Location Velocity: Good Today, But What About Tomorrow?

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THIS ARTICLE EXAMINES THE DYNAMIC REFERRED TO AS "LOCATION VELOCITY." SIMPLY DESCRIBED, LOCATION VELOCITY EMBRACES THE CONCEPT THAT AN APPARENTLY EXCELLENT AREA FOR A NEW FACILITY COULD TURN INTO A MARKEDLY DISADVANTAGEOUS LOCATION DUE TO A SIGNIFICANT INFLUX OF COMPARABLE BUSINESSES. THIS INFLUX COULD STRAIN AN AREA'S RESOURCES – ESPECIALLY LABOR MARKET AND INFRASTRUCTURE. THE END RESULT OFTEN FEATURES OVERHEATED DEMAND FOR REQUISITE LABOR, DWINDLING SUPPLY OF QUALIFIED WORKERS, ESCALATION OF WAGES/SALARIES, RISING TURNOVER, TRAFFIC CONGESTION, LONGER COMMUTES, INCREASING TAXES, AND HIGHER REAL ESTATE COSTS.

No location is immune from the ill effects of velocity. But through shrewd site selection, maximum protection from such an eventuality can be achieved. At the very least, a longer time span for favorable operating conditions can be attained. This requires careful attention to emerging labor market conditions and a judgment as to whether a potential location seems headed in the direction that could ultimately create operational difficulties for the subject business unit.

Of course, some businesses prefer to locate in a hotbed of locational activity for their respective industries. Such business operations tend to have a greater appetite for paying a premium (mainly labor cost) to locate in an industry epicenter. Employee churn (i.e., turnover) is viewed as positive to regenerate the work force's knowledge base. Examples of these velocity tolerant businesses include research and development centers, high-tech manufacturing and corporate headquarters. This helps to explain why certain areas continue to attract a spate of similar businesses (e.g., biotech in Boston, IT in Raleigh/Durham, and microelectronics in Austin).

However, for the majority of business entities too much of a "good thing" is deleterious. Negative consequences (e.g., rapid cost increases and turnover) can lead companies to: (a) close and move; (b) downsize; (c) cap employment; or (d) establish a second operation to accommodate growth. Such actions can be both disruptive and costly.

In the remainder of this article we address the steps that can be taken to choose locations wherein velocity is less likely to emerge as a threat to successful operation of a new facility. Proper steps need to be followed in both phases of a traditional site search. These phases are: (a) Location Screening to generate a shortlist

