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THE ROLE OF THE SITE SELECTOR

Andrew H. Shapiro *

INTRODUCTION

The modern site selector is a one-person decision support system: part mediator, part guide, and all-around confidant to harried senior managers who are unfamiliar with and too busy for the responsibilities thrust upon them. The role of the site selector has changed profoundly over the last century, a change shaped largely by greater access to better information, stunning technological advances, and the rapid global migration of human and financial capital. Below, this article maps the origins of this fascinating profession, outlines the process by which companies make location decisions, describes the varied roles that site selectors play in this process, and offers one practitioner's opinion on what the future holds.

I. HISTORY AND EVOLUTION OF THE SITE SELECTION PROFESSION

Site selection, as a distinct profession, originated in 1919 when Felix Fantus moved his small furniture plant from Chicago, Illinois to Monticello, Indiana in search of inexpensive space and an attractive labor market.¹ From this experience, Fantus recognized a market for offering accurate information and objective advice about factory and office locations.² By the late 1920's, the Fantus Factory Location Service was born.³ During World War II, Fantus' son-in-law, Leonard Yaseen, recognized the growing market for these services and opened the company's first east coast office in New York.⁴ For decades the

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¹ See STRATEGIC MOVES CREATE COMPETITIVE ADVANTAGES, PHH FANTUS BROCHURE (1989).

² See *id.*

³ See *id.*

⁴ See *id.*

Fantus Company was the dominant name in the site selection industry. Over time, Fantus created separate service lines devoted to office and industrial projects and even established a practice that helped economic developers learn how to become more effective at attracting new jobs and investments.⁵

The site selection profession remained concentrated in Fantus and several small off-shoot firms until the late 1980's and early 1990's when global engineering, accounting firms, and real estate brokerage firms began making inroads. Fantus was acquired several times over the same period and is presently owned by Deloitte & Touche, which has subsumed the brand and merged the company into their global consulting practice. The contemporary site selection community is comprised of a few omni-service providers and numerous small consultancies arising from corporate retrenchment and the aftermath of the last several recessions. These changes in firm structure are also reflected in personnel. Where the typical site selector was formerly a veteran planner, economist, or an occasional MBA, the location advisor today is just as likely to be a recent graduate plucked from the consulting pool at Deloitte or Ernst & Young and assigned to a location project one month and a business process improvement engagement the next.

Another notable trend is the emergence and evolution of the incentives consultancy. Economic development incentives, such as tax credits and abatements, grants, and reimbursable loans are increasingly a material factor or *the* material difference between two locations. In response to this shift, specialty firms have emerged to help clients navigate the complex and arcane processes of negotiating benefits, completing approvals and agreements, and conforming to various compliance and administrative requirements. Originally focused only on these highly detailed tasks, incentives consultants, inspired by market opportunities and clients, have integrated site selection into their portfolio of services.

II. HOW COMPANIES LOCATE FACILITIES

Business location decisions are often made by a small group of executives who are motivated by tactical considerations, such as capacity constraints and strategic drivers, including market access and penetration. These executives are frequently recruited from the affected business units and from senior staff in real estate, human

⁵ *See id.*

resources, legal, tax, and government relations. Site selection is often the first time they have worked together on such a unique assignment. Each member will bring a unique perspective to the project. Thus, success often hinges on how well the team is able to balance individual viewpoints and priorities while seeking the synergy that will accomplish the strategic vision.

A. THE CONSULTANTS

While internal players exert the greatest impact on the location decision, it is common for outside experts to wield considerable influence over the process. Because location engagements occur infrequently, management relies on consultants for, among other tasks, site due diligence, facility design, land-use approvals and permitting, specialized recruiting, and both public and governmental relations. The site selector often coordinates these disparate disciplines, acting as a stage manager or ringleader rather than as outright project manager.

B. CRITICAL SUCCESS FACTORS

No universal list of project drivers⁶ exists that is applicable to all assignments; just as no one location is best for all companies. Even within industries, location-specific criteria often vary between companies and business units. When initially discussing project requirements, management may describe objectives in economic dimensions that are readily quantifiable and easily understood, such as reduced wages, taxes, and rent. However, financial considerations are rarely the sole project drivers. Other factors capable of positively impacting a business' market position, including access to specialized talent, proximity to suppliers, visibility to investors, and analysts, often become the pivotal issues during a location engagement. A successful location represents the best balance between all operating benefits, risks, and costs.

