Site Selection for Manufacturers Today: *10 Most Costly Errors*

By Mark Williams, Founder and President and Danielle Campolo, Senior Principal

Site selection is critical for optimizing a manufacturer's competitiveness. Today, successful site selection requires attention to many complex qualitative and quantitative variables. Those involved in selecting a site must consider a potential site's attributes and how those attributes will affect ongoing costs, profits, product quality, logistics, and the supply chain.

Unfortunately, site selection errors can reduce the operational and financial competitiveness of a manufacturing facility – forever. Early in the process, firms need to allocate the resources necessary to use qualified internal or external experts for all site selection and negotiation activities. This crucial step can minimize costly errors.

Based on our experience, here are the 10 costliest errors that companies commonly make when they fail to use a qualified internal or external site selection consultant. These errors can severely and permanently compromise the competitiveness of an expansion or relocation and can cost tens or even hundreds of millions of dollars depending on the size of the project.

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Error #1:
Failing to get key decision makers to agree on search parameters

One of the most important tasks in any site selection process is to make sure all corporate decision makers are aware of and agree to key search parameters. This alignment must occur before their search begins to avoid wasting time, money, and other resources evaluating marginal or otherwise unsatisfactory locations.

Too often, selection teams begin a search before collecting all of the input regarding key site location parameters, only to have a new parameter identified later, after considerable time and resources have already been spent identifying sites. The selection team must obtain complete input and confirm mutual agreement among decision makers on all acceptable parameters, including logistics, human resources, engineering, and environmental and legal issues, before the actual search begins.

Error #2:
Choosing a site with inadequate labor and talent

Manufacturing investments today are increasingly capital intensive and require access to employees with sophisticated skill sets. Verifying an adequate short- and long-term labor force is one of the most significant factors for today's site location projects; in the future, the importance of qualified labor will continue to increase. Selecting a site in an area without an adequate labor force is a critical error, often resulting in higher human resources costs that will have a long-term negative impact on quality and production efficiency.

Error #3:
Choosing a site based on the most generous incentive offer

Site location incentives are an important consideration, and most companies, of course, want to maximize the value of incentives. However, a common error is selecting a site based on the best incentive package, rather than selecting the site best aligned with a company's ongoing operational needs.

If, for example, the selection team chooses a site based on the highest-value incentive package, but the site is in an area with poor logistics or an inadequate labor force, ongoing costs to the operation likely will be significantly greater than the value of the incentive package. Selecting a site without a balanced perspective regarding both incentives and operational costs can have a permanent and negative impact on the facility's competitiveness.

Error #4:
Not understanding the usable value and cost of securing incentives

Most states and communities are extremely aggressive in assembling incentive packages that present very attractive savings. But without careful analysis, the estimated value of incentives often appear higher than what can actually be realized. To avoid key incentive analysis errors, selection teams must ask:

- What are the net short- and long-term costs after all incentives are applied? For example, property tax abatements can be worth a lot of money, but one location may offer a larger abatement because its property taxes are significantly higher than a competing location.
- Can the incentives offered be used? The selection team must determine the "usable value" of all incentives offered. Income tax credits can be extremely valuable, but not if a company has little to no income tax liability.
- What is required to actually secure the incentives? In some cases, the effort to secure certain incentives may not be worth the value of the incentives. Most incentives have applications and supporting documentation that must be submitted at particular times throughout the search process and upon project implementation. Follow-up is very important to ensure deadlines are met and incentives are secured.

Error #5:
Choosing a site that is too small

Committing to a site that is too small can reduce the success of the initial startup and limit future expansion. Selecting a site that has the acreage to accommodate a best-case growth scenario while still maintaining an adequate buffer to provide privacy from future commercial or residential encroachment is important.

Error #6:
Narrowing to a single proposed site prior to final selection

For the best site search results, the selection team should narrow the list of candidate sites until two to three sites remain, preferably in two competing states. All of these sites should be entirely acceptable as a final location. Narrowing to one site too soon creates the risk that if a fatal flaw is found in that site, the search must start over.

Another significant issue with shortlisting only one site too early is that it likely erodes the company's ability to generate competitive incentive negotiations between states. Without competition, economic development entities, utilities, and rail providers will have little reason to enhance their incentive offers. Depending on the size of the project, a lack of competition can result in a financial loss of tens or hundreds of millions of dollars.

