

CRITERIA CONFLICTS

Beware What You Wish For





Beware what you wish for your when searching for a site for your company's expansion or relocation. You may get what you ask for.

So warns one of the country's leading site consultants, Dennis Donovan, senior managing partner of the Wadley-Donovan Group, Morristown, N.J., which specializes in business location and relocation.

Donovan has watched many site selection committees begin their searches by developing a set of criteria for the new location that is overly restrictive, eliminating from competition locations that may actually be the best choices for that new facility or office.

Understanding that search criteria often conflict with one another, such as quality of life versus an affordable labor pool, and beginning searches with criteria that are more inclusive, rather than exclusive, can greatly increase the chances of finding the optimal area for an expansion or relocation, Donovan stated.

"The challenge for many companies today is to understand how various criteria can be in conflict with one another, and to agree on what is absolutely essential and overriding from the very beginning and how much trade off you're willing to give on other important criteria that aren't in an essential category," he said.

"Companies need to understand how conflicting location criteria can sub-optimize a site search," Donovan said, adding that the same recurring criteria conflicts often sabotage site searches.

"Many of these dynamics are driven by the fact that labor is drying up in this country and it's becoming increasingly difficult to find viable markets for labor, and so companies have to go off the beaten path, vis a vis what was considered the beaten path before. It's absolutely critical. And that means Utopia is not out there. You're not going to find the greatest quality of life, the best air service and a cheap labor market with good people. It

doesn't exist. You're going to be forced into these trade-offs."

CONFLICT #1

— PROXIMITY TO INTERSTATES

Access or very close proximity to an Interstate highway, or at the very least, a major, limited access, four-lane highway, is often a make-or-break criterion for many manufacturers or distributors, said Donovan. The conflict this creates, however, is higher wage rates in areas closer to this type of road access—everyone wants to be there.

"Very few customers impose immediate delivery," said Donovan. "In auto parts they do, but in most industries, if you have first-morning delivery, that's all you need. You can often play around with an hour here and there and still offer first-morning delivery to your major customers."

"No question, easy access to major roads is desirable for many manufacturers and for most distribution centers," Donovan said.

"However, there are many companies which could stand another hour or two in terms of total delivery time to their customer base. What you have to look at is what is going to make a company competitive. If you give up an hour or two in delivery time but are able to achieve substantial savings in payroll costs, occupancy costs, taxes, have the flexibility for growing in the future, are not subjected to severe wage escalation pressure and are able to maintain a more captive role in the labor market for several years, that allows you to lower the price of the product and ensure its quality.

"You have to look at the totality of the package," said Donovan. "Look at that extra delivery time against what a location an hour or two away on an improved, two-lane highway is going to buy you in terms of what you can produce, in terms of the quality and cost of the product or service for your customers."

"If everybody goes to the same places, like the intersections of the





Interstates, then you're back into that competitive situation where wages are higher," said Donovan. "It doesn't mean you have to necessarily wind up doing it, but allow yourself the option to investigate the possibility by beginning your search with more inclusive criteria and look at the big picture."

CONFLICT #2 — WEATHER CRITERIA

"There's the common perception that the snow belt is going to produce

far more down days than a sunbelt location and that's absolutely not true," said Donovan. "When you look at many places in the snow belt, the actual down days of business are not greater than, and are many times fewer than in a sunbelt location, because when snow hits in a northern location, they are fully equipped and the population is used to going to work. Occasionally there may be some down time, there's no question about it, but when you look at the severe weather in the

Sunbelt, in terms of flash floods, lightning, severe thunderstorms, tornadoes, hurricanes, ice storms — believe me, you do get down time. It's a misconception to think that there's no down time in the Sunbelt, so to completely eliminate many states that might have tremendous labor markets and other location resources because of some perception that you're going to have slightly more down time is a real mistake."

One way to make an effective evaluation of how the weather affects business in a particular area is to research the number of hours that a particular airport was closed due to inclement weather in prior years. Ask the local economic developer for these statistics, since they may not be readily available from a national source.

CONFLICT #3 — QUALITY OF LIFE VS. AFFORDABLE LABOR

Too often, companies feel they will not be able to transfer key staff if they do not relocate to an area with a high quality of life within 10-15 minutes of the location. The obvious criteria conflicts emerge when areas such as labor supply, cost and quality are then measured in these locales. In short, a higher quality of life often means higher labor costs and other, increased operating expenses.

