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**BUSINESS LOCATION DECISION-MAKING AND THE CITIES:  
BRINGING COMPANIES BACK**

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## **ABOUT THE AUTHOR**

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**BUSINESS LOCATION DECISION-MAKING AND THE CITIES:  
BRINGING COMPANIES BACK**

**I. INTRODUCTION**

Corporations are changing the way they make decisions about where they locate and where they relocate. These decisions have serious implications for cities as they try to position themselves in a changing competitive environment.

Aided by advances in telecommunication and transportation infrastructure, today's executive can successfully coordinate many corporate functions in a multitude of locations. Manufacturing may take place in a developing country, where labor is cheap and electric utilities and water resources have become reliable. Back office operations may be located in a small U.S. city where real estate and labor costs are low and the labor force is well-educated and articulate. Executive management may be located in pared-down headquarters in a high-rent large city with an international airport and attractive lifestyle amenities.

Sophisticated software enables today's location decision-maker to sort through a vast array of information about global labor markets, housing costs, transportation, specialized services, tax structures and tax subsidies when choosing a location. Over the last fifteen years, improved information and technological advances have moved the location decision-making process to the center of corporate strategic planning.<sup>1</sup>

These advances have carried businesses away from central cities and intensified local officials' competition for businesses. Yet there is often a mismatch between the actions of public officials and the business community. In fact, business executives contend that public officials frequently do not understand business operations and what motivates location and re-location decisions.

To better understand business decisions about location in today's changing economy, this paper looks at the following questions:

What are the major trends propelling business relocation?

What aspects of business are most closely tied to the location decision?

How are location decisions made?

These queries were presented to corporate site selection managers, planning and location consultants, economic development specialists, and academics that study corporate location. Trade literature, "white papers," and major consulting firms' industry reports were also part of the research. The answers to these questions helped shape the second part of the paper, which looks at policy implications, including the most critical barriers preventing decision-makers from choosing urban locations and actions that policy makers can take to remove these barriers and attract more companies to the cities.

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<sup>1</sup> *Arthur Andersen Business Location Services Special Report: "Business Location in a Virtual World: 'Where' Still Matters."* "Changing Work: What our Clients Tell Us," "What Economic Development Organizations Say," "Business Location — The Strategic Approach," 1995. Also, John M. Rhodes, President, Moran, Stahl and Boyer and Dennis Donovan Principal Wadley-Donovan, site selection specialists, telephone interviews.

## II. THE BASICS OF BUSINESS LOCATION: UNDERSTANDING THE REASONS FOR “WHERE”

Changes in three areas — technology, business organization, and government policies — influence business location and relocation decisions.

### **Technological Innovation**

High levels of relocation activity are associated with periods of rapid technological change. New technology opens the door for organizational structures that were not previously possible. Business reorganization then becomes a catalyst for relocation decisions.

For example, the skyscraper city as we know it today could never have existed until the use of structural steel was perfected, railroad lines were built, and the telephone was invented.<sup>2</sup> These advances made possible a whole new way of organizing business. Urban high-rise office buildings allowed companies to physically separate their administrative and clerical functions from the factory floor for the first time.<sup>3</sup>

Consider how technological and organizational innovation has affected the geographic configuration of warehousing and distribution. The invention of bar-coding and sophisticated handling of packages have allowed companies to track the movement of goods with greater precision. Improved highway and air transportation enables companies to move products quickly and smoothly. “Just-in-time” inventory management, which could not have advanced without these innovations, has reduced the need for large warehouse facilities. In the end, companies may eliminate costly property from their portfolios and structurally change certain segments of the real estate market.<sup>4</sup>

More recently, improvements in the sophistication of electronic commerce show how retail sales could change in the future—and eventually affect the places where consumers make purchases. Cyber-retailing is challenging the traditional need for a street level storefront presence while also providing consumers significantly greater choice, convenience, and access to inventory. For example, Amazon.com, the internet-based book distributor, could not have existed without the expansion of home computing and efficient distribution networks. New York City small business upstart, Kozmo.com allows individuals to rent home videos on-line and provides same day delivery at the location and time requested. E-commerce is revolutionizing retailing, and its proliferation will change the role of main streets and other retail centers.

### **Organizational Change**

The “disequilibrium” and “creative destruction” that mark periods of rapid technological change apply to the abundance of private sector reorganizations today. Over the last decade, the economies of the U.S. and indeed of the world have been engaged in dramatic re-organization and re-structuring of enterprise, especially through mergers and acquisitions, which can create major geographic re-alignments. In 1998, there were 23,000 merger and acquisition deals

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<sup>2</sup> Paul Saffo, forecaster for the Institute for the Future. Keynote speech at the International Development Resources Council Fall 1997 conference in San Diego, California.

<sup>3</sup> Saffo, Keynote speech.

<sup>4</sup> Ian Cameron, in *Arthur Andersen Corporate Real Estate Executive Report*, “Corporate Real Estate in Transition: Strategic Directions in Support of Business Goals,” Summer 1994.

worldwide, totaling \$2.5 trillion. In 1999, activity was even more brisk, with \$850 billion worth of deals in the first quarter alone.<sup>5</sup>

Changes in ownership often involve reorganization, which generally weaken the bonds between companies, their key managers and employees and their communities. Companies that are still tied to their founders tend to be located in or near the founder's home town. When the company grows, the ties to the original location may become loosened, despite executives' residence in the region. A company may seek a new location when its current location inhibits its ability to compete or when new and influential outside shareholders and executives push for a move.<sup>6</sup>

In many cases, the need to reorganize business processes is more likely to motivate a location change than the need for more space. For instance, if a manufacturer has problems that inhibit day-to-day operations – such as the plant layout, materials handling, or storage, or if new technology has been developed and needs to be implemented – then a new location may be warranted.<sup>7</sup>

When it became obvious to industry leaders that it was more efficient to organize manufacturing processes on one level, they vacated old high rise factories in the cities and moved to the urban fringe where there was an abundance of affordable land for one-story buildings;<sup>8</sup> today's call centers – also known as “information factories” – are following the evolution of early manufacturing. Call centers are places where dozens of phone operators receive calls for help about software or insurance claims, or make outgoing telemarketing calls. Some of these operations originated in multi-story office buildings, but are now moving to single level structures in places where real estate is less expensive and readily available. One insurance company call center moved from a multi-storied building in San Diego to a one-story facility in Tucson because the labor was cheaper and the management could maintain better quality control with all employees on one level.<sup>9</sup>

## **Government Policy Shifts**

### ***1. Regulatory Change***

Changes in government policies that affect the cost of business inputs are another important factor motivating location moves. Government has historically regulated many of the industries that influence business costs, such as utilities, telecommunications, air travel, and postage. As deregulation in natural gas, air travel and more recently in utilities and telecommunications alters the pricing of these core business inputs, some locations gain price advantages while others become disadvantaged.

For example, changes in the price of energy over the last three decades influenced the migration of people and jobs. In the early 1980s, the cost of energy in the southwest and mountain states was lower than elsewhere in the country, and these places drew people and jobs away from the industrial states of the Northeast and Great Lakes states. When the

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<sup>5</sup> Claudia H. Deutsch, “The Deal is Done. The Work Begins.” *New York Times*, April 11, 1999.

<sup>6</sup> Laulajainen, Risto and Howard A. Stafford, *Corporate Geography Business Location Principles and Cases* (Boston, MA: Kluwer Academic Publishers, 1995).

