A Step-by-Step Guide to a More Strategic Site Selection Approach

At every step in the process of choosing a site or facility — including specific objectives and cost comparisons — care must be taken to verify that the effort is aligned with the business' long-term goals.

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The challenging economy of the past few years has had a significant effect on businesses' expansion and relocation plans. Even many large, well-capitalized organizations have taken a step back to revisit their long-term growth plans. The same economic pressures are being felt in communities that are competing to attract employers.

It can be tempting amid all this uncertainty for expanding or relocating businesses — and the site selection consultants who help them — to simply drive harder and demand more in the way of concessions and incentives from states and communities. This natural tendency, however, ignores two simple facts: First, communities that are competing to attract employers are all feeling the same economic pressures, causing many to reconsider their ability to offer significant concessions; and, second, no matter how generous an incentive package might be, it is extremely unlikely that any combination of incentives can turn a poor site into a suitable one.

Rather than beginning the site selection process by focusing on specific incentives or selection criteria, those charged with making such decisions would be better served by taking a more strategic view of the process. Such a strategic outlook coupled with a methodical, step-by-step approach is more likely to produce a satisfactory choice.

Step One: Start With the Strategic Plan

Whenever an organization is considering an expansion or relocation, the first thing the site selection team should do is review the current corporate strategic plan and vision. Where does the company's leadership want to take the company in the next five or 10 years? How do they see the company growing — not only from a physical standpoint but also in terms of other factors such as technological advances, human resource requirements, new products or services, new markets, new distribution channels, and new suppliers.

This review then leads to the more immediate question: How does the site selection project that is now being launched support the company's strategy and vision? For example, does a manufacturer's strategic plan envision a few large distribution centers, or does it call for more numerous, nimbler facilities that are closer to customers? What role will international sales play in the business? How will the company's supply chain evolve in the years to come?

At every subsequent step in the site selection process, care must be taken to verify that the effort is still aligned with the long-term direction of the business. It is easy to get diverted by particular incentives or quality-of-life considerations and to lose sight of the big picture. Starting with a review of the strategic plan provides grounding and direction for the rest of the process.

Step Two: Spell Out the Specifics

Once the site selection team has a clear picture of the forest, it's time to start focusing on individual trees. In other words, verify the specific expectations for the new site. What will be its primary function? What specific physical and infrastructure requirements are necessary? What work force requirements are associated with the move?

Typically, answers to such questions will have already been spelled out in the internal capital appropriation request that launched the site selection process. In addition to estimates of the initial acquisition and building costs, this document generally will also include expected benefits and an estimated return on investment.

The site selection team should also look to the capital appropriation request to determine how many jobs will be associated with the project, including estimates from the human resources group regarding job classifications, expected wages, and long-term payroll-related costs associated with the facility. These will be needed to evaluate various job creation incentives that might be offered.

Now is also the time to develop the critical selection factors checklist for this particular site. The annual Area Development site selection surveys provide dozens of examples of such factors, such as highway access, skilled and unskilled labor availability, energy costs, communications and utilities infrastructure, raw materials access, and tax considerations, to name just a few.

The list of critical factors will vary with each site selection project. Certain factors will be absolute "must-haves." Other features might be desirable but not necessarily deal-breakers if they are missing. For a manufacturing site, for example, rail and highway access would be critical for both incoming raw materials and outgoing finished product. Lack of access would effectively rule out a site, regardless of any tax considerations or other incentives. For a call center or sales office, on the other hand, rail and highway access are much less important — unless there is a chance that the facility might be expanded to include a distribution function later on. Here again, the organization's long-term strategic plan provides valuable guidance into whether that possibility should be considered.

Certain qualitative factors also could enter the picture. These include the local educational system; crime rate; housing costs; amenities such as cultural events, sporting events, and recreational facilities; and the overall business climate. Typically, such quality-of-life considerations will be of greater concern when relocating an existing facility and employees rather than opening a new facility. In either case, however, qualitative issues generally should not be the driving factors in the decision. The site has to make sense from a quantitative perspective first — which brings us to the next step.

