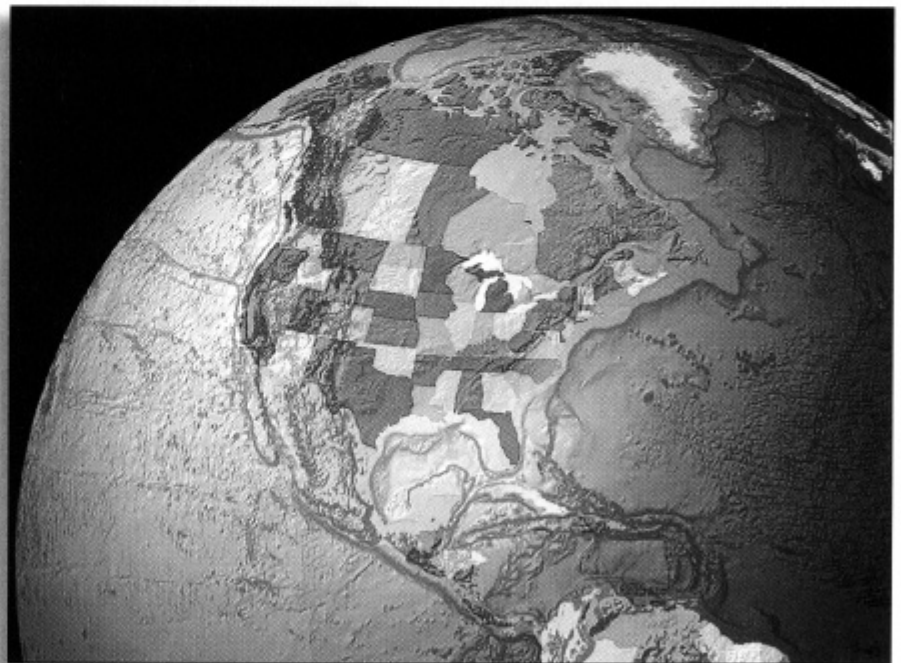


# “LOOK OUTS” FOREIGN COMPANIES SHOULD CONSIDER

By Dr. C. R. (Buzz) Canup, Managing Principal, Fluor Daniel Consulting

Foreign firms must understand the broad regional differences relative to U.S. labor, transportation, costs, quality of life, and incentives.

**I**nternational companies comprise approximately 40 percent of the site location studies conducted in the United States on an annual basis. Many of these international companies conduct their studies in the United States without the assistance of a site location consultant, preferring instead to rely on their own instincts and experience gained in other countries. For those companies that do conduct their own site location studies, there are



potential pitfalls and “look outs” that need to be recognized before a final decision is made.

## THE KEY FACTORS

Conducting a site location study in the United States, whether for a

domestic or foreign company, is not an easy task. The choices are many. The variables that may impact the final decision can range from the simple to the complex. Defining the variables that will impact the success or failure of a new business requires

extensive experience in the specific field of that business. Understanding the impact these variables may have in different locations within the United States requires a keen knowledge of local conditions and extensive experience in the site location analysis field. The combination of business experience and site location experience will minimize the risks involved in reaching a final location decision.

The key factors involved in almost every site location search include the following:

- Availability of qualified and/or trainable labor
- Proximity to suppliers and customers
- Competitive recurring costs, including labor, taxes, utilities, and transportation
- Acceptable quality of life to attract and retain professional employees
- Competitive incentives

These factors and many others have characteristics that can be misleading if not evaluated carefully. The following presents some of the "look outs" foreign companies should consider as they conduct a site location search in the United States.

### **LABOR**

A common mistake many foreign companies make in assessing the quality of labor in the United States involves the development of regional perceptions that are subsequently extended across large geographical areas. An example is the perception that educational levels in some states may be lower than in other states; as a result, certain states are never considered for a new business location. If

educational levels are an important factor in a site location search, company representatives may overlook pockets of opportunity and excellence where educational levels within selected states equal or exceed national averages. Foreign companies should be aware that there may be a greater difference in educational achievement levels within a given state than between two given states.