<sup>7</sup> Roger W. Schmenner, Harvard-MIT Joint Center for Urban Studies-HUD, “Look Beyond the Obvious in Plant Location,” *Harvard Business Review*, January/February, 1979.

<sup>8</sup> Laulajainen and Stafford, *Corporate Geography Business Location Principles and Cases*.

<sup>9</sup> Maura Cochran, Principal, Bartram and Cochran, site selection consultants, telephone interview.

energy industry suffered a crisis and dropped its prices across the country at the end of the decade, this migration pattern slowed dramatically.<sup>10</sup>

Companies whose operations depend heavily on electricity will migrate to where competition is driving down costs. In 1995, the Anchor Glass Container Company engaged in a protracted battle with Jersey Central Power and Light to renegotiate electric rates for its Salem and Aberdeen, New Jersey plants, which paid the highest electricity rates of any plants in the company. The company then turned to a campaign to establish a municipal system that would contract on a wholesale basis with the utility. Ultimately, they lost the battle and shut down operations, taking jobs and commerce with them.<sup>11</sup> (Ironically, the state of New Jersey recently deregulated, allowing for electric utility competition.)

Similarly, telephone rate structures and taxation influence the location decisions of firms whose work depends on telecommunication services. Access to this utility and the affordability of rates may become increasingly important as telephone lines connect more companies and people to the Internet. The government has historically regulated phone rates, taxation and competition. Some states have different tax rates for inter-state and intra-state calls and this is a key location factor for certain companies. The volume of usage a company in each geographic area will influence its cost structure and as a result, its location decision-making.<sup>12</sup>

The government's statutory and regulatory approach to environmental clean-up has also had profound influence on business location. The risk of liability for environmental contamination is a central concern for virtually any business directly or indirectly involved with real estate. Although it may have been counter to the intent of the law, private sector avoidance of environmental liability has consistently drawn businesses into greenfield development over the last twenty years and away from "used" urban properties.

Postage is also a government-controlled cost that affects location. For example, the structure of second-class U.S. postal rates is based on distance, and firms that ship large quantities of mailed printed material must figure this into their cost structure. Large magazine printers with national distribution tend to be located in the central part of the country to reduce the cost of delivering to both coasts.

## **2. Funding**

Massive federal spending programs have also shaped the location decisions of business and markets since the turn of the century. Western water resource management (such as construction of the Hoover Dam) allowed for widespread settlement of the Southwest. Federal power marketing administrations that provide cheap hydroelectric power (such as the Bonneville Power Administration) enticed the water- and electricity-hungry aluminum industry to locate in the Northwest. Extensive federal highway spending in the 1950s and 1960s also made it easier for businesses and their customers to move westward, away from densely populated cities.

Defense spending, too, has influenced the location of people and business. A number of researchers attribute the current location of high-technology companies to federal defense spending during earlier decades. Skilled workers moved from their hometowns to Southern California, Colorado and metropolitan Washington, D.C. Researchers have traced the "brain drain" paths of individuals who grew up and received their university training in the Midwest and then migrated

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<sup>10</sup> Miller, Glenn H. Jr., "Dynamics of the U.S. Interstate Migration System, 1975-1992," *Growth and Change*, January 1, 1995.

<sup>11</sup> Natalie R. Cohen, "Currents of Change," *Fiscal Stress Monitor*, February 1996.

<sup>12</sup> Cochran, telephone interview.

south and west to find employment opportunities in defense-related industries. This can be attributed to federal procurement contracts that included the cost of recruitment and relocation as well as a rate of return on these costs.<sup>13</sup> The 1980s shift from direct defense spending to procurement contracting has also been identified as a key job mover, particularly in the Washington, D.C. metropolitan area where high tech contractors have collected along the Dulles Airport corridor.<sup>14</sup>

The movement of major federal facilities has location spillover effects. In the 1990s, considerable political maneuvering led the federal government to relocate the FBI's fingerprinting operation from Washington, D.C., to Clarksburg, West Virginia. Seven years and \$200 million later, the facility opened with only 500 of the original 2,700 D.C. employees; less than one-fifth of the original workforce agreed to make the move. To fill the vacancies, 1100 people were hired from the region or recruited from elsewhere to staff the fingerprinting operation and the National Crime Information Center. The Congressional Representatives of the region were also successful in bringing a new Army National Guard Fixed Wing Training Center, a National Aerospace Center and an Advanced Flexible Manufacturing Institute to Clarksburg. As a result of these initiatives, the city of less than 20,000, once suffering from manufacturing plant shut downs, now is home to outposts of key federal contractors such as General Dynamics, Northrop Grumman, and Pratt & Whitney.<sup>15</sup>

Finally, state and local spending influence location decisions. For example, increased highway expenditures have been associated with faster manufacturing growth, particularly from the 1960s through the 1980s.<sup>16</sup> In fact, highway density has been associated with a higher proportion of manufacturing start-ups and with total employment in a region.<sup>17</sup>

### **Business Aspects Linked to Geography**

There are five fundamental components of business that help determine where a company or firm may locate: (1) business sector; (2) business function; (3) product maturity; (4) competitive strategy; and (5) business culture.

#### ***I. Business Sector***

Different business sectors approach the location issue with varying needs. Manufacturing companies, for example, need to balance proximity to end-user markets against supplier resources. Classic manufacturing location analysis looks at the "friction of distance" and the "distance/decay curve."<sup>18</sup> This analysis weighs the cost of transporting the materials necessary to the manufacturing process against the cost of bringing the goods to market. For instance, it is cheaper to produce paper near where the trees are cut down than it is to haul the trees to the market, and then manufacture the paper.

A retail company, in contrast, is more likely to focus on maximizing sales revenues than minimizing transportation costs. This industry may be less sensitive to the cost of a location but more sensitive to geographic

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<sup>13</sup> Ellis, Barff, Markusen, *Economic Geography*, April 1993.

<sup>14</sup> Cohen, "The Military Build-Down," *Fiscal Stress Monitor*, February 1995.

<sup>15</sup> "Pentagon Pork Feeds West Virginia Town," *Pittsburgh Post-Gazette*, May 25, 1997.

<sup>16</sup> Theodore M. Crone, "Where Have All the Factory Jobs Gone--and Why?" *Business Review* (Federal Reserve Bank of Philadelphia), May 1, 1997.

<sup>17</sup> Crone, "Where Have All the Factory Jobs Gone--and Why?"

<sup>18</sup> Laulajainen and Stafford, *Corporate Geography Business Location Principles and Cases*.

positioning within its market. If there is a sufficient market to support profitable sales, there is also likely to be a sufficient labor market. Proximity to expressway exit and entrance ramps in a densely populated area may be more important to a retail establishment than proximity to suppliers.

## 2. *Business Function*

Businesses increasingly separate their operations geographically, creating a division of labor among cities. One place might be the preferred site for warehousing and distribution, another for headquarters, another for back office functions. Corporate headquarters tend to be found in cities that have excellent airline connections, an abundance of professional support services, and a high quality of life.<sup>19</sup> Research and development functions share many of the location needs of corporate headquarters. They require highly educated and innovative thinkers who may cluster in communities with cultural and recreational amenities. Metropolitan areas with large universities and concentrations of skilled engineers are also typical sites for product development activities.