C. THE DECISION-MAKING PROCESS

Adopting a rational, objective location decision-making process enhances opportunities for success. Site selectors typically recommend a three-step progression that first addresses any threshold, or "must-

⁶ "Drivers" is a consulting term of art meaning objectives or aspirations for the undertaking.

have” factors. This is typically followed by a series of sequential screens of candidate locations. Here the objective is to eliminate all but the strongest candidates. For example, using labor availability as an overarching location factor, the consultant might first eliminate destinations in states that do not provide right-to-work protections and rank the remaining candidates based on broad demographic variables, such as population growth, labor force participation rates, and unemployment. In the final screening stages a labor availability analysis might examine the education, experience, and skill requirements of the employer against each labor market. When practiced correctly, the result is a balanced location that reflects the strategic goals of senior leadership.

III. TYPES OF PROJECTS

Generally, site selection projects involve corporate headquarters, cross-business operations, advanced manufacturing facilities, research and development units, distribution centers, data centers, or other mission-critical facilities. These project categories include a plethora of variations. For example, a headquarters project might include divisional or regional units; a cross-business unit might include customer-facing contact centers or more complex shared-services centers.

Regardless of the character of the client organization, there are generally four types of location studies undertaken by the site selector:

1. Strategic studies linking corporate and location strategies;
2. Feasibility studies that address whether or not to relocate;
3. Location selection studies that focus on where to locate; and
4. Labor market studies examining a specific market’s ability to supply high quality labor at affordable wages and in sufficient quantities.

Many of these studies also differ in scope, approach, and complexity depending on whether the study focuses on a startup or an existing operation. What follows are brief descriptions of each engagement type.

A. STRATEGIC STUDIES

A strategic study generally represents the earliest point in which a site selector will advise the client. Typically, the client wants to better understand the connection between location and broader

corporate objectives. For example, how can the choice of location help a company become the lowest-cost provider in its industry? Or do competitors gain an advantage based on their locations? Common practice is to benchmark other companies and to evaluate how they derive particular advantages from their choice of location.

B. FEASIBILITY STUDIES

These studies usually evolve from strategic studies and are often the precursor to location selection engagements, though they can also stand alone. Feasibility studies attempt to answer whether it makes sense, financially and from a risk perspective, to relocate, expand, or consolidate operations?

The consultant works with the client to derive several realistic “proxy” or test scenarios and then estimates the one-time costs for relocation or redeployment that should be recouped within a reasonable period via recurring cost savings in labor, occupancy, taxes, and other operating expenses. New destinations can often generate labor savings because the company can replace hourly workers and low to mid-level professional employees at more favorable wages (and lower levels of seniority) due to cost of living or other location-specific advantages. Companies also commonly implement business-process improvements at new locations to yield lower headcounts and boost labor savings. Headcount reduction, higher efficiency in space usage, and lower costs of ownership also reduces occupancy costs at new locations. Additionally, businesses often incur tax savings from the reduction or elimination of certain levies on payroll, sales, real and personal property, and inventories. Perhaps surprisingly, state corporate income tax savings often play a limited role in this analysis since many companies have become adept at avoiding these taxes altogether.

A final key factor is the analysis of operational liabilities. These most often include the risk of attrition among key employees or critical operations. Although many companies may wish to transplant some of these crucial employees to their new location, this is not always a viable option. Depending on the chosen destination, as well as the salary levels, tenure with the company, sex, age, and marital status of the affected employees, a client stands to lose (on average), between 20% and 80% of its staff to immediate attrition or protracted periods of loss upon relocation or redeployment.

C. SITE SELECTION

The core capability of a site selector is to help clients translate strategic imperatives into concrete location choices and actions. Site selection projects can be independent or can follow from a feasibility study. The typical location engagement is divided into two phases:

1. The sequential screening process (described earlier); and
2. In-market due diligence, often called “fieldwork,” that culminates in the recommendation of a single preferred location and perhaps one or two alternates.

Since it is increasingly common to couple site selection with the pursuit of economic development incentives, a third phase often includes negotiation for these inducements. This is taken up later in this article.

If a site selection engagement stems from a feasibility study, the location choices might already be well-defined, particularly if the proxy locations are considered to be viable destination candidates. If a feasibility study was not previously completed an analysis of operating benefits and drawbacks should help generate many location criteria needed to drive the candidate screening process.

D. LABOR MARKET ANALYSIS

Imagine that a company sits at the bull's eye of a target, and the rings around the center are populated with workers of varying levels of education, skill, and experience. The labor market analysis seeks to determine if enough qualified workers live or work in those rings to sustain the company now and in the future. The location in question may be an existing site or a client's prospective destination. In either case, the site selector combines an in-market investigation, including interviews with other companies, educators, recruiters, and other knowledgeable parties, with demographic data, and sophisticated Geographic Information System mapping tools to create a regional profile. This analysis enables the consultant to make a recommendation to the client about hiring at that location.

IV. THE VARIED ROLES OF THE SITE SELECTOR

As should be apparent by now, a site selector is often required to fill several diverse but critical roles within the same project. What

follows are descriptions of some of the more common roles performed by site selectors.