FIG. 1

LABOR MARKET INDICATORS AND PREFERRED CHARACTERISTICS

LABOR MARKET INDICATOR	PREFERRED CHARACTERISTIC(S)
POPULATION SIZE	SUFFICIENTLY LARGE TO ACCOMMODATE THE DAILY NEEDS OF THE BUSINESS. A RATIO OF AT LEAST 250:1 (POPULATION VS. FACILITY HEADCOUNT) IS ADVISABLE.
GROWTH	MODERATE. RAPID GROWTH COULD SIGNAL AN OVER HEATED AREA. BUT STATIC OR A DECLINE IN GROWTH COULD BE A HARBINGER OF A LABOR SUPPLY DEFICIENCY.
AGE	BALANCE IS IMPORTANT. YOUNGER IS BETTER BUT THAT ALSO COULD APPEAL TO MANY OTHER COMPANIES. GENERALLY AVOID AREAS WITH AN OVER CONCENTRATION OF RETIREMENT AGE POPULATION.
HOUSEHOLD INCOME	HIGHER INCOME AREAS TEND TO BE HIGHER WAGE. SO USUALLY PREFER AREAS WITH HOUSEHOLD INCOMES NEAR OR BELOW THE NATIONAL AVERAGE.
LABOR FORCE SIZE	NEED A SUFFICIENT CRITICAL MASS TO SUSTAIN STAFFING REQUIREMENTS. A GOOD RULE OF THUMB IS THAT THE WORK FORCE SHOULD BE 100 TIMES LARGER (AT A MINIMUM) THAN A NEW FACILITY'S PLANNED HEADCOUNT.
UNEMPLOYMENT RATE	HIGHER THE BETTER AND BEWARE OF AREAS WITH LESS THEN 3.5%.
UNDEREMPLOYMENT	PERSONS WORKING IN LOWER PAYING OCCUPATIONS THAT COULD LIKELY BE READILY TRAINED. TYPICALLY SHOULD BE AT LEAST A 25:1 RATIO OF UNDEREMPLOYED PER NEW HIRE.
OCCUPATIONAL EMPLOYMENT	PERSONS WORKING IN OCCUPATIONS THAT WOULD PROVIDE AN EXPERIENCED APPLICANT FLOW. A MINIMUM SHOULD BE 10:1 RATIO PER NEW HIRE.
EMPLOYMENT BY INDUSTRY	A RED FLAG SHOULD BE RAISED IF AN AREA HAS A PROPORTION OF A SPECIFIC INDUSTRY (E.G., FINANCIAL SERVICES) MARKEDLY ABOVE THE NATIONAL AVERAGE WHICH COULD SIGNAL AN OVER CONCENTRATION OF THE SPECIFIC INDUSTRY.
POPULATION/LABOR FORCE GROWTH RATIO	THE WORKING AGE POPULATION (18-64) SHOULD BE EXPANDING FASTER THAN THE LABOR FORCE. IF IT IS NOT, A SUPPLY PROBLEM IS LIKELY.
SALARY LEVEL	MEDIAN SALARY BY PERTINENT OCCUPATION. SHOULD BE AT OR BELOW THE LEVEL DEEMED APPROPRIATE.
SALARY TRENDS	RATE OF SALARY INCREASE SHOULD BE NO HIGHER THAN THE NATIONAL AVERAGE AND/OR PACE OF INFLATION.
MAJOR EMPLOYERS	EXAMINE THE ROSTER OF BOTH THE LARGEST AND COMPARABLE EMPLOYERS. AVOID AREAS WHERE THERE IS A NOTABLE CONCENTRATION OF SIMILAR EMPLOYERS. IN GAUGING THE COMPETITIVE EMPLOYER BASE, ATTEMPT TO ASCERTAIN HOW MANY WOULD BE TAKERS (HIGHER WAGE) VS. FEEDERS (LOWER WAGE). A NOTABLE CONCENTRATION OF FEEDERS IS GENERALLY ACCEPTABLE.
NEW/EXPANDING EMPLOYERS	THIS IS A STRONG INDICATOR OF IMMEDIATE FUTURE LABOR MARKET COMPETITION. STAY AWAY FROM AREAS WHERE A SIGNIFICANT NUMBER OF SIMILAR COMPANIES HAVE BEEN ESTABLISHING OR GROWING OPERATIONS.
DOWNSIZING EMPLOYERS	A POSITIVE FOR TEMPORARILY AUGMENTING LABOR SUPPLY.

of promising locations, and (b) Location Evaluation to select the best long-range option.

LOCATION SCREENING

The objective in this phase is to generate a shortlist, often three, of the most viable locational candidates. As location velocity's main ingredient is human resources, it is important to examine statistical indicators suggesting whether an area's labor market is: (a) balanced, in surplus or tilted toward greater demand than supply and (b) acceptable on the level and stability of labor cost. At left are several prime indicators that can either portend "smooth sailing" or "rough seas."