Back offices tend to be in places with state-of-the-art telecommunications capacities and affordable living costs. A strong labor force with computer skills, quantitative abilities, and a customer service orientation are also important for a back office location. Contemporary manufacturing companies also require a well-educated workforce that can be flexible and self-directed in their jobs.<sup>20</sup> Table A summarizes how different functions drive different location priorities.

Function has not always been a factor in the location decision-making process. For example, in the 1960s, Glaxo-Wellcome moved from New York City to Durham, North Carolina. The purpose of the move was to reduce overhead costs by consolidating its main facilities – research, manufacturing, as well as headquarters – in Durham, N.C. If the company were planning its move today, it would probably send manufacturing, research and headquarters to different sites in different parts of the country or perhaps even different parts of the world. Moreover, it might well decide to use the move as a chance to significantly reorganize the way it does business.<sup>21</sup>

The National Association of Corporate Real Estate Executives (NACORE) in collaboration with Ernst and Young surveyed real estate executives to determine their preferred locations for specific functions: office, distribution, and manufacturing. The most preferred markets overall included north suburban Atlanta, Charlotte, north suburban Dallas, Raleigh-Durham and Salt Lake City. Top markets were identified by the interstate that connects them.<sup>22</sup> The one single area that topped the list regardless of business function was the I-85 corridor that runs between Raleigh-Durham and Atlanta. Among the favorite market locations for manufacturing and distribution facilities were Chicago-Aurora (the northwest Tollway Corridor), Cincinnati's southern suburbs (including northern Kentucky), Jacksonville, Florida, and Kansas City's western suburbs (Johnson County, KS). For office facilities, the Washington, D.C., Virginia suburbs of Fairfax, Prince William and Loudon counties were cited.

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<sup>19</sup> Arthur Andersen, 1995.

<sup>20</sup> Arthur Andersen, 1995.

<sup>21</sup> Rick Mullin, "Tactical Site Selection," *Journal of Business Strategy*, May/June 1996.

<sup>22</sup> Ernst and Young and the National Association of Corporate Real Estate Executives, "Reshaping America: the Migration of Corporate Jobs and Facilities," *Economic Development Review*, Winter 1994-1995.

Among office-space users, surveyors found that only 4 percent of the participants would choose to purchase an existing building; most respondents wanted to build to suit or lease. Suburban office and campus facilities were selected as the preferred choice by 58 percent of the respondents while central business district space was chosen by 12 percent.<sup>23</sup>

**Table A: Business Geography by Function**

<b>Function</b>	<b>Location Priorities</b>	<b>Sensitivity to Cost</b>	<b>Examples of Preferred Locations</b>
Headquarters	<ul style="list-style-type: none"> <li>• Accessible international air service</li> <li>• High-end hotels, restaurants, entertainment, cultural events; major league sports team/stadium with skyboxes to facilitate heavy inter-company face-to-face interaction</li> <li>• Professional support services, good choice of office space or availability of land to build-to-suit</li> <li>• Diverse professional employee base</li> <li>• Attractive housing for executives, affordable housing for managers and support staff within reasonable commute</li> <li>• Strong educational system for employee's children and continuing adult education</li> </ul>	Cost sensitivity (within a normal range) is less important than availability of key requirements.	Central cities or strong first tier suburbs (e.g. Washington D.C.'s suburbs: Prince William, Fairfax and Loudon counties); northern suburban Atlanta, Charlotte, Dallas, Raleigh-Durham
Research and Development	<ul style="list-style-type: none"> <li>• Proximity to concentration of universities</li> <li>• Clusters of highly educated workers, or alternatively, lifestyle amenities that are attractive to this pool of talent</li> <li>• Control over physical environment -- to buffer company from nosy neighbors, sharing of secrets by employees</li> </ul>	Cost sensitivity is less important than the availability of talent and other requirements (although R&D may be more sensitive to cost than headquarters)	Near universities, in large metropolitan areas; campus locations favored; Route 1 near Princeton, New Jersey, home of several pharmaceutical companies
Back Office	<ul style="list-style-type: none"> <li>• State of the art telecommunications capacity</li> <li>• Affordable housing costs</li> <li>• Quality labor force with technical skills</li> <li>• Good schools for employee recruitment and their children</li> <li>• On-going available adult education and training</li> </ul>	Sensitivity to cost: real estate, telecommunications, housing, taxes	Medium and small sized cities: Tampa, Florida, Tucson, Arizona; former military installations; in large metropolitan areas, prefer suburbs.
Manufacturing and Distribution	<ul style="list-style-type: none"> <li>• Good transportation system; near major interstates</li> <li>• Strong utility systems: electric, water, wastewater, gas</li> <li>• Well-educated workforce; strong specialized training programs</li> </ul>	Sensitivity to housing costs; taxes, utility rates	On interstate, near large markets; access to suppliers (Chicago-Aurora, Cincinnati south suburbs and northern Kentucky, Jacksonville, Florida and Kansas City, Missouri western suburbs

<sup>23</sup> Ernst and Young and NACORE, "Reshaping America: the Migration of Corporate Jobs and Facilities."

### 3. *Product Maturity*

Location requirements differ depending on the maturity of a company's product. The "life cycle" stage of a product is closely linked to the cost of labor and real estate. A cost structure that works well for a company at the early stages of product development will not necessarily support its competitiveness as the product matures. At the research and development phase for example, a company may be less sensitive to real estate costs but quite sensitive to the availability of sophisticated labor markets and talent. Software development, web-site design, and Internet-based companies are examples of businesses and functions still in development. It is not surprising that San Francisco sprouted "Silicon Gulch" and New York City hosts "Silicon Alley" - where graphic designers, engineers and marketing talent can converge.

At stages of rapid product growth, maturity and decline, businesses become more cost sensitive and have different labor market needs (see Table B). Low-cost regions at the periphery of metropolitan areas or even offshore locations may provide more cost advantages for labor and real estate. In fact, plants whose profits are in trouble are most likely to move the greatest distances in search of lower costs.<sup>24</sup> Nike, the athletic footwear company, contracted with Japanese manufacturers in the mid-1960s when Japan's labor cost was about 30 percent of the U.S. cost. By the late 1970s, as competition increased, Nike shifted to Taiwanese and Korean subcontractors. The company is now working with suppliers in China, Thailand, Malaysia and Indonesia.<sup>25</sup>

**Table B: Business Geography by Product Maturity**

<b>Age of Product</b>	<b>Examples of Product</b>	<b>Location Priorities</b>	<b>Cost Sensitivity</b>	<b>Examples of Preferred Locations</b>
Young	New media: Internet product development; Web-site design	<ul style="list-style-type: none"> <li>• Urban lifestyle</li> <li>• High face-to-face interaction</li> <li>• Availability of talent from multiple disciplines: designers, computer technicians, advertising, telecommunications, etc.</li> </ul>	Less sensitive to cost	Silicon Gulch, Silicon Alley
Mature	Small electronic goods manufacture, athletic shoes	<ul style="list-style-type: none"> <li>• Low cost entry level labor</li> <li>• Low cost space</li> <li>• Affordable low-income housing</li> </ul>	Heavy cost sensitivity	Far East; less developed countries

<sup>24</sup> Schmenner, "Look Beyond the Obvious in Plant Location."

<sup>25</sup> Lujainan and Stafford, *Corporate Geography Business Location Principles and Cases*.

