Area Development 2009 Corporate Survey

Commentary by: Phil Schneider, Deloitte Consulting, GEO Practice Leader

Each year as I read the results of the annual Corporate Survey, I am reminded of the old French proverb, "Plus ça change, plus c'est la même chose": the more the world and economy changes the more the responses to which issues most drive site selection tend to remain the same. And that is really how it should be. Factors such as: the availability and quality of talent, the cost of that talent and other cost variables, taxes and their exemptions, and a robust infrastructure will always underpin sound location strategy regardless of when and where it takes place. But the value of this annual survey is not only to reinforce our understanding of the tried and true factors that will always be important drivers to these important corporate decisions, but also how ongoing changes in the world's economic structure and the evolution of business might affect these decisions here and now. And towards that end, this year's survey provides some interesting insight.

The first thing that jumps to my attention is the impact that the recession and tight capital markets are having on respondents. In 2008, just as the recession was hitting, 30% of respondents planned to add two or more facilities within a year, but this year that has dropped to about 20%. Likewise, those companies planning to decrease facilities by two or more increased from 12% to over 20%. Also the number of companies with no plans at all to open new facilities – not even 5 years out -- jumped to nearly 55%. The percentage of companies citing plans to either defer hiring or the opening of facilities, or reduce employment and close facilities also spiked. Those of us working in site selection or economic development no doubt can attest to the reduction in new location activity and increase in consolidations or rationalization. There was some good news in that the number of companies saying the economy has not affected their plan to hire has also increased, perhaps indicating light at the end of the tunnel.

What is driving plans to increase or decrease in facilities has also changed rather dramatically: increased sales or production, new markets, and new product lines are all well down as reasons for facility increase, whereas M&A is well up. And with respect to reasons for the decrease in facilities, consolidation or M&A, decrease in sales, and the need to lower operating costs are all well up. Again, this reminds us that we are still in the throes of a recession, where lower profits have led to severe cost reduction, consolidation, and mergers.

Although as I mention earlier, the factors driving most site selection activity are relatively stable from year to year, there are some interesting trends that are emerging. One is the continuing decline in the importance of unskilled labor on the decision; higher skills are the drivers and lower skills appear to be considered ubiquitous, or at least of minor importance in the larger scheme. Another is the large increase in the importance of ICT services. Just since last year there has been a jump from 24% to 41% indicating that ICT services are very important to their decision, while 83% feel it is either important or very important. That's far more than feel that way about rail, airport, waterway or seaport access – combined – and is approaching the level of importance of highway access. That tells me that moving information is fast becoming as or more important than the movement of material goods.

With regard to the types of operations likely to be deployed by those with expansion plans, whether domestically or offshore, manufacturing continues to be the most likely type of operation, though the percentage of those with manufacturing growth plans is declining. What is increasing are plans for new shared service, data, and other service centers, especially offshore. I found it interesting how few had plans for new call centers, and that the number of companies planning them is declining both domestically and globally. This tracks with our experience in "back-office" type location work, where shared service and data centers have been hot, and call centers are not.

Another interesting – and less encouraging -- result is that those companies that do have expansion plans are not making big plans. Only 20% of those with domestic plans expect to employ more than 100 versus over 30% just one year before. Those with foreign plans do have somewhat larger plans, but still only 40% of them expect to have operations with more than 100 workers, and that too is down from last year.

As to where they are looking, the trend domestically favors the Middle and South Atlantic states, and globally, Asia continues to be dominant by far -- and within Asia, China…by far. The trends are interesting in that Africa and the Middle East, while still modest destinations overall, showed relatively large jumps in interest, as did Western Europe. The search for new markets and low cost locations perhaps explains the heightened interest in Africa and the Middle East, but Western Europe is a bit surprising. Perhaps in troubling times, companies, SME's, seek the comfort of more stable markets.

The relative decline in the importance of energy costs this year was also reflected; they appear to be having a smaller impact on growth plans, although they are affecting operations plans for current facilities. Fewer companies are changing supply routes or methods, and fewer are focused on recycling efforts, but more are focused on getting LEEDs certification, and there is still a strong emphasis on making energy saving modifications. It is encouraging to see that the focus on sustainable development continues to increase as an important issue -- 70% say it is more important now than in the past.

In any survey there are always a few responses that just don't jibe with experience. Perhaps it is an anomaly of this particular survey group, but I found it a bit odd that in a year when the availability of financing was such a problem, the relative importance of financial incentives such as bonds, loans, grants declined. However, interest in training and utility incentives was up, so perhaps this is explained by the fact that fewer companies are expanding elsewhere, and more are upgrading what they already have.

Another oddity is the declining number of respondents who consider the presence of other similar businesses or activities in the search area to be an important factor, and the increasing percentage who say it has no importance to them at all. For many growth industries, clustering has become an important factor as it demonstrates a market for similar skills and services and even markets. For some reason, this group did not agree.