A second mistake made by many companies relates to the availability of labor. Many foreign companies place a high value on defining the unemployment rates within an area and then qualifying or disqualifying the area on the belief that unemployment percentages are tied to labor availability. The company thus overlooks the potential of recruiting currently employed people who are seeking upward mobility in wages or new career opportunities. Similarly, the company may overlook an area where population growth is stimulated by an in-migration of new residents who add to the available labor pool on a regular basis.

### **WORK FORCE TRAINING**

Training and developing a new work force is a significant challenge for domestic or foreign companies. There are major differences between states and communities in their ability to assist companies in recruiting, screening, and training a new work force. Some states have extensive training resources assigned at the state level to support new industry development. Other states are fully decentralized and rely on training resources available at the local level to support new and expanding industry. The amount and type of funding to assist

in the training process also varies significantly among the various states. Most states limit the amount of available training funds by establishing grants or providing a set amount of dollars per job created. A smaller number of states offer significant training support in the form of cost offsets or cost avoidance.

Foreign companies may not always have the background or experience to distinguish between the training alternatives offered by different states. Exposure to more traditional apprenticeship training systems may limit a company's ability to understand the advantages of task training or competency-based training for developing a new work force. In addition, many states use the same or similar descriptors to define the type of training assistance they can provide. While the descriptions of the programs may sound the same, the ability to deliver the training programs can be significantly different. It is very important to talk with existing industries in the area that have benefited from training and gain an understanding of the effectiveness of the programs.

### **PROXIMITY TO SUPPLIERS AND CUSTOMERS**

Logistics and service requirements drive many site location studies. Companies that are transportation sensitive or service oriented, i.e., with just-in-time delivery requirements, tend to focus most of their efforts in the area of transportation and logistics. Many foreign companies that have never conducted business in the United States find it difficult to understand the limitations and opportunities that may be avail-

able to them from a logistics perspective. Rail systems in the United States are certainly not like rail systems in Europe, but they can provide a significant cost advantage under the right circumstances. American trucking companies operate differently than trucking companies in other parts of the world. The costs associated with alternatives in the United States are calculated much differently than in other parts of the world.

Foreign companies often make broad assumptions related to transportation and service issues when conducting a site search in the United States. In many instances, these assumptions are incorrect and can move the site search out of a region that offers the greatest opportunity for minimizing transportation costs or optimizing the ability to meet customer requirements. Companies should be careful about the assumptions they make and should test each of them at the earliest possible time to validate their impact.

**COMPETITIVE RECURRING COSTS**

Profitability is a critical goal for all companies. The ability to define and evaluate costs at alternative locations is a significant part of reaching the final decision on where to locate a new business. However, defining the cost structures and understanding their impact are in some instances two different sets of information. There are many subtleties that must be understood in analyzing costs, whether they relate to labor rates, payroll taxes, property taxes, corporate income taxes, utility costs, or other items incurred on a continuing basis.

Most states and communities do an excellent job of assisting prospects in understanding the potential recurring costs at alternative locations. Utility companies also do a favorable job assisting prospects in understanding their potential costs for utility services. However, these costs should be developed into a pro forma to gain a full understanding of their impact. Cost comparisons across alternatives are nearly impossible to evaluate unless the costs are presented in a comprehensive cost-analysis format. Many companies underestimate their recurring costs simply

**It is critical to define and evaluate costs at alternative locations.**

because they do not have a complete understanding of the variables involved and what impact they can have.

**QUALITY OF LIFE**

Quality of life can have significantly different meanings from one company to another. For a foreign company, the ability to attract and retain professionals includes the ability to attract and retain their own nationals at the selected location. Foreign companies may place a high value on the availability of special schooling (native language schools) for children of their employees. They may also place a high value on the availability of native foods, doctors and dentists who speak their language, and a

place to worship the religion of their choice.