#### 4. *Competitive Strategy*

Because sophisticated information about places is readily available, businesses can incorporate location factors into their cost analyses and competitive strategy.<sup>26</sup> Public sector officials' ability to understand a company's cost structure, competitive position, motives, and strategy will help them offer meaningful help when trying to attract or retain a company.

Harvard Professor of Real Estate Development Martha O'Mara created five general categories of moves: "pick-up-and-go," "new horizons," "green acres," "consolidate to beachhead," and "urban recommit."<sup>27</sup>

"Pick up and go" and "new horizons" moves are rare but typically involve companies that are trying to reposition themselves in a significant way. These moves tend to garner more media and political attention than less dramatic moves. They are costly, so companies are investing in the move for the longer term. A number of these decisions are motivated by a company's desire to have greater control over the company's operating and physical environment or over the employees. For example, when employee-owned UPS relocated from Greenwich, Connecticut to Atlanta, Georgia, more than 94 percent of managers made the move. Desire for a lower cost of living and less hectic lifestyle were frequently cited as key reasons. On the other hand, some "pick up and go" moves entail hiring a completely new staff of employees from the new location (which O'Mara refers to as "new horizons" moves).

Public officials often shower "pick up and go" and "new horizons" movers with lots of government incentives, since these companies are considered prizes in their new communities. However, companies making such moves do not necessarily choose the lowest cost locations. A community's underlying characteristics—labor rates, housing, and ease of living—are more important. Other factors that are important to the location decision include efficient time frames for site selection and permitting. For example, Avis, the car rental company, chose Virginia Beach because their facility could be up and running in nine months.

Moving to a brand new campus facility, or "green acres" relocation, may also involve a strategy to gain greater control over employees as well as neighbors. Often these moves entail uprooting to a campus-type facility in the suburbs. The pharmaceutical industry is known for preferring the suburban campus environment. Some high technology companies do not want their employees going out at their lunch hour, fearing that they might give away corporate secrets, or find opportunities to job hop. Companies that want to keep their employees on campus may outfit the facility with a health club, bank cash machine, cafeteria, dry cleaning, photo-finishing, video rental drop-off and so on.

Some companies are using new technology to merge similar business functions for different product lines that are situated in scattered locations. These moves, referred to as "consolidate-to-beachhead" moves, help companies eliminate overlap and duplication of functions. For example, Citicorp consolidated several lines of business into one corporate campus in Tampa, Florida. Prudential Insurance also combined various lines of business into one location in Newark, New Jersey.

Some companies are choosing to return to the city – what O'Mara dubs "urban recommit" firms. Heublein, which manufactures alcoholic beverages, was located in the Hartford, Connecticut suburbs but wanted to facilitate sales calls to restaurants and bars in the urban center. Real estate prices had come down sufficiently enough in the city of

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<sup>26</sup> Cameron, "Corporate Real Estate in Transition."

<sup>27</sup> Martha O'Mara, "Strategic Drivers of Location Decisions for Information Age Companies," Harvard University, as noted in the *Appraisal Journal*, October 1, 1998.

Hartford that costs were comparable to the suburban locations. Also, traffic between the suburbs rivaled or exceeded traffic in and out of the central city, making the city an even more attractive location.

## 5. *Business Culture*

Corporate culture is also a factor in location decision-making. Software development companies do not like to be “lone wolves” — they seek interactions with other, similar firms.<sup>28</sup> Pharmaceuticals companies, on the other hand, desire confidentiality and tend to favor more isolated campus locations.<sup>29</sup> Yet pharmaceutical campuses may be clustered together, such as along the Route 1 corridor in New Jersey, in order to take advantage of specialty support services and proximity to educational facilities.

In the information age, companies have greater options for location, allowing for better matches between corporate and community culture. Amazon.com is a case in point. The company needed to be near a large book distribution warehouse and there were only three in the country. They also needed qualified technical professionals and low taxes. Silicon Valley was considered but ruled out because there was already a shortage of technical professionals in that area. Furthermore, Silicon Valley workers are known for having “entrepreneur’s disease,” which leads to chronic job-hopping. The Seattle metropolitan area was a better fit in part because of the many technical professionals brought in by Microsoft and Boeing. These two companies also created a “big company” culture where people expect to stay at the same place for years. In the end, Amazon.com was able to hire lots of committed, technical professionals cheaply.<sup>30</sup>

The amount of face-to-face interaction with clients that a company needs is another factor in the location decision-making process.<sup>31</sup> Functions that require significant face-to-face contact, such as corporate headquarters, are more likely to locate in cities, inner suburbs and metropolitan areas. Are clients flying in from other cities? If so, an accessible airport is essential. A range of meeting venues, hotels and entertainment that facilitates in-person contact are also advantages. A new major league sports arena is a hallmark of “headquarters” cities (despite criticism of public spending and subsidy for stadia).<sup>32</sup> The luxury skybox is considered an attractive and private place for business meetings.

Easy access to downtown amenities was a major reason that Adobe Systems moved from a suburban location to downtown San Jose, California.<sup>33</sup> The company wanted greater proximity to good hotels and a shorter ride from the airport for its many visitors. As the intra-suburban commute became congested and time-consuming, company executives found they could spend less time driving from their home in the suburbs to work in the city than from one peripheral location to another. The ability to have a quick lunch in a nearby restaurant was a lifestyle amenity and productivity enhancement that the company could offer employees in a highly competitive market.

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<sup>28</sup> John M. Rhodes, site selection consultant, telephone interview.

<sup>29</sup> Rhodes, telephone interview. Also, Martha O’Mara, Assistant Professor of Real Estate Development, Harvard University Graduate School of Design, telephone interview.

<sup>30</sup> Saffo, Keynote Speech.

<sup>31</sup> Charles F. Harding, “Facilities Location in the 1990’s,” *Site Selection and Industrial Development*, June 1990.

<sup>32</sup> Rhodes, telephone interview.

<sup>33</sup> Angelo Garcia, Director of Real Estate, Adobe Systems, Inc., “Site Selection for Information Age Companies,” Workshop at the Fall International Development Resources Council in San Diego, 1997.

Companies that have great need for lots of face-to-face interaction but also have sensitivity to a location's cost are more likely to favor intermediate-sized metropolitan areas, exurban areas, or redeveloping urban sites.<sup>34</sup> In Chicago, for example, a number of high tech companies are discovering that the cost of "brownfield" cleanup in a depressed inner city location was outweighed by proximity to good restaurants, hotels and convenient transportation.<sup>35</sup>

Companies with a high sensitivity to cost but low face-to-face needs are more likely to move to small cities, offshore locations or unusual locations within expensive real estate markets (such as a basement facility for back office paper processing).<sup>36</sup> Back office call centers are typical of this category. In fact, the growth in this industry has been a boon to smaller, lower cost cities.

Cities that are home to former military installations are a favorite location for call centers since they tend to have a well-educated, technically competent labor pool and are generally within low-cost regions.<sup>37</sup> Castle Air Force base in Merced County, California is a case in point. <sup>38</sup> The base, which had contributed an estimated \$250 million to the local economy each year, was closed in 1995. Pacific Bell chose the base for a customer service center over 13 other potential sites. The location was attractive because of its computer-literate labor pool, low turnover rate, affordable location, and generally low business costs. Furthermore, the county and the cities of Atwater and Merced formed a "Joint Powers Authority" to attract businesses like Pacific Bell soon after the base was closed.

