used decision-making variables.

Performing the Site Work

Once you have a short list of target communities, it's time to start looking for available real estate.

✓ Notify search channels in your targeted communities (real estate brokers, economic developers, etc.) of your requirements. Be clear and direct with the information you request and the format in which you request it. This will make life easier going forward. Be sure to ask about:

- Utility availability, redundancy, and cost
- Access to site/building
- Environmental issues and restrictions
- Zoning and neighboring land uses
- Site/building history
- Technology amenities such as fiber or uninterrupted power supply
- Whether the site/building is in an incentive zone
- Flood zones

✓ Refine earlier analysis. For example, earlier in the process you considered the demographics of whole communities. Now you can refine those statistics to consider the demographics surrounding a specific site.

✓ Select two to three sites/buildings in each community.

✓ Visit short-listed sites/buildings. A picture may be worth a thousand words, but you'll need a lot more than that to make an informed decision.

✓ Prepare financial pro formas on at least your top three sites/buildings. Be sure to include sites/buildings in at least two different communities. Even if there is a clear leader at this point, it's advisable to have a Plan B. By now you should be able to include some estimates of potential economic development incentives in your pro formas.

Note that some projects are constrained by the availability of specialized facilities. Plug-and-play call centers, data centers, and mega sites are examples. For these projects, it may be necessary to reverse the sequence, starting with site identification rather than market evaluation, or melding the two.

Run It Like Clockwork

At this point, you're ready to enter serious negotiations. One could write pages of checklists for this part of the selection process, both for the real estate negotiations and the incentives negotiations. Instead, here are a couple of key concepts to keep in mind:

✓ Closely coordinate all activities. Timing is everything at this stage. Real estate negotiations must be coordinated with

economic development incentives negotiations. Incentives frequently have a "but for" clause attached to them, e.g., you have to attest that "but for" the incentives, you would not put your investment in a given location. If you have already locked down the real estate, it will be very difficult to make the "but for" case.

✓ Conduct your own market research. Have a good knowledge of average real estate prices in the area. Seek out "comps," i.e., details on recent, similar property transactions. Knowledge is power — and leverage. Likewise, learn what you can about economic development incentive packages awarded in the past to projects similar to yours.

Preparing for Challenges

Surprises invariably emerge. Whether they derail or delay a project is a matter of planning. Being alert to potential challenges may help you avoid or minimize their impact. Considering the following points before encountering an obstacle can help keep a project on track:

✓ Keep consensus on the management team. Despite your best laid plans, internal team conflicts may occur due to personal biases or the sense that the process has begun to favor one group's needs over another's. This is when you can point to the careful work done in the planning stage and remind everyone of the overall goals of the project and the objectivity of the analysis process.

✓ Stay focused over time. During most projects, there comes a time when management is distracted with other issues and not able to move forward as quickly as planned. Be realistic when forecasting the amount of time your internal team can devote to the project, and expect the unexpected.

✓ Maintain confidentiality. Rumors move fast and can distract your work force, tip your hand to competitors, and damage relations with your host community. Use a project code name instead of the company name, and remain anonymous for as long as possible. Using an outside consultant enables you to stretch this period of anonymity, but at some point you will need to reveal your identity to move the project forward. Stay in touch with your legal counsel throughout the process and be ready to put an NDA (non-disclosure agreement) in place when you need to share confidential information.

✓ Things will change — Adjust course as needed. Favored locations outside the project scope, changes in the competitive landscape, and financial changes are common examples. Consider each of these challenges separately, and determine whether altering the scope adds value or is merely a distraction.

✓ No location is perfect. Top ranked cities may be geographically remote, lack the lowest electricity rate, or possess other undesirable attributes. The key to success is being able to quantify the trade-offs and understand their impact on your operation. ■