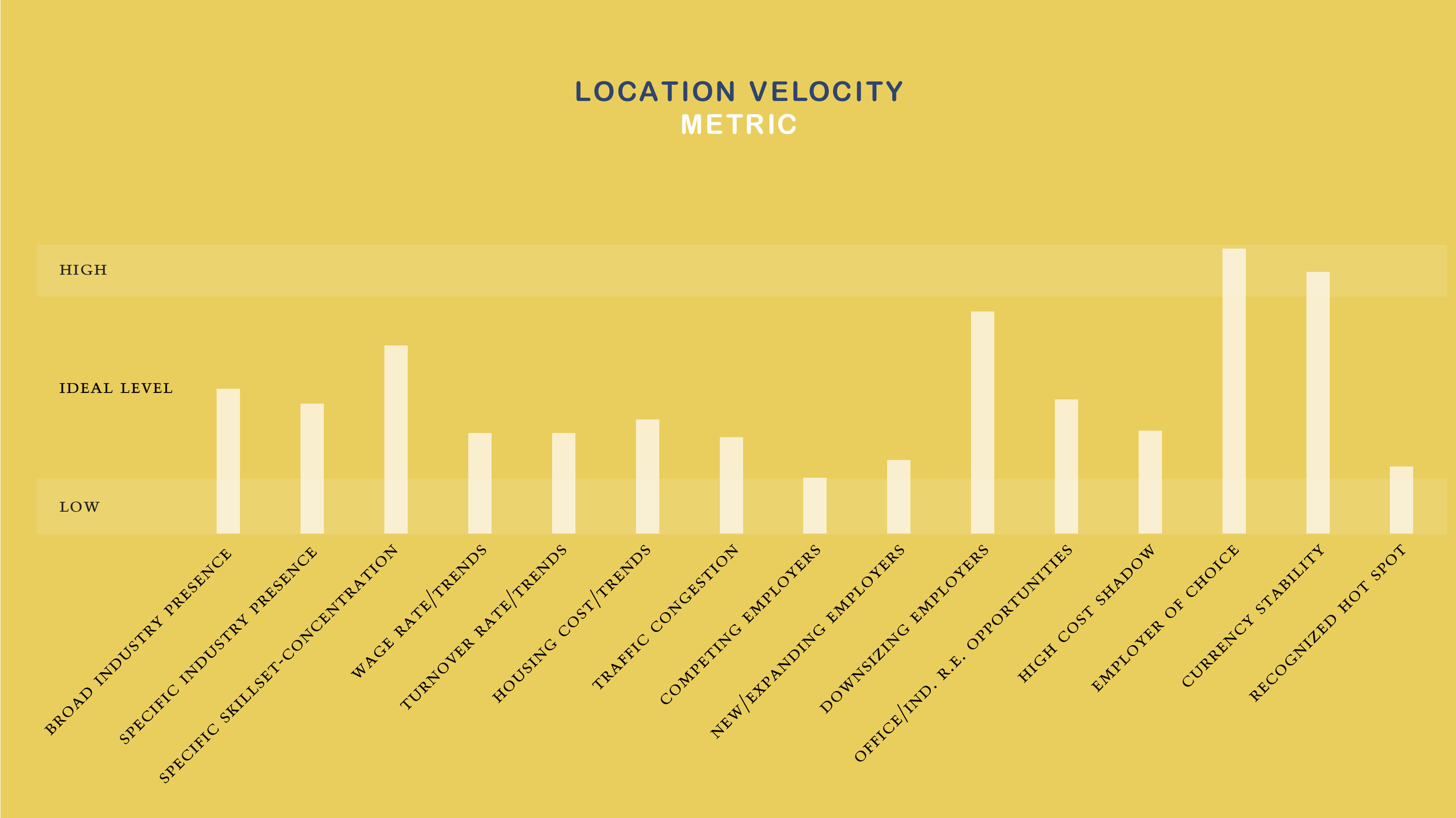
Most of the information in Figure 1 can be gathered from public (e.g., U.S. Bureau of Labor Statistics) or private (e.g., Claritas) data sources. Salary information should be double checked with local wage surveys provided by economic development agencies. Additionally, employer rosters would only be available from economic development groups.

LOCATION EVALUATION

In this phase, a company's study team visits each short-listed area. During field investigation it is critical to hold confidential interviews with companies employing the kinds of workers that your new facility will require. During these interviews, delve into the company's recent labor market experiences. Also, probe for employer insights on emerging dynamics influencing the demand, supply, quality, and cost of requisite skill sets. Furthermore, be sure to understand what it will take from an HR perspective to achieve and maintain "employer-of-choice" status. If attaining that posture is beyond the new operation's capability (e.g., too costly) then that location is probably not a good fit.

It is advisable to ask employers to assign an overall rating (1 to 10 scale) on major labor market considerations. Then discuss in more detail the rationale underlying the

FIG. 2



rating. Categories to rate include competitive demand, qualified worker availability, labor cost, future wage escalation, work force quality (e.g., basic skills attainment), and turnover.

Among the specifics that should be quantified to the best possible extent are:

DEMAND

- Historical/current labor market competitors
- New/emerging competitors
- Extent of hiring activity (recent & projected)

AVAILABILITY

- Trends in applicant flow (including future outlook)
- Forces replenishing labor supply (e.g., population growth, high school/college graduates, downsizing companies)
- Changes in recruiting tactics necessary for successful staffing

COMMUTE PATTERNS

- Traffic levels
- Changes in commute times
- Commuting as a cause of turnover
- Commute distance (e.g., 30 minutes) generating over 2/3 of hired workers
- Best geographic sector of area from a labor draw perspective

QUALITY

- Basic skills attainment
- Problem solving skills
- Computer literacy
- Work ethic
- Productivity

TURNOVER

- Rate (involuntary turnover)
- Positions most affected
- Main reasons
- Success of mitigation efforts