## **Making Location Decisions: Nuts and Bolts**

### ***I. Location vs. Site***

To understand the location decision-making process it is important to distinguish *location* from *site*. A *location* refers to the general region and its characteristics. Basic location factors include:

- skill level and suitability of the labor market
- availability and cost of housing
- adequacy of transportation systems
- access to suppliers and contractors
- proximity to natural resources
- presence of competitors
- positioning within the market for the company's product
- general taxation levels and tax policies of the state

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<sup>34</sup> Harding, "Facilities Location in the 1990's."

<sup>35</sup> Michael Holzer, Director of Retention, Local Education and Economic Development, Chicago, telephone interview.

<sup>36</sup> Harding, "Facilities Location in the 1990's."

<sup>37</sup> Cochran, telephone interview.

<sup>38</sup> Brooks Barnes, "Base Hit: Castle Prospers in Post-Air Force Days," *Wall Street Journal*, July 8, 1998.

- workers' compensation costs

Once a location is found that fits the company's strategy and cost structure, a *site* within the location is sought. A site is a specific parcel of land and/or building(s). Sites too, have specific characteristics:

- road/train/truck access
- the presence or absence of tax liens
- title complexities on the property
- cost and availability of water, sewer, solid waste disposal
- telecommunications capacity
- possible environmental remediation

Within a given location there are likely to be many sites from which to choose, and there are nearly always alternatives if one site proves to be difficult or costly. Unfortunately, policy-makers have confused the two concepts, thus falling short of their announced legislative or regulatory goals. The brownfields initiative, for example, is designed to facilitate redevelopment of contaminated urban land. However, the initiative will do little to change the location features of the area or to entice jobs and development back to the cities. Brownfield redevelopment is a site-related issue rather than a location-related one.

Brownfield sites may be attractive to companies that are bound to the local market by the nature of their business. One example might be a local bottling company that distributes goods and services to local businesses or retail establishments. Such a company may wish to remain in its general location, but need to expand, modernize its facilities or lower its costs. In this case, a package of public subsidies may help reduce costs and tip the balance in favor of using an urban site. Chicago subsidized a brownfield site at Goose Island for a Federal Express distribution, which brought this patch of land back into productive use.

## 2. *Comparing Alternatives*

Decision-makers have numerous locations and sites from which to choose. Most often, companies make decisions on their own, without using outside location strategists. In some cases a "drive-by" will create enough of an impression to lead to a location decision. "More often than not, the chief executive has a particular kind of environment for the relocation in mind—whether it's a landscaped campus or a bustling urban center with an international airport."<sup>39</sup> Companies considering a long-distance move or major repositioning are more likely to hire a relocation consultant.

Even when the chief executive has a location image in mind, it is possible to find alternative locations and sites that meet the corporation's strategic and financial goals and satisfy the CEO's expectations. Sophisticated software and databases permit broad-based searches for information. For example, Bartram and Cochran, site selection consultants, routinely search salary levels in over 2,500 job titles in 298 metropolitan areas. Census data and Bureau of Labor Statistics data can be merged with local real estate and taxation information to augment decision-making. Corporate real estate analysts may consider between 30 and 50 possible locations before deciding on a shorter list.

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<sup>39</sup> Laulajainen and Stafford, *Corporate Geography Business Location Principles and Cases*.

Whether done internally or by outside consultants, location decisions hinge on identifying *differences* in location characteristics. The factors discussed in this paper – the nature of the industry, its stage of development, business strategy and so on – guide the analysis of these differences. Which place has the best trained and lowest cost labor market? Which community has the best educational resources? Where is the most convenient airport and transport systems located? Which location best positions the company in its product market(s) relative to the competition?

Government officials who are able to articulate where their community is positioned on the cost and resource spectrum will help decision-makers answer these questions and communicate that the community is “ready for business.” Once all of a company’s needs have been determined and data on locations sifted and sorted, managers will ultimately choose the location they believe will help the company become the most competitive in its business.

### 3. *The Call Center Example*

Some location consultants specialize in particular industries or business functions. At Bartram and Cochran, for example, Maura Cochran concentrates on call center location, particularly for the insurance industry. The firm conducts nationwide searches for locations, which allows them to compare resources, costs and other factors. Her decision-making process is specific to the needs of this “information age” business function and is briefly described below.

About 85 percent of the decision to locate a call center in a particular place is based on labor issues; real estate is a minor part of the equation. The cost of labor and the cost of retaining trained employees are the most important. When Bartram and Cochran analysts consider labor costs they look at salaries, benefits, workers’ compensation and unemployment taxes. They also consider corporate income taxes and sales taxes on inputs. Cochran finds that salaries are generally lower in Sunbelt cities and highest in older, eastern cities such as Newark, Detroit, Chicago, Washington, D.C., and Philadelphia. While salary levels are paramount, a place also needs to have a critical mass of people to employ for the size of operation considered. For instance, if there are fewer than 10,000 available people to employ in an area, it would be difficult to place a 500-person call center there.

Keeping turnover low is also important because training is a significant part of a company’s costs. On average, it costs between \$17,000-\$20,000 to train each employee. If a company can keep its turnover below 20 percent, the operation stands a greater chance of being profitable. As a result, the number one amenity Cochran’s clients appreciate from the public sector is a training program—typically a collaborative link-up with a university or community college. Another amenity that call centers like to offer their employees is flexible work hours. This enables the company to provide service across time zones and at odd hours of day or night. It is not unusual to find two-shift families working at call centers. That is, each parent works a different shift in order to manage work and family responsibilities. This type of arrangement requires a location where people can move in and out of the plant easily, and where transportation systems are convenient and safe at all hours of day or night.

### III. LOCATING BUSINESSES IN CITIES: IDENTIFYING AND REMOVING BARRIERS

#### Top Reasons for Choosing a City

Considering the major influences on location decision-making, there are several key strategies local policymakers can pursue to make their jurisdictions competitive for all businesses. Local leaders can place a high priority on developing quality education and training programs, and helping businesses get started and restarted quickly. Policymakers also tend to assume that tax incentives are critical, but in fact they are far less important to the location equation.

#### 1. *Education, Education, Education*

With demand for skilled labor so high today, a good location must have a critical mass of employable persons or be attractive to the kinds of employees a company needs to recruit.

At the top of most corporate real estate executives' list of barriers to locating in central cities is the poor quality of urban education systems which generate a low-quality labor force. In a survey of business leaders, 72 percent cited workforce suitability as the top criterion in the selection of a city. Market access and cost structure followed with 65 and 59 percent, respectively.<sup>40</sup>

The emphasis on education, training, and labor market as a location issue is a major change from a number of years ago.<sup>41</sup> In the past, location decision-makers put more emphasis on land, buildings and transportation networks. Corporate real estate executives' litany has changed from "location, location, location" to "education, education, education." As we evolve into a more knowledge-based economy, virtually every company requires technical literacy at all skill levels. In fact, the minimum reading skill level required of new factory workers has risen from the 10<sup>th</sup> grade reading level to the equivalent of two years of college or more.<sup>42</sup>

Cities whose public officials have focused on their education and training systems are attractive to growth sector companies on the move. Given the clout that technology workers have today, cities can also build their economic base by focusing on what is attractive to these workers. For example, a high technology research and development facility may not be able to recruit enough skilled people from the immediate region; it must rely on the strength of location to draw workers from across the nation. A company cannot expect people to relocate to a place that is undesirable. Desirability includes a good elementary and secondary school system for employees' children (and future employees) as well as resources that support continuing adult education and training. Smaller, rural communities with high quality educational systems have achieved some ascendancy as new business locations over the last ten years. Recreational activities, natural amenities, safety, and affordable housing are also attractive draws for sought-after employees in the late 1990s.