"Quality of life versus a competitive labor pool is a major consideration when evaluating any community," Donovan said. "Understanding the trade-offs between the two at least gives the company the option of being more inclusive at the beginning of a search



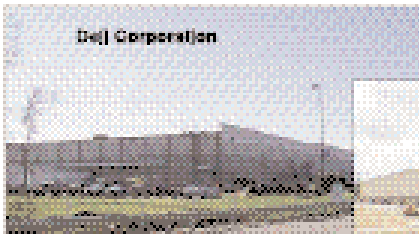
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rather than less inclusive. It may come down to the fact that a company will want to give a much higher rating to quality of life and transferee appeal, but see what the trade-offs are and relax that criteria in the beginning, otherwise you're going to drive yourselves into higher-cost markets.

"For a company that has a predominantly hourly workforce where the cost and the quality of hourly labor is very important, being in an area that is going to enhance the ability to relocate a handful of professional, managerial talent could greatly diminish a company's ability to locate in a competitive labor market," Donovan said. "It's a common mistake. You can't say that it's unimportant to be able to relocate staff members, but most companies with fewer than 25 staff members should be able to locate just about anywhere in the country and be



able to get those employees to move," Donovan said.

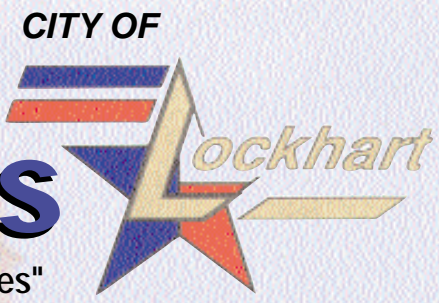
"If the quality of life you want isn't there, there will usually be enough diversity within 30-45 minutes of any community to be able to attract the handful of people you need. There are numerous examples of manufacturing plants strewn throughout the country in smaller communities. I want to see labor market dynamics in any smaller community, typically within a 20-30 mile radius of the site, and then I want

to see quality of life opportunities within a 45- to 60-mile radius.


"Labor market dynamics are in large measure outside the control of the company," said Donovan. "You can't really change the supply and demand that you're going to face in a particular market, but you can do a lot about recruiting people. You can give them bonuses, for example, and it's not going to be that costly. You recruit regionally. You invite prospective hires and their families out

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for free trips, even on the interview. There are many things that can be done, and we've seen many companies headquartered in smaller communities around the country who recruit large numbers of people, such as Wal-Mart in Bentonville, Ark."

"It's a frequent conflict, and in this day and age of low unemployment, you certainly need to be in an area, from a quality of life standpoint, that at least gives you the base capability of doing regional and national recruiting. We're not talking about R&D and the design end of a new economy market, we're talking about bread and butter manufacturing plants, back office and so forth.

"In areas that have challenged labor markets, generally speaking, the perceived quality of life is going to be far less attractive, there's no doubt about it. However, if the labor market is less competitive, you get the benefit that occupancy costs and other operating costs are going to be lower.

"Typically, the higher emphasis is placed on perceived quality of life: the best school system; the best housing; the best private schools; culture and recreation. But you pay a price for being in those areas."

A negative perceived quality of life offers another advantage to companies, Donovan said.

"If you can, with a lot of hard work, get your 10-15 people to move into an area with a lower perceived quality of life, which most companies should be able to do almost anywhere, then, the perceived quality of life issue becomes a barrier to other firms moving into the area, which is what you want. You want to have more of a captive labor market.

"Now, for certain types of companies, such as design of new economy, research and development, High-tech, and IT centers, perceived quality of life is critical. With those kinds of companies, labor cost isn't that critical; you've got to get the best people and hold on to them. Quality of life is much more important than the hourly labor pool of the market. You want to recruit a critical mass locally, but you've got to be able to recruit regionally and most times nationally the best available talent. In that case, if you're a hot company and people come to you because of who you are, you can beat your competitors because of where you are.

"If you're going to go out and locate a new facility, you should also have the location working to your advantage and separate, 'We've got a great thing going because of who we are, but we can get unsolicited resumes because of where we are, that's an added advantage that many of our competitors may not have, so let's make location, and hence, quality of life transferee appeal, a major component of where we're going to locate the new facility.'

"For 25 percent of businesses, that factor would be very important. For the remaining 75 percent of businesses, the importance is probably overstated, and hence companies are giving up substantial dollars unnecessarily."

