What Motivates a Site-Seeking Employer: Reduction of Risks

Companies seeking new sites are most often motivated by the need to minimize costs of operation and/or the need to access adequate labor markets. Once a community makes the determination that industry/business attraction is a strategy worth pursuing, and once it establishes goals regarding the types of companies that would benefit the community, it must clearly understand how to best develop a relationship with site-seeking companies. The role of a community and its economic development professional becomes, simply put, to reduce the risks encountered by a company when it decides to locate (or expand) in a given location. Companies are looking for communities that are willing to partner with them to reduce their risk of doing business. These risks can be organized into four areas: profit, workforce, infrastructure and timing:

**Profit Risk:** The substantial capital investment in structures and equipment that will be made by a company when it locates or expands must reach a break-even point and then begin to show a reasonable return within a certain period of time in order to justify the investment to the company’s financial institutions and its shareholders or owners. It generally takes from 6 to 10 years for a company to begin to show a return on its investment (ROI) and begin to show a positive income stream. Even an already profitable company that expands operations reduces or eliminates its existing profit until the investment is recouped. Anything a community can do to reduce the overall investment exposure of the company or reduce the cost of operations, especially in the first few years, will shorten the time to ROI, reducing the company’s profit risk. Some strategies might include offering incentives such as tax inducements tied to job creation or investments in real and personal property and low- or no-interest loans for capital investments. Tax inducements and loans would help reduce the company’s cost of operations.

**Workforce Risk:** A company must be assured that it will be able to access sufficient labor with the skills and qualities needed by its particular business. It also must be confident that it will be able to attract and retain technically skilled employees and management, positions that are often subject to a national or even international search. Communities can address these risks through long-term strategies of workforce preparation, skill development and lifelong learning opportunities through local educational institutions and schools, paying particular attention to the types of skills and competencies needed by the companies that they hope to attract or expand. Targeted programs, such as those designed to meet a particular company’s training needs, should be available through local schools and colleges. Spousal employment opportunities and community quality of life will figure prominently in skilled and management employee attraction and retention, so the community should be prepared to address these issues.

**Infrastructure Risk:** Companies are dependent upon local services and infrastructure when they locate or expand in a community. They will need to know not only that the existing infrastructure is reliable and adequate to meet their projected needs in the present, but also that sufficient excess capacity exists for their future growth without causing stress on the community. Public services such as fire, police, and waste management must also be adequate and reliable. The community can reduce these risks by demonstrating that there is willingness to tax themselves to support needed infrastructure improvements, public services and public education. The willingness of telephone providers to continually reinvest in advanced technology is increasingly important to companies.

**Timing Risk:** Companies expect to be under roof and producing products 90 to 120 days after commitment to locate. This fast time frame is important for a number of reasons: First, the cost of short-term construction financing and other start-up costs are incurred without any counterbalancing income stream until the company is able to produce and sell its product or service. Therefore, it is important to be in production as quickly as possible. Second, companies want to take advantage of market opportunities and timing as quickly as possible, giving their competition as little time as possible to react. Third, oftentimes a primary customer will dictate when it expects product delivery. The community can help the company meet this timetable by having a site that is ready for construction, with all environmental questions addressed and utilities in place (or planned and committed within the time frame needed by the company).

Verification of the importance of reducing risks and therefore costs of doing business, and information on how this impacts location decision-making, is offered by a survey of company CEOs conducted in 1994.
Survey results indicated clearly that the top factors influencing the location decisions of companies were related first and foremost to rational considerations of the relative cost of doing business in a particular community, and secondarily to more emotional considerations involving quality of life issues. Although quality of life, most often defined as quality local schools, attractive housing, and recreational/cultural amenities, is becoming of increasing importance to site-seeking companies, the economic basics still prevail when the decision where to locate is made. According to this survey, of the 127 firms in 31 states who responded, the following were the top factors in order of importance for choosing a particular site and community:

- Availability and skill level of labor force
- Pro-business government
- Corporate income tax rates
- Good roads and transportation
- Real estate prices and property taxes
- Educational system
- Proximity to customers
- Personal income tax
- Colleges and universities
- Proximity to suppliers
- Healthy "downtown"
- Proximity to competition

The survey included 24 different business categories, indicating that the consideration of basic costs in location decisions is important to a wide range of industries. A good illustration of the importance placed on financial considerations is offered through the story of MasterCard's relocation in the mid-1990's from New York City to nearby Westchester County. In 1993 MasterCard announced that it would relocate to a larger building to accommodate growth but stay in New York City after being offered a substantial financial package. One year later it announced that it would move to Westchester County after all, taking 550 jobs to the suburbs. "It was a financial decision," the company spokesperson explained. "We will save about $250 million in rents and other fees over the next 20 years by moving to the suburbs. It's a buyer's market for us in the suburbs" (Business Facilities, September 1994).