Human Resource Challenges in a Corporate Relocation

Corporate relocation's significant benefits, such as substantial savings and qualitative advantages, need to be weighed against the considerable risks.

By Dennis J. Donovan, Wadley-Donovan-Gutshaw Consulting

Relocation Drivers

Companies relocate business operations for a variety of reasons. Whatever the motivating rationale, the bottom-line goal is to improve competitive position and business performance. Many companies relocate for non-financial reasons, such as getting closer to customers.

Typically, corporate moves for the following operations do not yield a positive economic payback: corporate headquarters, research and development, regional offices, service centers and data processing centers. Generally speaking, these kinds of entities have employee populations dominated by professionals (exempt personnel) wherein geographic salary differentials are more compressed.

On the other hand, there are several types of business entities wherein relocation is driven by the imperative of lowering the corporate cost structure. Such entities often include manufacturing facilities, distribution centers, customer service centers, shared services centers and various back-office operations. These enterprises usually have a high proportion of hourly (non-exempt) employees wherein geographic wage contours can be markedly different.

Figure 1 Illustrative Motivating Rationale for Corporate Relocation

Cost-Driven	Non-Cost-Driven
Primary reasons	**Customer proximity**
Labor cost	Air access
Real estate cost	Business continuity/risk mitigation
Consolidation efficiencies	National recruiting (primarily for HQ & R&D that have grown up in small towns)
Secondary reasons	Proximity to industry peers and support network
Utilities	Inject new talent/accelerate internal change
Transportation economics	Corporate image to reinforce renewed business strategy
Taxes	Union avoidance (applied mainly to mfg.)
Incentives	Improved labor market conditions (less competition, greater availability, lower turnover and cost)
Rarely a driver	
Rather play a distinguishing role among qualified locations	

When contemplating a potential relocation, executive management must ascertain and prioritize the overriding reasons and likely benefits of moving targeted business units. Figure 1 depicts some of the motivating forces underlying corporate relocation.

The Analytical Process

A structured approach should be followed to determine whether to move and, if appropriate, where to move. A three-phase analytical process includes phase one, discovery and definition; phase two, feasibility; and phase three, location selection.

Phase Two: The Feasibility Challenge

In this phase, executive management needs to make an informed decision on whether relocation comprises a prudent business strategy. Principal tasks involve delineation of the following:

1. Base case for comparison purposes (e.g., remaining at the existing site)
2. Base case profile (e.g., headcount, real estate, business costs)
3. Post-relocation operating requirements (year one and future) such as staffing
4. Relocation scenarios
   - All business units move to a single site
     - Short distance (within the current site's commute zone)
     - Long distance (beyond the current site's commute zone)
   - Split operations, e.g.,
     - Designated units remain at existing site and the remainder move either short or long distance
     - Designated units move short distance and the remainder relocate long distance
   - Hub/spoke
     - Selected operations move to a larger metro area
     - Remaining units relocate within a pre-determined distance (e.g., two-hour drive or one-hour flight) of the hub site
5. Illustrative locations to utilize for study purposes
     - Sample areas most likely capable of supporting business operational needs
   - Not necessarily optimal locations
6. Quantification of relocation's impact (for each scenario)
   - Human resource effect
   - One-time costs
   - Real estate

Dennis J. Donovan, *a 30-year veteran in the corporation location industry, is a principal of Wadley-Donovan-Gutshaw Consulting. Based in Edison, N.J., the firm counsels major corporations on the geographic deployment of business operations. WDGC has conducted relocation studies for companies across the industry spectrum.*

- Miscellaneous (e.g., change of address, travel)
- Contingency (often 5 percent)
- Total
- Annual (recurring) costs
- Payback (typically 10-year NPV)
- Potential operational improvements, e.g.,
  - Greater supply of well-qualified labor
  - Better national recruiting
  - Closer proximity to customers
  - Better access (air) for staff or customers
  - Ability to operate union-free
  - Ability to accelerate pace of internal change
  - Bringing talent together under one roof to become more aligned with new business initiatives
- Providing greater flexibility to accommodate future growth
- Reducing business disruption risk (data, facilities, people)
- Reinforcing desired new corporate image

8. Ranking of relocation scenarios vs. base case
   - HR impacts
   - Cost impacts
   - Other impacts
   - Synopsis
     - Risks
     - Rewards
   - Ranking (support of business strategy)
9. Feasibility decision
   - Go or no go
   - If go,
     - Which scenario
     - Target date

To illustrate the feasibility concept, Figure 2 represents metrics from a recent WDGC client study based on 1,100 people and 300,00 square feet. The situation involved potential relocation of a Fortune 500 corporate headquarters from a major Northeast city.

As can be seen from Figure 2, relocation comprises a marginal financial proposition. Payback period would span from five to seven years. However, once nonrecurring costs are recovered, annual operational expense savings approximate 12 to 16 percent.

Relocation, while not a financial slam-dunk, is not deleterious from an economic standpoint. Projected attrition falls within acceptable bounds and would allow for a significant infusion of fresh talent. In addition, relocation satisfies two other key objectives: greater growth flexibility and intellectual capital risk minimization.