Many foreign companies are reluctant to place emphasis on these factors even though they are very important for establishing and maintaining an acceptable quality of life for their native employees. In many instances the presence of other foreign companies from the same or neighboring countries establishes credibility for a particular location. The client team may make an assumption that conditions in the area are acceptable for foreign nationals only to discover at a later date that they are not as favorable as hoped. This assumption can lead to disappointment once employees begin to move into the area and discover the absence of selected quality-of-life factors.

**COMPETITIVE INCENTIVES**

Incentives are in many ways the most difficult variable for foreign companies to understand and evaluate. States and communities have a tendency to list every incentive that is available for all types of projects even when an incentive is not applicable to a specific opportunity. States and communities also tend to present the maximum potential incentives available through a particular program even though the prospect may never realize all of the benefits offered. A good example of incentives that may be offered but are difficult to use are corporate income tax credits. In many instances the tax credits are limited in the amounts that may be used in any given year, i.e., cannot exceed a set percentage of the corporate income tax liability. Similarly,

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and the interworkings of the area. You will also want to understand how well the proposed facility will fit into the community. During these visits, confirm the accuracy of your previous research and secure written commitments of business terms for land or building acquisition and incentives from empowered officials.

### **AN OPPORTUNITY**

Armed with detailed information, reports, and written commitments, you are ready to receive approval from the company board to begin implementing the project. This final step is the most critical — even if the selected location is perfect, the way the concept takes shape physically will determine if the project is a success or failure. Risks to project success include a poorly designed or constructed building, insensitive management, a poorly trained work force, and strained relations with the community. These and other startup risks can be managed by assigning full-time project management, scheduling activities, and allowing adequate time to ensure success.

Siting a new facility is an opportunity almost without parallel in allowing management to take a successful operation, make improvements, and place it where it can bring an organization to the next level of competitiveness. ○

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the tax credits tend to expire before they can be applied against tax liabilities. In these cases, it may be difficult for foreign companies to understand and interpret the true value of an incentive.

The same type of analysis can be applied to property tax abatements, sales tax exemptions, and other various incentives. Firms often do not benefit from these types of incentives because the companies fail to meet program application deadlines or submit required information — or simply drop the ball in the transition from site search to project implementation.

### **PAYING ATTENTION**

U.S. companies conducting site location searches in foreign countries are frequently cautioned to pay special attention to the social, cultural, political, and economic conditions within the countries where they may be looking. Foreign companies conducting site location searches in the United States would be wise to take the same advice. There are broad differences between various regions of the United States relative to labor, transportation, costs, quality of life, and incentives. Special care should be taken to make sure one defines the differences and then understands how the differences will impact a new business location. ○

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ties. The Alliance Airport in Texas, Rickenbacker in central Ohio, Global TransPark in North Carolina, and a facility north of Bakersfield, Calif., are examples cited by Hess.

While some companies have set up distribution operations across the border in Mexico, Hess says there's more to a good distribution site than cheap labor. "Distribution there is more difficult. The infrastructure is not as developed," he says. While Mexico is sometimes suitable for manufacturing, distribution operations still are best placed on the United States side, he says.

### **THE BASIC FACTORS**

Ultimately, the decision comes down to some simple factors. "The cost of construction is a critical factor," Ollen says. "Can you build your building cheaper in San Diego than El Paso? Or can you build cheaper in Kansas City than San Diego?"

"Without exception, the occupancy costs have got to be competitive," Castell says. "That's what we're always selling here in Indianapolis. We've been successful because our occupancy costs are low and the location is good. There's not a lot more magic to it than that."

"Quality of life is an issue, labor is an issue, and so are construction and location," Ollen says. "Rail isn't as critical as it used to be, but trucking certainly is. German companies are coming to the Carolinas to build and distribute car parts, all because of the labor force and quality of life."

America is a great place to live, Ollen adds. "There's a stable and well-educated labor force, and the distribution factors are as competitive as they are in many places in the world." ○