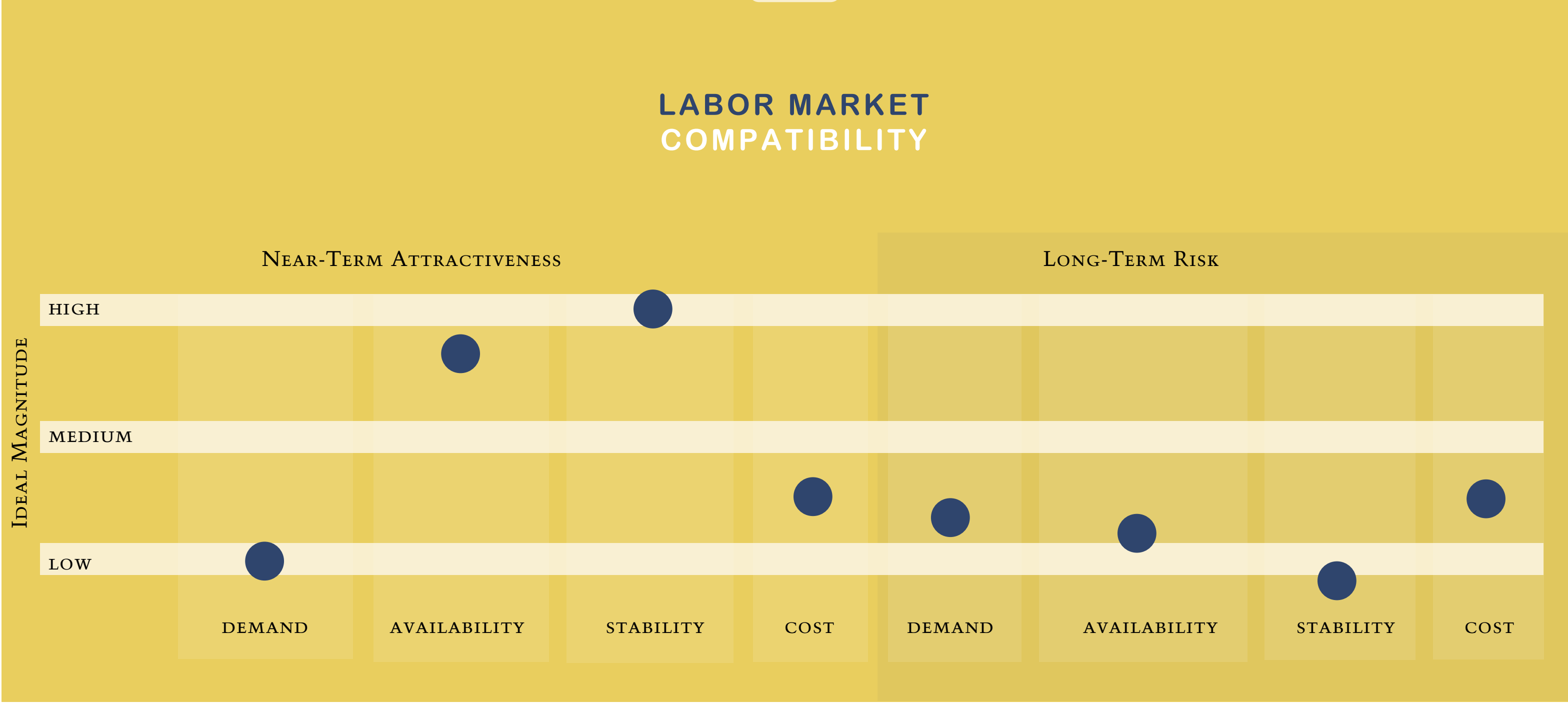
COST

- Effective start rate necessary for generating a large applicant pool
- Past/projected changes in start rate
- Salary ranges and progression time therein
- Annual salary increases
- Likelihood of future adjustments beyond normal merit increase
- Recommended posture in the local wage tier (e.g., 75th percentile) necessary to enjoy a successful staffing experience
- Need for incentive (pay for performance) compensation
- Benefits most coveted by the local work force

KEYS TO "EMPLOYER-OF-CHOICE"

- Above market compensation
- Specific benefits
- Job challenge
- Career advancement
- HR practices (e.g., alternative workweek, personal leave bank, flextime)
- On-site amenities (e.g., health/fitness)
- Company reputation (including corporate giving, civic involvement, and "green" initiatives)

FIG. 3



ADDITIONAL CONSIDERATIONS FOR OFFSHORE LOCATIONS

- Economic/political stability
- Currency stability
- Labor legislation, especially regarding termination
- In-country migration trends
- Language skills
- Other areas in country that have the human capital and infrastructure resources to accommodate your type of business (if there are few or none, a "red flag" should be raised)