#### 2. *Speeding-Up the Permitting Process and Simplifying Bureaucracy*

Shorter product life cycles have put pressure on companies to bring new products to market quickly in order to remain competitive. As a result, the need to select locations quickly and be "up and running" in a short time is crucial for businesses seeking to preserve their market advantage. Corporate America is in such a hurry that communities are

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<sup>40</sup> Arthur Anderson, 1995.

<sup>41</sup> Dennis Donovan, Wadley-Donovan, site selection specialists, telephone interview.

<sup>42</sup> Frank Swoboda and Warren Brown, "Cutting Edge, Cutting Costs; A New Idea for Making Cars – and Cheap U.S. Labor – Bring BMW to South Carolina," *Washington Post*, July 18, 1993

expected to be ready to go — zoned, built, and fully wired with high speed capability — within six to nine months of a company's location decision.<sup>43</sup>

The need for speed also affects the types of facilities being built. As product cycles shorten, facilities must adapt to new manufacturing processes swiftly and cost-effectively, making versatility critical. Single-purpose facilities can be a problem if the market for products shifts faster than the facility can be adapted. Not only does an inflexible facility become a constraint on the firm's production capacity; it is also an unwelcome load on the company's balance sheet.<sup>44</sup>

### **3. *The (Un)Importance of Tax Incentives***

While corporate decision-makers' top location concern is the availability of education and training, policy-makers and lay people often *think* that tax incentives matter most. Tax incentives and tax packages are uniformly viewed as low priorities by location consultants, relatively unimportant to the basic decision. Tax rates are considered after the more basic location analysis—and then only to rule out places that are “out of line” on key factors such as corporate income taxes, personal income taxes, unemployment tax, and workers compensation. The only other time taxes figure heavily into the equation is when a company is choosing among sites within a metropolitan area, where all the other factors are equal.

Unfortunately, tax incentives have become what real estate executives call “table stakes”; that is, they are assumed to be a basic part of the package. Incentives are a highly visible piece of the economic development package for state and local politicians and the media gives them a great deal of coverage. No elected official wants to be blamed for losing a company because tax incentives were not part of the deal. At the same time, officials fear that too generous a package might generate criticism from the media and the public. There is great pressure for communities to participate in the incentive game. As a result, location decision-makers can use tax incentives as “tie breakers” when more than one community fits all of the other location needs.

High taxes or an insufficient tax package may also be used as the excuse for a move when other reasons are really at play. For example, a CEO is unlikely to state publicly that he or she is moving the company to flee organized labor; it is more politically acceptable to say that taxes are too high. Alternatively, a long distance move may be chosen chiefly to reorganize and reduce the labor force.

## **Local Strategies for Attracting Businesses: Options to Consider**

### **1. *Incorporating Education and Training into Economic Development***

To attract more businesses to the cities, local and state officials should draw on the talents of business people to develop curricula for elementary and secondary schools, community colleges and universities specific to the jobs and companies they wish to recruit. Officials should develop and publicize continuous training and improvement of the skills of the adult labor market.

A number of places are winning businesses by incorporating a focus on education and training in their economic development programs. Georgia and North Carolina have customized training for companies coming into a community.<sup>45</sup>

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<sup>43</sup> Rhodes, telephone interview

<sup>44</sup> Cameron, “Corporate Real Estate in Transition.”

<sup>45</sup> Mark Klender, Partner, Deloitte and Touche Fantus, telephone interview.

Both South Carolina and Virginia managed to attract big-name corporations by including training and education in their development packages.

**a. Investing in Workers**

BMW, a major auto manufacturer, partly chose Spartanburg, South Carolina because the state included training as part of the incentive package. The state customized, financed and operates a training program for BMW employees that heavily involves the state's community colleges. The training was designed to protect taxpayers' investment in attracting BMW in two ways. First, the state (and its population) benefits from having a more skilled labor force. Second, companies that need specially trained people are less apt to move once they have their workforce in place.<sup>46</sup>

**b. Creating New Programs in Higher Education**

Richmond, Virginia capitalized on its strategic location between the concentration of defense contractors and software firms in Washington, D.C., and Research Triangle Park in Raleigh-Durham North Carolina.<sup>47</sup> Motorola-Siemans, a producer of telecommunications equipment, was interested in the city and wanted to put a product development facility next to a manufacturing plant, but the area's educational resources were limited because there was no engineering school nearby. To address this deficiency, the city worked with Virginia Tech across the state to build a new engineering school at Virginia Commonwealth University located in Richmond.<sup>48</sup> Through a private/public partnership that included \$6 million from the chipmaker for clean roomequipment and an \$11 million commitment from the state, the university opened its new engineering facility in October 1998.<sup>49</sup>

University officials worked with the state and private sector to develop strengths in biotechnology, bio-medical engineering, electronic engineering, and microelectronics. In addition, the city created the Virginia Biotechnology Research Park to support entrepreneurial spin-offs. Richmond also established Virginia's Center for Innovative Technology, which helps transform research and development concepts from the university and from the adjacent NASA facility into viable commercial opportunities.<sup>50</sup>

**c. Training Inner-City Workers**

Some urban communities are using education and training to attract businesses. In Chicago, a local non-profit organization called Local Employment Economic Development (LEED) trains people from the low-income, Cabrini-Green community to prepare them for jobs with Federal Express, located at Goose Island. LEED used tax increment funds for workforce development—one of the first applications of these funds for training rather than infrastructure. While the training package was not the main reason that Federal Express located at Goose Island, the company is now using the

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<sup>46</sup> Laulajainen and Stafford, *Corporate Geography Business Location Principles and Cases*.

<sup>47</sup> John M. Rhodes, "Following the Trajectory of High Tech Industries," *Area Development*, September 1998.

<sup>48</sup> Rhodes, telephone interview.

<sup>49</sup> Clean rooms are designed to preserve the purity and accuracy of computer chips during the manufacturing process.

<sup>50</sup> Rhodes, "Following the Trajectory of High Tech Industries."

success of the program to justify additional public subsidies to train city residents for another major project near the Chicago-O'Hare airport.<sup>51</sup>

## **2. *Improving the Permitting Process***

A smooth permitting process is key to facilitating a quick re-location and can tip the balance in the selection of one place over the next. The quality of the permitting process is mostly under state and local government control, but is often overlooked. City governments were cited as particularly guilty of neglect in this area. Horror stories abound from companies that cannot get a clear response from officials responsible for issuing permits for a project. There are often multiple permitting authorities operating at different levels of government and no coordination among any of them. Inconsistent and confusing permitting creates delays, raises costs, and keeps companies away.

Location managers are aware of how long it takes to get permits in different places and consider this as one of the many factors in the decision-making process. When companies want to locate in a place with a poor permitting process, they typically weigh the cost of delay against other location factors. In some cases, personnel are specifically assigned to work full time with the city bureaucracies to arrange the permits.