Step Three: Delve Into the Numbers

Once the initial list of viable sites has been narrowed down to a manageable short list, it is time for a detailed, long-term cost comparison of all candidate sites. Any incentives that are offered can be considered only in the context of such a comprehensive analysis, which will usually encompass five general cost categories:

- **1. Labor costs:** The site selection team must coordinate with human resources to identify and classify the planned payroll, including salaried and hourly positions. Average hourly wages and a projected inflation factor should be built into the cost model, along with associated benefits, as well as unemployment insurance and workers’ compensation costs. The cost projections should extend out over a period of time that is equal to the longest-term incentive being offered by any of the sites being considered.

- **2. Site costs:** These include land acquisition, building, and material and equipment costs. In many cases, a portion of these costs can be offset by local or state credits and incentives for equipment purchases or by grants for acquiring land.

- **3. Transportation costs:** As noted earlier, a lack of adequate access could eliminate a site from consideration altogether, but beyond meeting the business’ minimum requirements there will be additional variations in the ongoing transportation costs associated with each site. Again, all such costs must be projected out over the duration of the longest-term incentive being offered.

- **4. Utility costs:** As with transportation costs, utility costs are not necessarily a major factor in every site selection project, but energy, water, sewer, and pollution-control costs can be significant for manufacturers or other energy-intensive operations. This is another area where community incentives can play an important role in reducing costs.

- **5. Tax costs:** Unlike some of the other cost categories, taxes are always a serious concern. But taxes also are an area in which state and local governments play an obvious and very direct role in the form of payroll, property, and state income taxes as well as sales tax exemptions or adjustments.

Compiling these costs will require input from a number of internal departments, including human resources, payroll, legal, real estate, accounting, tax, and government relations. Once all cost data is compiled, the site selection team can perform a comparative present-value analysis of total net costs — after incentives — across each of these five categories. The goal is to get the most complete and accurate long-term projection of the total present-value costs associated with each of the sites being considered.

If the net cost differences are clear, the decision is greatly simplified. If several sites’ long-term cost pictures are relatively close, however, the quality-of-life factors mentioned earlier become potential tiebreakers. Site visits and other qualitative criteria also can tip the scales.

One particularly useful practice is to interview other employers in the community being considered, ideally under the protection of a nondisclosure agreement. Their view of the local business climate can be revealing. What's more, the relationship can help pave the way for good community relations once the move is made.

Step Four: Make It a Good Strategic Move for Everyone

The phrase "win-win" often is overused, but it is certainly applicable to the site selection process. In order for a site acquisition or relocation to be considered a strategic success, it must not only meet the company's objectives, it must also be a "win" for the local community and state. If a project is large enough, it can attract a lot of incentives, but it is important that the company actually be able to take advantage of them. For example, the initial costs associated with a new location often mean that a new facility might not be profitable for some time. In such a case, certain income tax incentives that appear quite attractive could actually be less useful in the initial years. A savvy site selection team might want to consider asking for other up-front incentives instead.

At the same time, however, the company also must recognize that government agencies and business development organizations face pressures of their own. With increasingly constrained local and state budgets, these groups are under constant scrutiny from taxpayers who — understandably — expect that grants, tax abatements, job creation credits, and other incentives will be offered judiciously and used effectively. For these and other reasons, a number of states and localities are turning to performance-based incentive methods in which the benefit is reduced if certain hiring commitments are not met, but increased if goals are surpassed — again, a "win-win" for all concerned.

Finally — as a matter of strategy — one should always be very careful when negotiating incentives. Don't burn bridges, and don't make threats or demands. The community that comes in second in this particular site selection project could very well be the top contender on another project, so the smart strategy — for expanding companies and site selection consultants alike — is to be honest, be fair, and keep communication open.