Beyond employers, it is also a good idea to interview other organizations to gain a broad perspective on the labor market environment. Such entities may include:

- Personnel agency
- Local chapter of the national HR professional association
- Local office of the state labor department
- Education/training officials
- Economic development organizations

Bottom line, when assessing the local labor market your team should be searching for acceptable answers to most of the above questions. Analyze field interview results along with previously gathered statistical data and the existing/emerging competitive employer roster. Then it is necessary to apply your best judgment on whether an area is likely to overheat, thereby creating stiff human resource challenges down the road. If this eventuality is likely, then the specific location is probably is not the right one for your new operation.

EXIT STRATEGY

In nearly all instances, companies should plan for the possibility of eventually vacating the new site. This could result from location velocity or other variables (such as shifts in a company's products/services).

One component of the strategy should be annual monitoring of local labor market conditions. It would be worthwhile to gather/analyze data such as the rate of change in population, labor force, specific industry employment, household income, salaries , housing prices, and commercial real estate.

Further, it is advisable to consider the number of new and expanding employers, downsizing employers, company staffing experiences (such as open positions, qualified applicant flow, time taken to fill open positions, recruiting tactics, turnover, salary hikes, and new HR programs (e.g., flextime).

Beyond measuring location velocity, exit strategies should also embrace other company sites that could accommodate growth or the impact of downsizing the original site; government restrictions and cost to downsize; lease length, terms, and conditions; and site/building attractiveness for disposition.

CONCLUDING REMARKS

Location velocity is a global phenomenon. It is especially key in the U.S. where a projected national labor shortage is forecast and long-term economic prospects are bright, placing continuous demand for qualified workers. Plenty of examples illustrate the impact of location velocity. In the 1990s, the Puget Sound seemed to comprise a strong labor market for customer service operations. But as the area's economy grew, especially in software, aerospace, and other high-tech industries, basic call center operations had a harder time competing for labor. Several companies therefore opted to downsize their customer service operations (e.g., EarthLink, Amazon, eFunds, and Ticketmaster).

Developed countries offshore also felt the pinch. As Dublin (Ireland) moved up the economic food chain, lower echelon back offices encountered trying labor market conditions.

Emerging countries are also not immune from the negative effects of location velocity. Consider Bangalore, India, where software and other high-tech operations have become so concentrated that wages and turnover are rapidly rising. For some companies it now makes better sense to consider less discovered 3rd and 4th tier metropolitan areas (like Ahmadabad, Indore, and Chandigarh).

Some might be surprised that China is also witnessing labor shortages, increasing wages, and escalating turnover. This is most pronounced in coastal and southern regions. Culprits include location velocity, the country's birth control regulations, and agricultural policies which have slowed migration to large cities. As in most areas, it is the most cost sensitive operations (e.g., textiles, apparel, and light assembly) that feel the pinch first. Thus, we are seeing many companies in coastal or southern China migrating elsewhere (western China, northern China, or lower wage countries like Vietnam). This migration can be either relocation or placing fresh capacity in a new region or country. Companies that have opened new facilities beyond coastal and southern regions in China include GM, Honda, Intel, and Motorola.

Location velocity has also impacted firms in tier one cities of several eastern/central European countries. In response, some firms have shifted operations to Asia (e.g., China and Vietnam) or found greener pastures in less developed European countries (e.g., Bulgaria and Ukraine).

The central point is that location velocity is a concept that must be weighed in site selection throughout the world. It should never be assumed that what looks like a good bet today will remain so in the future. After understanding a business unit's tolerance for labor market competition, the prudent site selector will place a high degree of importance on the dynamic we call "location velocity." A project team's legacy should be judged on the long-range (beyond five years) success of any new location.

Toward that end, Figure 2 provides a visual depiction of some of the most critical components of location velocity. Figure 3 graphically illustrates how the rating of current/future labor market dynamics would appear for a viable location.

Hopefully, the above commentary and these decision tools will be helpful in securing a valid and sustainable location for your next new facility. And remember that when "hunting in packs" the spoils generally go to the first on the scene.

ABOUT THE AUTHOR

Dennis J. Donovan is a principal of Wadley-Donovan-Gutshaw Consulting based in Bridgewater, N.J. WDGC has been advising companies on facilities location for over 30 years. The firm has devoted considerable resources toward assessing the human resource dimensions of corporate facilities location. Donovan is responsible for coining the term "location velocity."

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