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12 Mistakes to avoid in Site Selection

Site selection, the concept that applies both analytical and qualitative techniques to determine the most favorable location for a business operation, has been around for a long time. Manufacturers have historically taken widely different approaches to location analysis and asset deployment, with varying degrees of success. Some prefer an abbreviated methodology, while others examine every detail, utilizing outside consultants and experts to maximize returns, minimize risk, and use location as a **competitive advantage.**

Few corporate decisions have as many immediate and long-term implications on tax structure, cost of goods sold, supply chain, labor force, and overall operating success as the choice of location. Furthermore, several factors have emerged to make site selection increasingly complex. These include fast-track expectations, globalization, strict environmental legislation, tightening labor availability, scarcity of certain labor skills, and utility consolidation. With each degree of complexity comes a new set of considerations requiring a higher degree of analysis to avoid risk and make the right location decision.

The accessibility of location information on the internet may give the appearance that the site selection process can be simplified and accelerated. Unfortunately, applying data without context and experience can lead the search for the most optimal facility location down a path lined with risks, delays, hidden costs, and even fatal flaws. At every step in the process, a host of errors can be made that will compromise the final location selection. Here are a few of the critical mistakes that can undermine the analysis and lead to risk, higher cost, and unfavorable operating conditions:

1. **Unprepared site selection team** – Successful companies are able to bring multi-disciplinary teams together to enable and implement an effective location strategy. They have found that to limit risk and avoid surprises, it is critical to address certain technical, analytical, and financial elements early in the site selection study. An effective team will possess core competencies in the areas of human resources, cost accounting, logistics, tax, engineering, construction, and in some cases, environmental issues. Neglecting to assemble the right mix of stakeholders and experts early in the process increases the risks of project delays and poor location selection.

2. **Lack of executive consensus** – In most organizations, the critical effect that location has on an operating unit's success places the results of the site selection process under a "C-level" (CEO, CFO, etc.) microscope. The executive management group has more at stake than most of the day-to-day members of the site selection team, and therefore is likely to have strong opinions on the analysis and solution. Many teams make the mistake of sharing the only the final results of the analysis with their executive leadership, risking challenges of the original assumptions, rationale, methodology, and solution. Including corporate leadership early on and throughout the process helps promote buy-in and understanding of the long and highly analytical process of most site searches.

3. **Incorrect search area** – Manufacturing site selection usually begins with a general region of interest due to transportation issues, human capital needs, or other market dynamics. Problems will arise and valuable time will be lost if this geography is not carefully validated with the new facility's overall operating objectives and criteria. For example, a manufacturer may consider a six-state region as the initial search area for a new plant to minimize inbound transportation costs from vendors. However, a more cost-effective search area may emerge some 750 miles to the west after a more comprehensive study of all inbound and outbound freight costs. The lost time and wasted effort in analyzing the original search area is unrecoverable.

4. **Narrowing the search area too rapidly** – After the search area is determined, companies are often tempted to quickly eliminate large chunks of geography to accelerate the process. Whole states or countries might be eliminated that, with some analytical consideration, could have been favorable alternatives. This can be avoided by correctly prioritizing the project's critical location factors – those aspects of the desired solution that can be quantified and measured. These can include transportation, demographic, labor, tax, and in some cases, utility infrastructure requirements. With an agreed-upon methodology for elimination, the critical location factors should be used to reduce the areas of consideration thoughtfully and objectively. If areas exhibit borderline characteristics, it is generally wise to retain them, not eliminate them, for the next round of analysis.

5. **Failure to consider all the issues** – No two location searches are identical: each has its own unique set of critical location factors, specifications, needs, timing and risks. A common error during the site selection process is to consider only easily quantified aspects such as labor costs, real estate, or taxes. In reality, each location will present a host of variable tradeoffs, opportunities, strengths, and weaknesses. Some will be financial (cost-based) while others will be qualitative (risk-oriented). Knowing which issues will most contribute to the project's ultimate success and evaluating them completely in each candidate area is critical to uncovering the best location solution.