Consequently, senior management decided on relocation from the Northeast. A study is now under way to select the best long-range location. Tier 2 metro areas will be considered because they offer both maximum savings and ease of achieving “employer of choice” status. Of course, versus Tier 1 metros, the second-tier areas have several drawbacks. These include less-frequent air service, lack of a truly global business platform (e.g., support services) and greater reliance on national recruiting, as local professional talent pools are thinner. These tradeoffs will be examined and weighted in the location selection phase.

Location Selection/Screening

Once a company decides to move business operations, the next challenge that must be resolved is “where.” To resolve this challenge, a two-stage process is followed.

Stage One

In the first stage, an iterative procedure is followed wherein candidate locations are systematically eliminated until a short list (typically three) emerges. The finalist locations offer the greatest potential for satisfying critical operating requirements.

To identify finalist locations, a structured process must be followed. At the outset, fundamental criteria are employed to reject obvious unacceptable locations. Depending on the nature of the business, such criteria could include minimum population size, airport hub status, time zone and distance to major customers.

Intermediate stage criteria are then interjected until a long list of some 10 promising areas surfaces. Criteria utilized to generate the long list might embrace population and household income characteristics, labor force trends including employment by industry and occupation, average salaries by pertinent occupation, average construction costs or lease rates, presence of onerous taxes, distance to interstate highways, and costs of utilities.

Until this juncture, research typically embraces statistics from published and private data sources. Most of these sources can be accessed online. Some are free (e.g., U.S. Bureau of Labor Statistics) while others require a modest fee (e.g., wage data from sources like Salary.com or Wageweb).

Stage Two

Once a long list has been created, it is time to collect more detailed information from appropriate economic development agencies. Such information should provide insights on considerations such as competitive labor market conditions, wage levels from local surveys, unionized employers and election activity, transportation services, office or industrial space availability/cost, telecom and electric power infrastructure, specific taxes and possible incentives.

Longlisted areas must be contrasted and ranked. A factor weighting/area scoring model should be utilized to accomplish this task. In the model, individual factors are aggregated into several broad categories such as the labor market, business operating conditions, business costs and the quality of life.

In ranking the long list, examine the range by factor for all areas. Then interject insights on what the data means and the extent to which disparity among the areas should be rated. Comparative ratings are then tabulated. Typically, the long list will divide into tiers (excellent, very good, good).

Selection of three or so finalist areas is now possible, grounded on a well-thought-out research approach. Shortlisted areas are carried forward to the next analytical phase.

Location Evaluation/Selection

Each finalist location should be subjected to comprehensive, firsthand evaluation. The primary objective is to determine the best match between an area’s evolving locational attributes and the business’ forecasted operating requirements, especially human resources. Representatives from the company’s project team visit

Figure 2 10-Year Cost Summary for a Corporate HQ Relocation

	Base Case		Tier One Metro		Tier Two Metro	
Company	**Year One**	**10 Year**	**Year One**	**10 Year**	**Year One**	**10 Year**
One-time cost						
Human resources	$0.0	$0.0	$56.2	$66.1	$58.3	$68.6
Real estate	3.5	3.5	8.4	8.4	8.4	8.4
Other	0.2	0.2	4.1	4.6	4.6	5.1
Subtotal	3.7	3.7	68.7	79.1	71.3	82.1
Difference vs. base case	--	--	65.0	75.4	67.6	78.4
Annual cost (NPV)						
Payroll	$94	$752	$87	$688	$82	$650
Real estate	12	96	7	58	5	43
Taxes	4	32	3	26	3	32
Incentives (offset)	2	4	4	11	6	14
Subtotal	108	876	93	761	84	711
Savings	--	--	15	115	24	165
Years to recoup net one-time cost	--	--		6.8		4.7

each area to gain empirically derived insights on the locational fit for the targeted business.

Generally speaking, field visits can be arranged by either the state or local economic development agency. It is usually important to demand total confidentiality from these entities. To help the ED organization optimize service, it is a good idea to supply a thumbnail sketch of the project (e.g., staffing, real estate, payroll, capital investment, etc). Field study is composed of the following:

1. Confidential interviews with comparable employers to learn of their recent operating experiences and opinions on future conditions (e.g., competitive demand for requisite skill sets, employee recruiting/retention, starting wages necessary to generate a sufficient flow of qualified labor, workforce quality)
2. Confidential interviews with other groups who can shed light on overall labor market and business operating dynamics, e.g.,
   - State job service
   - Personnel agency
   - Executive recruiter
   - Local chapter of Society of HR Managers
   - Education/training officials
   - Economic development groups
3. Tours of available sites and/or buildings meeting basic criteria
4. Tours of current/emerging commercial/industrial areas
5. Viewing area maps to ascertain if potential sites are closer to resident labor pools vis-à-vis competitor employers
6. Request of the lead economic development agency to offer a preliminary incentives package

Once field studies are completed, results must be analyzed and interpreted. During this time, revert back to the critical business objective and the most important locational criteria. Each area should then be ranked predicated on its attractiveness both over the short haul and longer term. The comparative assessment of each finalist location would embody the following:

1. Multi-year business costs (e.g., payroll, occupancy, taxes, etc.)
2. Labor market
   - Competitive demand
   - Availability
     - Total applicant pool
     - Percent well-qualified
     - Selectivity ratio (qualified applicants per position)
   - Quality (e.g., basic skills, PC literacy, turnover)
   - Wage structure
     - Effective starting rate
     - Range by occupation
     - Progression time to reach max in range
     - Future wage adjustments beyond merit increase, reflecting competitive conditions
     - Fringe benefits offered by the most successful employers
     - Off-shift staffing/premiums
     - Overtime policy
     - Seasonal employment staffing, if applicable
   - Human resource practices utilized by the area's best employers, (e.g., flextime, alternative work weeks, etc.)
   - On-site amenities strongly desired by targeted employees (e.g., cafeteria, health/fitness center, game room, etc.)
   - Most effective recruiting sources/methods
   - Labor/management relations
   - Post secondary vocational-technology training in the area
   - State labor legislation (family leave, workers' comp, etc.)
   - Unemployment insurance
   - Workers' compensation
   - Ability to relocate talent from around the country
     - Recent college graduates (often single)
     - Experienced (often married with a family)
   - Quality-of-life pluses and minuses
3. Sites/buildings
   - Construction cycle
4. Utilities (capacity, reliability, redundancy, cost)
5. Taxation
6. Transportation

This analysis will lead to a recommendation of the preferred location. A back-up should also be selected both for negotiation lever-

Primary Assumptions

1. Headcount
   - Exempt, 800
   - Non-exempt, 300
   - Total, 1,100
   - No future increase

2. Real Estate
   - 300,000 square feet
   - Class A building

3. Base case costs
   - Salary
     - Exempt, $82,000
     - Non-exempt, $54,000
     - Weighted average, $75,000
   - Payroll sensitive benefits, 25% of salary
   - Real estate
     - Lease rate per square foot
       - o Base rent $29.50
       - o Expenses 8.00
       - o Taxes 2.50
       - o Gross 40.00
   - Taxes
     - Estimated at $4 million per annum
     - Includes state/local (corporate income franchise, sales/use, personal property)
     - Real property taxes included under rent

4. Projected employee attrition

Category	Tier One Metro	Tier Two Metro
Exempt	38%	42%
Non-exempt	92%	95%
Critical	10%	15%
Overall	54%	59%

5. Average one-time cost assumptions
   - Base case
     - HR, none
     - Office move, $2 SF
     - FF&E related, $10 SF, HR, none
   - Destination areas
     - HR
       - o Homeowners, 85% of attrition population
       - o Renters, 15% of attrition population
       - o Average relocation cost
         - ß Homeowners $80,000
         - ß Renters $25,000
     - Separation (attrition group only)
       - o Stay bonus
         - Exempt
           - – 6 months' salary
           - – 70% of attrition group receive
         - Non-exempt
           - – 4 months' salary
           - – 70% of attrition group receive
     - Project completion bonus
       - o None
       - o If used, typically 6 months salary for 10%-20% of attrition population
     - Outplacement (attrition group only)
       - o Exempt, $12,000 per employee
       - o Non-exempt, $2,000 per employee
     - Replacement
       - o Recruiting/training
       - o Applies to replacing attrition group
       - o Average cost
         - Exempt, 3 months salary per employee
         - Non-exempt, 1 month salary per employee
     - Temporary dual staffing
       - o One extra month salary, including benefits
       - o Applied to original location
     - Real estate
       - o Office move, $3 SF
       - o Carrying cost
         - 3.5 months in original location
         - Applies to gross rent ($40 SF)
       - o FF&E related, $10 SF
     - Other (travel, communications, consultants, etc), roughly 7.5% of one-time costs

6. Recurring cost savings

Category	Tier One Metro	Tier Two Metro
Salary		
Exempt	12%	16%
Non-exempt	15%	19%
Total	14	18
Real estate ($ per sq. ft.)	$16	$22
Taxes (state/local)	16% reduction	19% reduction
Incentives ($ per retained job inbase case & per new hire in destination areas)	21,000**	29,000**

7. Annual inflation rate, 2.5%

8. Funds discount rate, 6.0%

age and in case an unforeseen event occurs in the top-rated area (e.g., major labor market competitor announces a decision to locate a large facility in the area). Final real estate and incentives negotiations would then be undertaken in the two locations. If everything goes according to plan, the preferred location is usually the ultimate winner.

Conclusion

Corporate relocation provides a unique window of opportunity to interject new life and vitality to an organization. Savings can be substantial and qualitative advantages impressive.

However, there is considerable risk, such as loss of key employees. Risk must be quantified and mitigation programs put in place. Then potential risks must be weighted against likely rewards.

By adhering to this analytical process, corporate management can make confident decisions on whether relocation will materially improve business performance. If the answer is yes, then finding a location wherein performance optimization is enhanced can also be achieved in an efficient manner. ■