Permitting is more difficult when a project involves a brownfield or environmentally complex site. The permitting process becomes more technical and typically involves multiple layers of (changing) government statutes and regulations. Furthermore, the delays getting through the environmental approval process can sometimes be more costly than the remediation itself.<sup>52</sup>

### **a. *Assigning Special Teams to Expedite Requests***

To expedite the process, some states and local governments have assigned special staff to a project to help it move through the bureaucracy. In California, former governor Pete Wilson created "Red Teams" to work with companies interested in re-locating to the state and to help local governments eliminate red tape. In Detroit, the mayor established "turnaround teams" a number of years ago to make the bureaucracy more efficient. New Jersey assigned "case managers" to complex permitting projects.

Yet some of these changes failed to achieve the hoped-for improvement. In New Jersey, the permitting case managers were young, bright individuals, but inexperienced as to the complexities of environmental permitting. The long-time civil engineers who worked with the case managers simply didn't listen to them.

In Detroit, similar challenges surfaced with the turnaround teams. A 1997 *Detroit-News* piece described these difficulties. "I call all these appointees 'Kelly Girls,'" says a clerk handling permits in the city's Building and Safety Department. "They're just here temporarily. We're here permanently." Indeed she is. Protected by civil service laws as well as a labor union, she may exhibit an uncooperative attitude or disregard direction from above without undue fear of losing her job. The hardest cases don't care where the orders — or even the simplest human communication—may come from. Businesses with on-going projects often type out their own building permits and personally walk them in for signatures to workers they know, sometimes after construction has been completed. Others have hired former city workers to run the maze for them. Insiders say that city inspectors are sometimes hired privately to ensure that the

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<sup>51</sup> Holzer, telephone interview.

<sup>52</sup> Laulajainen and Stafford, *Corporate Geography Business Location Principles and Cases*.

inspection meets a deadline. “We’ve had to beg and plead for timely inspections and we know they will never hit the first inspection date commitment,” says a developer. “Let’s say on Thursday, I need an electrical check-off inspection. Well, Thursday’s tied up and they say, ‘How about Tuesday?’ In the meantime, we’ve got our electricians standing around, but still getting paid.”<sup>53</sup>

**b. Linking Fast Track Processes to Local Priorities**

Some communities have proven that they are capable of speedy permitting by offering “fast track processing” to builders who agree to construct affordable housing.<sup>54</sup> These communities can clearly deliver a faster process and recognize that builders want and need faster permitting, but use the fast-track option as a bargaining tool to encourage builders and businesses to contribute to other community goals.<sup>55</sup>

In general, government officials and policy-makers at all levels urgently need to pay close attention to the permitting process. This is an area where public/private partnerships would pay off for both sides. City officials should team up with the best private sector experts in business process re-engineering to resolve this problem. After all, businesses clearly have a vested interest in accomplishing a smoother permitting process. Private and public partners should be involved not just in designing new, simpler procedures, but in their implementation as well. Federal government policies should be developed in concert with these efforts.

**3. Rethinking Brownfields and Environmental Policies**

Lack of intergovernmental cooperation makes the permitting process even slower. This is particularly true in cities in which federal and state environmental regulations converge (and often clash) on the issue of re-use of sites. The potential for federal and state environmental liability has kept many businesses from considering urban sites. Over the last few years, the cities have worked hard with the federal EPA to facilitate brownfield redevelopment and return vacant urban land to productive use. Some states have come up with creative solutions to remove the potential for liability.

California, for example, has a program in which the state will issue “no further action” letters that protect a company from further liability once a site is cleaned up. Michigan has a program whereby a new owner may conduct a “baseline environmental assessment” of a property. The program ensures that if the environmental conditions on the property do not deteriorate due to the new owner’s actions, then the owner will not be liable for cleanup. Thus far, EPA has agreed to abide by state programs. Some of these programs are paying off by reducing the redevelopment risks and encouraging productive re-use of formerly vacant properties.

Yet in 1998, EPA issued a controversial “guidance” that could reverse the progress that state and local officials have made. The *Interim Guidance for Investigating Title VI Administrative Complaints Challenging Permits* allows the federal EPA to overstep state and local zoning and land use when there is concern about “environmental justice.” The *Interim Guidance* subjects the permitting process to a civil rights assessment, that is, a determination that the proposed use of the site would not affect one economic or ethnic group over another. This would become part of the already complex

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<sup>53</sup> Jon Pepper, “Detroit has Taken Giant Steps in its Comeback, but Barriers Remain,” *Detroit News*, May 4, 1997.

<sup>54</sup> Rolf Pendall, “Growth Controls and Affordable Housing: Results from a National Survey,” *PAS Memo*, American Planning Association, July 1995.

<sup>55</sup> Phoenix, and Raleigh-Durham, and the city of Atlanta have been recognized as places that have developed an efficient permitting process. The U.S. Conference of Mayors cited Tampa for “best practices” in permitting. The city took all of its many offices responsible for issuing permits and put them under one roof.

environmental impact analysis in addition to an evaluation of the site's cleanliness. The guidance allows EPA to receive a complaint of disparate racial impact as much as six months or more after the permit process is complete and a permit is issued by a state agency. EPA has not spelled out its standards and methodologies for evaluating complaints nor does the agency offer assistance to the states in addressing these issues during the permitting process.

A broad range of state and local government associations have complained that this *Guidance* throws a wrench into efforts to re-develop vacant urban land. The Environmental Commission of the States, which represents various state environmental commissioners, declared that this rule would conflict with current state and local land use policies, brownfield cleanup and redevelopment, and urban revitalization efforts. EPA is in the process of revising the *Interim Guidance* in accordance to some of the industry concerns. In the meantime, businesses will continue to choose available greenfield sites that meet the company's criteria over sites that have potential for regulatory gridlock, punitive environmental liability or civil rights liability.

#### **4. Marketing the City**

Developing a vision for the future and making it happen is not unlike developing a marketing plan in the private sector.

- ***Communities need to have a clear idea of what product(s) they have to offer and how their assets meet the needs of specific business industries and niches.*** Is it relatively low cost real estate? Is it a sizable, well-educated entry-level work force? Is it diversity and concentration of sophisticated cultural and entertainment facilities? Are there universities or other untapped assets at hand? What sectors of the economy need such resources?
- ***Policy-makers need to find the "urban analogy."*** That is, how can urban policy-makers replicate location characteristics that business find attractive elsewhere? For example, businesses that seek campus settings or "buffer" zones can be reasonably accommodated in older urban areas through special zones or special districts.
- ***Local leaders must dedicate public investment to improving the market assets of their cities.*** This may include investment in education and training, improving the permitting process, or enhancing the information on a city's competitive assets.
- ***Communities need to broadcast their vision to visiting executives and in the business community at large.*** Engaging corporate executives in community activities has proven to be an important factor in business retention. Local leaders and business "boosters" should be brought into the process at each step.

##### **a. Auditing the Community**

The first step in developing a vision is to complete a "community audit" of local assets and other key information. This could include an assessment of infrastructure and other physical resources; demographics, with a focus on the labor force; and educational services.

