TRADE & INDUSTRY DEVELOPMENT

Manufacturing

Corporate Site Selection in 2011/2012

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The site selection industry was in a state of depression from 2008 through most of 2010. Main culprit was a “perfect storm” economic downturn. Fortunately, conditions began to improve in late 2010. The upward trend has held firm in 2011 and should accelerate next year.

Image by **Novartis AG** via Flickr

Companies across most industry sectors are now committed to establishing new facilities to capitalize on opportunities afforded by a gradually improving economy.

Importantly, even though we are truly in a global economy, the U.S. is doing very well in this resuscitation of corporate location activity. This includes manufacturing.

Additionally, foreign direct investment is playing a key role in the U.S. site selection recovery. Roughly 18 percent of new plants are foreign owned. Interestingly, the BRIC countries are becoming players in U.S new facility investment. This is one positive aspect, from a U.S. perspective, of globalization.

In terms of industry groups, we are seeing the most robust new facility investments in the following sectors:

- Capital Goods Manufacturing
- Health Care
- Bioscience
- Food Processing
- Alternative Energy
- Energy Storage/Efficiency
- Back Offices
- Data Centers
- Distribution Centers
- Aerospace
- Motor Vehicles, especially foreign transplants
- Consumer Goods Manufacturing

A nascent trend involves U.S. corporations re-shoring both customer service centers (mostly from India) and manufacturing plants (primarily from China). For customer service the issues embrace language, culture, and customer satisfaction. In manufacturing, the concerns are long lead times, extended supply chains risk and rising costs (labor, electric power, transportation).

While re-shoring is not expected to comprise a major trend it nevertheless signals the competitiveness of America as a location for basic corporate functions, beyond the high end innovative and technologically advanced activities.

Relative to the most influential site selection factors, logistics has become predominant for many manufacturing enterprises. This reflects the imperative to maximize efficiency, reduce cost and minimize risk throughout the supply chain. A premium is being placed, by many manufacturing enterprises, on the following:

1. Customer proximity (often next day delivery by truck)
2. Supplier proximity (including distance from seaports where imports/exports are involved)
3. Limited access four-lane highways
4. Intermodal transportation resources
5. Freight shipping costs

Paradoxically, we will witness more regional manufacturing plants in a global economy. This will be evident in an array of industries including motor vehicles, aerospace, building materials, alternative energy and selected consumer goods (especially those more customized).

Another prominent locational determinant will be human resources. The recession provided only a temporary lull in labor market conditions. Long-term there will be a systemic shortage of top quality labor across skillsets. Companies will be seeking to locate new facilities in areas characterized by equilibrium in supply/demand, stability and costs. For many industries this means avoiding locations where there is a substantial concentration of similar entities vying for the same type of labor. Without question, labor market dynamics will profoundly influence site selection for companies whose HR demands span from qualified entry level to skilled trades.

Coming out of a recession, speed is of the essence. Companies need to get new facilities operational as quickly as possible. Consequently, presence of modern available buildings has become a critical location factor. At the very least, an inventory of ready-to-go sites will be essential. Fast track construction, including permitting, will no longer be a competitive advantage for communities. Rather, it will become a pre-condition to even be considered for a new facility. For routine projects, the standard will be maximum 90 days for all state and local permits.

Duality of utility service, especially electric power (for manufacturing) and telecommunications (for back offices) will also be important. This is attributable to a heightened concern over business continuity. Ideally, dual service would be from two separate power substations or teleco central switching offices.

Incentives will persist as a discriminating factor among qualified communities. While upfront money will be limited, the most coveted incentives will be performance and cash based such as for job creation and/or capital investment. As many branch operations do not record significant profits tax credits, unless transferable, will decrease in importance as an incentives tool.

For high-technology enterprises, critical mass will exert the greatest influence over site selection. High-tech companies need to locate in areas where there is at least a moderate presence of similar companies and a sizeable talent pool in specific occupations. Also key are air service, perceived quality-of-life for national recruiting, and proximity to highly regarded technical universities. The critical mass factor definitely limits the locational choices available for high-tech companies. It also demands that areas without critical mass devote more resources to business startup and expansion/retention as opposed to recruitment.

Other notable site selection factors as we head toward 2012 include a fair business climate, moderate taxation, environmental attainment in air/water quality and natural disaster risk.

It will be incumbent upon communities and states to invest in the following to successfully compete for new business:

- Workforce
- Physical infrastructure
- Quality-of-Life
- Elimination of entry barriers (such as onerous regulation and high taxes)

The remainder of 2011 and 2012 should be solid times for new facility investment in the U.S. Companies will seek value propositions for their investments. This translates into moderate cost, attractive human capital, adequate physical infrastructure and enlightened treatment of business. States and communities need to take heed of this new reality. To successfully compete on a global platform, best of class locations need to be cultivated and maintained.

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Dennis J. Donovan is a principal of Wadley-Donovan-Gutshaw Consulting (WDGC), a corporate site selection firm. Based in Bridgewater, New Jersey, WDGC specializes in global site selection primarily for Fortune 1000 companies. Dennis Donovan has been active in corporate site selection for over 35 years.