A. FACILITATOR/MEDIATOR

Employing classic decision-making principles and techniques, the site selector will lead her client through a systematic process:

1. Identify concerns and issues that inspired the location engagement;
2. Set priorities that can be addressed via location/place; and
3. Identify and marshal resources and stakeholders to achieve results.

The skillful site selector listens to and confirms the client's needs and desires to create a rubric based on the client's priorities. Additionally, the site selector should ensure that the decision on *where* to put the project is not made until everyone on the team understands *why*.

As noted earlier, making a location decision implies that a company must choose a new location from among a number of alternative destinations. Often the client company is familiar with most of the destination possibilities. The choices might include locations where the company already has a presence or, due to the client's unique nature and the need to satisfy a particular requirement, location options might be limited. For example, those in the commercial space industry might be drawn to Brevard County, Florida, the home of Cape Canaveral. When the alternatives are not limited, a site selector can expand the search universe and draw on vast geographic knowledge. She might recommend limiting the starting set of locations to certain countries (in a global search) or time zones if market proximity is an important driver. Or, she may suggest searching metro areas above a certain population or unemployment rate if she knows that drawing qualified labor might be a challenge.

The site selector also helps frame management's expectations for the engagement by helping it define success. In an engagement driven by economic priorities, a set rate of return on the investment may constitute success. However, if the goal is workforce reduction or positioning the company for acquisition, then different standards apply. The consultant also helps manage the project schedule to meet key deadlines. Although senior managers typically have less time to devote to special projects, including site selection, they are held accountable

for the results. Consequently, an effective site selector informs the client what is, and is not, possible within the project deadlines.

B. ADVISOR/ANALYST

As the process evolves, the site selector helps manage interactions with other consultants as well as internal and external experts, including, real estate advisors, public relations firms, and legal counsel. However, the site selector's primary role is to help her client make sense of the vast amounts of data and information that power the screening process within the appropriate timeframe. The overall objective is to decide on a list of final destinations that best meet the client's goals.

Screening embraces many location variables that can entail literally hundreds of data points. These variables often include the following:

1. Population characteristics and trends
2. Operating costs
3. Educational attainment of population
4. Presence of compatible industry clusters
5. Infrastructure availability
6. Employment and labor force
7. Quality-of-life rankings and costs of living
8. University, community college, and military presence
9. Air service and other forms of access
10. High-level estimates of economic development incentives

Once the company designates the final list of potential locations, the consultant typically accompanies the project team on field-based due diligence assessments of each community. The objective of these community visits is to identify and recommend the one location that could best support the long-range needs of the client. These investigations permit the team to conduct empirical research into many facets of the local business environment.

An astute site selector also uses the opportunity to begin positioning the client's project for economic development incentives. Before arriving in each market, the site selector should propose a marketing or positioning strategy to optimize the project's economic development value and enhance the project's competitive positioning. The site selector's experience and relationships ensure the company receives insight into the cost and operational variables critical to the success of the project. Her guidance also guarantees that the full

analysis will be promptly and efficiently completed. Throughout this process the consultant also carefully coordinates communications between the client, real estate advisors, and public officials to maintain confidentiality and prevent untimely disclosure of the company's investigation of alternate locations.

C. COUNSELOR/STRATEGIST

The process reaches an important milestone when the company identifies a preferred location (and suitable backup). As a project segues towards implementation, negotiating for and gaining approval of economic development incentives becomes critical to success. At this stage, some site selectors merely obtain a commitment letter for applicable state and local incentives, which promises to reserve funds or tax-credit capacity, and then consider their job finished. Standing down at this stage is often the norm, particularly if the client intends to use in-house counsel, local counsel, or both to complete incentive documentation.

In some instances, the site selector may retain control throughout the negotiation, documentation, and compliance stages; this way the site selector is able to synchronize everything with the overall project schedule and any real estate transactions. When a site selector stays on, her objective is to secure an incentives package that offers the client maximum value with maximum flexibility. The site selector-turned-incentives advisor seeks a package that may include, depending on the jurisdiction and client, some combination of reduced building or land cost, financing, grants, infrastructure funding, *ad valorem* tax abatement rebates/credits, and training grants. During this process, the consultant should closely coordinate incentives negotiations with related project activities. Project schedules and communication in the marketplace remain essential at this stage of the project.

Key tasks for which the site selector is now responsible include the following:

- 1. Analytic Preparation:** Because it is common for project requirements to evolve over the course of an engagement, the site selector will work with her client to review and confirm those project characteristics (e.g., employment, wages, capital investment, tax liability) that determine the feasibility and value of potential incentives.
- 2. Valuation of Potential Incentives and Commitments:** The site selector will provide a detailed description of each

component of the incentive package, required legal commitments, and necessary agency approvals. Occasionally, she will explore opportunities for improved governmental response on such matters as development approvals

3. **Completing Applications:** The applications for specific incentives programs involve a number of important tactical and strategic decisions, including how to describe the client's competitive location alternatives, the role incentives play, the level and timing of certain disclosures, the protections available for confidential information, and the representations and certifications required by senior management.
4. **Negotiating Agreements:** The site selection consultant coordinates her negotiation strategy with the client team to ensure that specialized expertise is available to review and optimize business terms. By drawing on past experience in that state or community, she can advise her client and negotiate flexibility in incentives documentation to accommodate for potential uncertainties over the term of these agreements.