A strong understanding of its own resources shows that a city is organized. A community audit will facilitate a presentation of relevant information to interested firms. There is a perception that cities do not have large enough parcels

of land available to business—in fact cities often have a range of property available, but don't know it. Many local governments have become major property owners due to abandonment, tax delinquency, and environmental complexities. Cities should inventory available property and present information to developers as to what parcels are open for purchase and development. Detroit owns 60,000 parcels but is unable to sort through the environmental issues, liens on the property, or title claims. The city offered one developer a choice of four sites. When the developer went to the site he selected, he found construction on seven of the sixteen acres. The city then explained that the site had been sold, but they did not have a record of it.<sup>56</sup>

Being able to provide information about the community, about sites available, and about competition is a key factor that wins the hearts of corporate real estate executives. For example, K-Mart wanted to come into the Cincinnati area and inquired about where the other large retailers were located. The city was unable to produce the information.<sup>57</sup>

Zoning and capital plans should be linked to the community audit to present a clear and unified vision to corporate real estate decision-makers. The community audit should be reviewed and updated every few years as new technologies make today's business context (and real estate configuration) obsolete. A periodic "taking stock" of the status of the physical and human assets of a community will help cities and their suburbs re-invent themselves as technology and business organizations change.

#### **b. Mapping Assets**

The latest geographic information systems (GIS) can create useful maps for potential newcomers and facilitate the planning process. GIS can link the information typically found on maps with a database, providing detailed information about locations. For example, in Washington, D.C., the Downtown Business Improvement District created computerized maps of a 110-block area, which allows the user to gain detailed information about an address, zoning, and tax classification with a few clicks on the computer. The District has embarked on a citywide system but has to overcome the hurdle of converting thousands of three-by-five cards into maps.<sup>58</sup> GIS mapping could be particularly helpful in broadcasting the availability of developable parcels to the corporate real estate community using the Internet. Communities could use this tool to create up-to-date inventories and databases of their available tangible and intangible resources.

#### **c. Benchmarking**

Taking stock feeds into the evaluation or benchmarking process, making community leaders aware of local advantages and challenges. Local public policy is most often "inward looking" with officials concentrating on incremental change. Benchmarking forces the discussion outward by measuring how one's own city compares with the competition. Benchmarking should include an analysis of where the community stands on the resource and cost spectrum. Is the real estate cost (say, per square foot) higher or lower than other places? Are entry level salaries higher or lower than the average? How do housing costs measure up? This effort will keep community leaders from wasting time and money

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<sup>56</sup> Pepper, "Detroit Has Taken Giant Steps in its Comeback, but Barriers Remain."

<sup>57</sup> Howard Stafford, Professor, University of Cincinnati, Department of Geography, telephone interview.

<sup>58</sup> Peter Behr, "Putting the District on the Map," *Washington Post*, July 13, 1998.

going after businesses that have little reason to locate there. Government associations should get involved in the benchmarking process.

Information about where a city's stance on the cost and resource spectrum will make it easier for city officials to negotiate on factors that are important to a corporate scout. If real estate prices are too high, a city could take on the brownfield liability risk of a suitable site instead of offering tax incentives. This would put an unused property back into circulation and add to the tax roll.

#### **5. *Replicating "Suburban" Assets in the City***

Some cities are finding creative ways to replicate location features that companies look for in suburban and ex-urban sites. Chicago uses special districts as a way of giving companies more control over their immediate environment and neighbors, thereby making these sites comparable to a suburban business campus. Manufacturers are assured that the land will be preserved for their use without fear of infringement by adjacent retail and residential uses.

The district designation came about because artists' conversions of old warehouse facilities were creating a residential community that also brought retail into the industrial corridor area. Companies were spending more effort and money to justify their activities in the face of growing criticism from their new residential and commercial neighbors. The area had historically been used for heavy manufacturing, trucking, scrap re-processing and was still a functioning industrial area. As a result, the city created a Planned Manufacturing District that preserved the area for industry, keeping the jobs and businesses in the city.

The district designation signals to the private sector that the city is committed to the long-term growth of its businesses, and this commitment has even attracted new manufacturers to the area. Recently a window manufacturer that needed to expand chose to move from a site that was becoming a gentrified residential area into the special district. This company is making a \$30 million investment in its new facility because of its confidence in the stability of the site.

#### **6. *Engaging Private Sector Leadership***

Involving local leaders in the economic development process will foster business development and retention. By engaging key corporate executives in developing the vision, marketing the city, improving permitting procedures or planning educational curricula, business executives develop a greater stake in the outcome. Cities that seem to have the best growth records are those that have business leaders involved in the running of the city.<sup>59</sup>

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<sup>59</sup> Robert Glover, Site selection consultant, telephone interview.

#### IV. CONCLUSION

The most successful cities have a clear vision of the overall resources they have to offer (human and physical) and knowledge of where they are positioned on the cost spectrum. These cities are typically targeting businesses and business functions that need those resources. Some communities are reluctant to choose a particular direction because they fear that they might be perceived as excluding other types of development. However, location consultants consistently argue that the “scattershot” approach to economic development is counter-productive.

Ultimately, convincing a company to relocate or stay in a community is only part of the battle; global market forces play a large role as well. Slowdown in the computer industry and trouble with international markets led Motorola to temporarily suspend development of one of its Virginia plants. BMW recently went through a management upheaval at the top, potentially leading to changes in its manufacturing operations.

On the other hand, creating a permanent educational base, such as what Virginia Commonwealth University accomplished, lays the foundation for creating clusters of business activity. With a strong foundation for many businesses to draw upon, employees feel more secure that they will find other jobs if one company experiences a slow-down. Employers feel that there is a larger labor pool from which to draw. In the end, strategically investing resources in basic and targeted business needs will sustain a city’s long-term economic viability for years to come.

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The decision to outsource is not one to be taken lightly, yet there have been many cases where companies outsource an operation, like logistics or manufacturing, only to bring it back in-house at a later point. What could be the causes of such a disruptive and costly reversal of strategy? That's no bad thing of course, provided the reasoning behind the decision is sound and the consequences thoroughly evaluated. Why Take Logistics Back In-House? So what might drive companies to return to insourcing, especially after the painstaking exercise of finding an outsourcing partner, drawing up complex contracts and service level agreements and building a relationship which at the outset, is foreseen as a long-term partnership? You'll find eight of the most common reasons outlined below. Prevent hasty decision-making and make more educated decisions when you put a formal decision-making process in place for your business. Learn the seven steps involved in the decision-making process, as well as visuals you can create in Lucidchart to streamline the process. Whether you manage a small team or are at the head of a large corporation, your success and the success of your company depend on you making the right decisions and learning from the wrong decisions. Use these decision-making process steps to help you make more profitable decisions. You'll be able to better prevent hasty decision-making and make more educated decisions when you put a formal decision-making process in place. Decision-Making Process Overview. Deploy a standard decision-making approach. The most important way to get big-bet decisions right is to have the right kind of interaction and discussion, including quality debate, competing scenarios, and devil's advocates. Critical requirements are to create a clear agenda that focuses on debating the solution (instead of endlessly elaborating the problem), to require robust prework, and to assemble the right people, with diverse perspectives. Move faster without losing commitment. Fast-but-good decision making also requires bringing the available facts to the table and committing to the out... A perfect storm erupted when different business units' decisions simultaneously increased the demand for cash while reducing its supply. Choosing the right business location is more than just picking a nice spot. It's about weighing the competition, understanding local zoning and regulations, considering your target market and staying within your budget. Here's what to keep in mind when you're considering where to start your business. These will affect your ability to make changes to the property you purchase and indeed, to purchase it in the first place. They will also define how various properties can be used and could place restrictions on things such as the height or size of a structure. Knowing what kind of location you want and what you need to consider is all very well, but where do you go to find a physical business location? A few of your general options include: Your local SBDC.