CONFLICT #4

— PROXIMITY TO AIR SERVICE VS. AFFORDABLE MARKETS

Another criteria high on many site committees' list which creates a conflict is accessibility to air service, according to Donovan.





“The areas that have the best, national air service tend to be the most expensive locations,” said Donovan, explaining that similar to being near major interstates, markets which are close to major airports have higher wages, cost of living and operating costs.

“On the white-collar side, there is often an over premium placed on air service. ‘We need one-day travel itinerary back and forth.’ How critical is it to give up substantial operating advantages, such as labor availability and cost, versus significantly more convenience for a handful of people? I’m talking about branch operations, satellite facilities, branch plants and so forth. I’m not talking about R&D and headquarters.

“That’s a real trade off that has to be assessed up front and companies have to know that imposing that type of criterion moves any company higher in the food chain when it comes to location and hence they’re going to be in more competitive in costly markets. If companies are willing to pay the premium, they at least need to know up front that there will probably be a significant premium by imposing that kind of a criterion.

“Should it assume primacy for higher-end businesses that have a very significant level of professional staffs within their populations? No question about it. It makes sense for R&D, headquarters, IT centers, because, many times you need to get back and forth to multiple facilities to do project work.

“For back offices, shared services centers, distribution centers and manufacturing plants, generally speaking that should not be a major issue and often times it is.

CONFLICT #5 — UNION VS. RIGHT-TO-WORK STATES

Most companies that are relocating to new facilities desire to remain non-union, and many companies believe that to ensure they remain non-union is to locate in a right-to-work state, and that’s not true.

“There are only 20 right-to-work states, and labor markets are dramatically diminishing in this country,” said Donovan. “Unless you are relocating from a union situation and you need every conceivable advantage to stay non-union, a right-to-work state should only be considered an additional plus, not a necessity. Most,

well-managed businesses can go into many non right-to-work states where the majority of companies are going to be non-union, where there’s been little activity and where, if the business is managed properly, you don’t have much of a problem.”

“And whether or not you are in a right-to-work state, unions are on the warpath anyway, so, you’ve got to be careful no matter where you go. Yes, right-to-work states give you some more protection, because if you’re unionized, the union is weaker, but you shouldn’t even have to get to that. Believe me, if the company is not managed properly, you will be union, or you will have a union run at you any place in the country.

The key thing is to figure out, ‘What are we going to do right to manage our business?’ and then pick the best labor markets and look at unionization characteristics within a particular market and many times you’ll find some real gems out there in terms of non-union operating environments. Many of them are in right-to-work states, but many other locations will be in non right-to-work states, so don’t be too restrictive in the beginning. You can always be restrictive in the end, but a cardinal mistake that I see many companies make



that do these studies, particularly those that do it on their own, is being too restrictive at the beginning. You don't know what you've given up if you're too restrictive at the beginning.

CONFLICT #6

— MINIMUM POPULATION SIZE VS. ACTUAL LABOR AVAILABILITY

Search committees often impose a minimum population size on candidate areas, most importantly to ensure sufficient availability of labor. Because of the form in which population demographics are available to site selectors, however, viable communities are often incorrectly eliminated from a site search, according to Donovan.

"We know that data are available today on a metro or a county level, so you find companies screening areas where the population is usually double the size of their desired labor pool," Donovan said.

"That's a mistake because population demographics don't reflect the fact that in almost all counties, with the possible exception of out West, where counties are large, political subdivisions don't reflect the dynamics of a commute zone. For example, if we see a county that only has 12,000 people, we may look on the map and find out that it's within 15 miles of four other counties and the population a company has to draw from is actually 50,000. Certainly in the eastern two-thirds of the country, you want to lower that two-to-one population versus labor ratio by at least 40 percent."

"Nobody's hiring unemployed people today, you're hiring people who are already in the labor market. I recommend that companies locate in areas where the head count of the facility will be no more than one percent of the local labor market," Donovan said.

"Most companies have a tendency to be more exclusive in the beginning, and in this day and age, with very few communities having available buildings, with very few communities having favorable labor markets and affordable costs, by being exclusive, there are going to be a lot of great locations that will be eliminated and companies will

have a good chance of paying the piper down the road.

"Don't start with your dream scenario, because in today's economy, it doesn't exist. My strong advice is be more inclusive up front, and see where the chips fall. You can always get rid of places, then you can be more exclusive. And unfortunately, site searches are done just the opposite way.

"Whoever follows these precepts is going to do a whole lot better in their next search," said Donovan.

"I guarantee you that." X