Throughout this process the site selector and her team pursue a carefully crafted communications strategy, which ensures confidentiality and competitively positions the project in the target markets.

D. CHANGE MANAGER

Even after a site is selected, a number of transition management considerations can determine whether a location is successful. For example, incentives will require monitoring, reporting, and compliance systems. Failure to comply may result in the loss of benefits. To facilitate compliance, the site selector should prepare an incentives manual for the agreements governing the completed project. A well-compiled manual with the necessary reporting formats and related materials facilitates implementing these essential procedures. In contrast, some clients elect to outsource these administrative and compliance tasks to their consultants.

Addressing human resource factors is also essential to maximize the benefits of a move. Site selectors often aid clients in mitigating the risks of staff attrition or the ill-timed defections of key personnel during the transitional period. One of the site selector's most important tools

is a predictive model based on numerous group relocations that estimates the impact on staffing and on one-time (project-related) costs. These impacts and costs can be substantial. For example, every move involves decisions on relocation benefits, severance policies, recruitment, and training practices that can ultimately determine the extent of staff retention and defection.

Finally, the consultant interacts with other third-party providers on the client team. These include the design/build team, equipment vendors, staffing agencies, and public relations providers. The consultant is also likely to work with internal advisors such as the client's government relations and corporate communications teams to ensure that all public messages advance the client's ultimate objectives. Her integral knowledge of the entire decision-making process and the rationale for the particular choice that was made, make the site selector an invaluable contributor to efforts to craft a formal announcement and to build relationships within the new community.

V. THE FUTURE OF SITE SELECTION

Many of the trends influencing site selection over the past decade will continue or perhaps accelerate. There is no denying the fundamental, game-changing impact of the Internet, which has begun to disintermediate location advisors in much the same manner that it has disrupted real estate, retailing, publishing, entertainment, and a host of other industries. Simply put, there is enough good information readily available to anyone willing to look for it. There are even a number of online tools that purport to mimic the location decision analysis process.

The Internet has displaced the use of consultants for some smaller projects. However, the larger engagements, and in particular the "trophy" assignments, which involve thousands of jobs and hundreds of millions of dollars of capital investment, still elect to employ the services of a consultant. Those who attempt to drive site selection via the Internet may lack the experience to parse the vast amounts of data or to view this information critically.

Technology has had other, sometimes unwanted, impacts. For example, the Internet has shortened the typical engagement timeline. What was once a one to two-year deliberative process is now often a six-month project. While there are obvious benefits to abbreviating the project timeline, this has put additional pressure on the site selector to ensure that the quality of the location decision does not suffer.

Another undeniable trend is the globalization of site selection. In response site selectors have opened offices in new destination markets, such as Bangkok and Hanoi, or affiliate with consultancies that already have a presence in these or other emerging markets. Outsourcing of jobs and investment has had other implications for site selection; notably, companies now focus on recruiting potential employees with foreign language skills and prior experience in overseas markets.

Finally, in the aftermath of the worst recession on record, some major firms appear to be cutting back or even abandoning site selection, signaling perhaps an end to the prominent role played by the large accounting, real estate, and engineering firms. For example, in just the past several years Grubb & Ellis (real estate) and BDO Seidman (accounting) have jettisoned their site selection practices, both choosing to outsource those projects to independent boutiques staffed by former employees. At the same time, smaller firms have proliferated, including independent incentives advisors. In addition to offering site selection services, these specialized advisors also negotiate incentives, manage approvals and agreements, handle client's outsourced annual compliance activities, and create markets for unused, refundable tax credits.

VI. CONCLUSIONS

In a rapidly changing environment, every decision that a company makes is important. One of the most impactful, and often the most challenging decision, is choosing a company's new location. These decisions, though infrequent, can consume vast amounts of capital and attention, and are hugely consequential to a company's cost structure, market positioning, and staffing requirements. They may ultimately dictate success or failure. The site selection profession emerged almost a century ago to address these needs and has since been molded by clients' requirements and fortunes. To be truly effective, the modern site selector must now have experience in real estate, finance, human resources, law, and a host of other disciplines, as well as possess all the attributes of a trusted advisor and wily negotiator. It's a role that Felix Fantus and Leonard Yaseen would certainly recognize, though the practitioners and the tools have changed.