Error #7:
Choosing a site without performing due diligence

The selection team must evaluate numerous physical characteristics of each site, including topography, geotechnical and archeological conditions, environmental history, and potential location of freshwater wetlands. The team must also determine whether the property is in a flood plain, and whether or not any title or easement issues exist. Failure to fully understand how each of these factors affects a site's feasibility and ultimate development cost is a very serious error made on many site location projects.

For example, failure to fully understand geotechnical and topographic issues can lead to significant site preparation cost overruns because of unexpected costs related to general earth work, soil remediation, and the potential need to install geo-piers or other required structures.

Error #8:
Choosing a site with either high logistics costs or unsuitable ingress and egress

Logistics costs are an important consideration for many types of locations and expansions, especially automotive and distribution projects. Selecting the wrong site from a logistics perspective can add a permanent higher per-unit cost to production. For an automotive manufacturer, this additional cost-per-unit can add millions of dollars in freight costs per year and over the lifetime of the facility.

Ingress and egress are also important considerations. Selection teams must consider the capability of current roads to safely, adequately, and permanently handle employee, supplier, and customer traffic, as well as provide alternate routes if a primary route is temporarily blocked or not usable.

Error #9:
Failing to adequately document incentives and other commitments

Site location projects are extremely dynamic and typically involve numerous commitments from multiple entities regarding site and utility development and incentives. Generating written documentation of commitments during site analysis and incentive negotiations is critically important. These should be summarized in a detailed Memorandum of Understanding (MOU) and ultimately in binding agreements.

For performance-based incentives such as property tax abatements or Tax Increment Financing (TIF), MOUs should contain quantitative examples of how incentives will operate, as well as any "clawbacks" that will be enforced if project performance goals are not met.

MOU's should also address non-incentive parameters including technical specifications related to utilities, land transfers, or implementation of training and recruiting programs. Failure to secure detailed MOUs and follow-up agreements often results in a loss of incentive value, project delays, inadequate utility services, increased costs, and an erosion of goodwill with the community.

Error #10:
Failing to keep the project confidential

For most manufacturing site selection projects, preserving confidentiality is imperative. Inadvertent release of information to business competitors or employees can be costly on many levels. In the early stages of a project, not revealing the identity of a company conducting a site search or the product they wish to manufacture is typically very important. Qualified site selection consultants are generally capable of devising and implementing strategies, including using multiple project code names and strict non-disclosure agreements, to reduce significantly any release of private site search information prematurely.

Summary:
Site selection for manufacturing locations is an extremely complex process requiring the selection team to evaluate numerous quantitative and qualitative parameters before choosing the optimum location. Failing to consider key site selection factors generally causes significant project delays, higher costs, and lower profits in the short- and long-term. Similarly, failure to set up a competitive environment for incentive negotiations can be a costly error.

Using a qualified site selection advisor is fundamental to choosing a successful location and can minimize or eliminate the most common site selection errors. Site selection advisors, whether internal or external, must have comprehensive experience, no conflicts of interest that could impact their recommendations, and an understanding of the wide range of considerations necessary to provide the most valuable site location intelligence.

About the Authors:

Mark Williams *is founder and president of Strategic Development Group (SDG), a full-service site selection firm founded in 1999 and based in Columbia, South Carolina. He has more than 25 years of experience in the government and private sector helping companies around the globe with site selection and incentive negotiation projects locating in the United States. He is a board member of the Site Selectors Guild, which is a professional association comprised of the world's most respected site selection consultants. He has also been named as "One of the Top 10 Site Consultants that know the South Best" and "One of the Top 3 Site Consultants in South Carolina" by Southern Business and Development magazine.*

Danielle Campolo *is a Senior Principal at SDG with more than 15 years experience in site selection and incentive analysis. She has worked with the SDG team to complete highly successful site location and incentive negotiation projects for major U.S. and multi-national corporations including Bridgestone, British Petroleum, Indorama Ventures, JTEKT, Commercial Metals Company, and many others. Over the last five years, SDG clients have announced more than $1.9 billion of capital investment and SDG has negotiated more than $400 million in site location incentives for these projects.*

Williams and Campolo can be reached at mwilliams@strategicdev.com and danielle@strategicdev.com.