6. **Incomplete labor market analysis** – Unemployment and average hourly earnings statistics, the "usual suspects" in any labor study, are only general indicators of workforce availability and cost. However, the market for employees in any area is affected by dozens of other factors that should be quantified and interpreted during the site selection process. These include population demographics, union characteristics, turnover, absenteeism, average fringe benefits, commuting patterns, recent plant openings and closing, and others. Labor market studies are often complex, and very detail-oriented exercises that address two objectives: to limit the location risks inherent with human capital, and to provide a solid basis for human resources strategy and implementation once the final selection is made. For manufacturers looking outside the US, be aware that published labor market data is often outdated and inconsistently collected in different countries.

7. **Failure to consider community trends** – No location exists in a vacuum; towns, counties, states, and regions are in a dynamic state of evolution that affects most aspects of business operations. Labor and real estate markets, utility services, political factors, community image, and demographic characteristics can and do change from year to year. Evaluation of statistics is important, but datasets do not capture the dynamics and context behind the numbers. Making the right long-term location decision is generally more difficult than understanding today's costs and conditions.

8. **Poor or absent technical site review** – When considering candidate sites for a new manufacturing operation, it is critical to conduct a technical site study of several of the finalists to limit construction risk and quantify hidden development costs. Every year, projects experience unforeseen circumstances such as adverse geo-technical conditions, floodplain issues, and various permitting hurdles that could have been avoided. It is crucial to understand and measure environmental risk, timing, obstacles to development, and geographically variable construction costs. At a minimum, obtain recent Phase 1 and other available environmental studies, soil borings, zoning regulations, development codes and covenants, wetlands studies, floodplain information, and utility maps for each site under consideration.

9. **Breach of confidentiality** – Why is project confidentiality important during the site selection process? It protects owners from unwanted attention and distractions, both external and internal, that can influence the outcome of the study. Management may be sensitive to premature, out-of-context leaks that can reach Wall Street, competitors, land speculators, and employees. This means that the site selection team must take precautions to not reveal the corporate identity or nature of the business to third parties who may not have the firm's best interests in mind. When the location analysis is complete, a carefully planned and executed announcement strategy will help ensure that the project is properly communicated and accepted from political, financial, and human resources perspectives.

10. **Failure to capture negotiable incentives** – The state and local economic development community is in the business of attracting and retaining jobs and investment. Nearly every jurisdiction has some variation of legislated incentives that are available to any qualified business locating in the area. Often overlooked or under-achieved are discretionary incentives that can be available. Through a carefully planned process, manufacturers can receive inducements to help offset cost differences (or mitigate risks) between location finalists. These incentives can be an important component of the overall cost analysis and may influence the final decision.

11. **Acceptance of overvalued incentives** – The negotiation strategy must account for the specific needs of both the operation and the corporation itself. A common mistake is to negotiate and accept state corporate income tax credits that appear to offer annual savings of millions of dollars while later analysis reveals that the firm will owe no such tax in the first place. According to a recent Deloitte survey of corporate executives, the most desirable incentives include infrastructure improvements and property tax abatement, both tangible contributors to the bottom line. The site selection team should maintain consistent emphasis on both short and long-term incentive programs that will benefit the operation in material and measurable ways.

12. **Poor implementation of incentives** – Once the deal is signed and the announcement is made, there is still work to be done. The implementation and transition team must not forget the effort expended and agreements struck during negotiations. Many state and local incentives will require "care and feeding" to ensure that all available benefits are captured. Implementation can include monitoring and reporting of new job creation, training documentation, and credit/abatement filings.

Successful manufacturers have discovered that using location as a competitive advantage can enable the facility network to yield additional financial gains. However, the analytical process of site selection should not be short-circuited by a few statistics, an available property, or hastily accepted incentives. The internet is a source, not a solution, for the hundreds of pieces of information required to measure the costs, conditions, and risks associated with site selection.

Leading a corporate site selection effort requires a unique set of capabilities. The team must have the ability to logically analyze a myriad of factors, the savvy to negotiate and build consensus with management, and the judgment to remain unbiased throughout the process. Knowledge of logistics, human resources, real estate, tax, financing, infrastructure, construction, incentives, and environmental considerations has become more important as the complexity of location strategy increases. If, while armed with these competencies, the site selection team is able to avoid the mistakes highlighted above, they will be better able to deliver a location outcome that can position the manufacturer for many years of success.

About the Author

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