

Site Selection Article for *Chief Executive Magazine*

Topics in 10

The CEO's 2010 10-Minute Guide to Site Selection

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The level of CEO involvement in site selection for a new expansion or relocated business depends on a variety of factors. Here is a quick guide to the issues and factors to consider when determining the depth of your involvement during the site selection process as well as what to know about optimizing the process itself.

First, is this expansion/relocation a good idea?

Step 1 for any project requiring significant capital and human resources is determining whether the project should move forward at all. Whether or not you take active part in the actual site selection process, you will likely need to approve the budget and will ultimately be directly responsible for the decision. Naturally, you will first want to ask questions and receive sufficient input typical of any significant business decision, such as:

- What is the overall business case for this new location, expansion, or relocation?
- Will it substantially improve our business?
- What are the competitive implications and opportunities — in what ways will it put us ahead of or at least equal to our competitors?
- What are the financial implications? When will I see ROI? How will this impact EBIT and after tax earnings?
- What operating risks will this expose us to?

Second, should you be directly involved in the site selection process and decision? If so, to what extent?

Assuming the decision is made to move forward with the project, should you be directly involved in the “where” decision and the process itself? Just as the relative importance of a site selection decision varies by company, so does the need for CEO involvement in

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the process. The more strategic the decision and the larger the Capex and HR implications relative to the overall size of the company, the more direct involvement from the CEO is warranted. To gauge strategic importance, consider the following.

1. The size of your company.

Large companies are likely already operating in multiple facilities in multiple locations. You may have a “well-oiled machine” in place internally via your real estate, [supply chain](#), operations, and finance functions to handle expansions or relocations that are routine to your core business — such as a retailer opening a new store, distribution or call center, or an insurer opening a claims center. In these cases, it’s typical for CEOs to be involved only at a high level, such as allocating overall annual or specific project budgets, or signing off on the final site selection.

In contrast, expansion, [consolidation or](#) relocation decisions become proportionally more important as the size of the company decreases. If your company is mid-sized or small, you and members of your executive team may need to be highly involved in site selection — perhaps even serving as the project lead, or directly appointing the project leader and team, reviewing the final site candidates firsthand, being directly involved in negotiations, and making or approving the final site selection decision. Large companies can probably absorb [the risk of](#) a failed location by picking up capacity elsewhere in the production capacity chain; but for small and even mid-sized companies, each new location has the potential to substantially improve the business — or if it is the wrong location, substantially damage it.

2. The size of the investment.

Are you a \$10 billion company making a \$1 billion investment with significant implications on debt or capital allocations? Or are you a \$10 million company investing \$1 million? In either case, you will likely want to be involved in the site selection process. Some investments merit your involvement simply because of their size, regardless of other factors. For smaller companies, a poor location

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decision involving substantial capital and a large percentage of overall production or sales capacity can be fatal to the company overall. This is not a decision where you can afford to be “penny wise and pound foolish.”

3. The strategic nature of the investment.

Are you entering new markets or new lines of business? Will it impact your ability to access customers? Is it an overseas expansion with a substantially different business and social culture? If so, is it your first or merely the next in many such ventures? Is it a “life or death” decision for your company or one of hundreds of business decisions? How you answer these questions will help you to gauge the importance of the investment and structure your involvement accordingly.

Third, what should your project team be doing to optimize the site selection process?

Successful site selection depends on diligent project preparation and an objective, methodical, and detailed process for evaluating potential locations.

In general, you will want to confirm that your project team:

- **Includes members across all relevant corporate functions.** For example, even a location decision driven by labor issues (an HR function) should include representation from functions focused on other pertinent issues, such as tax, supply chain, real estate/facilities, IT, and the like.
- **Identifies and reaches management consensus on key project objectives, specifications, and decision drivers.** The evaluation criteria varies according to the type of facility to be constructed and the overall objectives of the project, as illustrated by the examples in Figure 1. Team members will likely have their own ideas about which factors are most important based on their areas of responsibility. Reaching consensus on the criteria that will drive the selection process at the outset is critical to avoid becoming bogged down in internal conflict later.

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FIGURE 1

FUNCTION	FINANCIAL	KNOWLEDGE	PROCESSES	CUSTOMERS
HEADQUARTERS	PROXIMITY TO CAPITAL MARKETS	ACCESS TO REGULATORY INFLUENCE	ACCESS TO MAJOR GLOBAL TRANSPORTATION HUB FOR EXECUTIVE MOBILITY	SEEK PARTNERS TO ACCESS MARKETS
OPERATIONS	LOW COST LABOR	APPROPRIATE WORK SKILLS	TECHNOLOGY INFRASTRUCTURE AND CONNECTIONS	CULTURAL AWARENESS OF CUSTOMER MARKETS
RESEARCH AND DEVELOPMENT	PRODUCTIVITY OF WORK ENVIRONMENT	R&D TALENT CLUSTERS, QUALITY OF LIFE	STREAMLINE LINKS TO MARKETING AND MANUFACTURING	INPUT FROM MARKET AND CUSTOMER FEEDBACK
MANUFACTURING	LABOR COSTS, TAX ENVIRONMENT, SUPPLY CHAIN NETWORK COSTS	IMPROVE THE R&D TO MANUFACTURING PRODUCT CYCLE	RATIONALIZE SUPPLY CHAIN	DISTRIBUTION TO KEY MARKETS

- Establishes a project timeline and milestones.** Whether the project has a hard-stop completion date (e.g., lease expiration, product delivery contracts) or simply a soft target for planning purposes, the timing implications and milestones should be analyzed and agreed to before project launch.
- Develops a company-specific site selection checklist.** Site selection checklists vary, often greatly, by industry, function, and company; numerous examples may be found via a quick Internet search. In general, the four categories found in Figure 2 are common, though the specific number of factors, and their rank order within the checklist, will vary greatly by function and industry. For example, site selection for a complex manufacturing plant will typically require a far more detailed checklist than that for a facility performing back-office functions.

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Figure 2

I. Business and Operating Conditions	II. Geographically Variable Costs	III. Real Estate/Site	IV. Risks
<ul style="list-style-type: none"> ▪ Access (customers, suppliers, connectivity) ▪ Workforce (availability, capability, scalability, sustainability, livability) ▪ Utility infrastructure (power, fuel, water/sewer, telecom) ▪ Transportation infrastructure (roads, air, rail, port) ▪ Regulatory/permitting environment ▪ Business/support services and amenities 	<ul style="list-style-type: none"> ▪ Workforce (wages/salaries, benefits) ▪ Taxes (income, ad valorem, sales, customs/duties, fees) ▪ Real estate (land/sites, buildings, lease) ▪ Utilities ▪ Logistics ▪ Incentives (variable cost offsets) ▪ Inflation 	<ul style="list-style-type: none"> ▪ Availability ▪ Fit ▪ Expandability ▪ Flexibility ▪ Access ▪ Supporting infrastructure ▪ Terms ▪ Timing 	<ul style="list-style-type: none"> ▪ Natural disaster ▪ Political ▪ Social/safety ▪ Economic and currency ▪ Regulatory ▪ Timing

That said, you may conclude that your company does not have the in-house resources or expertise to conduct the site selection process on its own. Engaging the services of an external consultant skilled in helping companies navigate complex location strategy and site selection decisions can not only improve outcomes, but also often pays for itself by shaving months off the selection process and allowing key personnel to stay focused on their core business activities.

In sum, CEO participation depends on a variety of factors and should be evaluated independently for each expansion or relocation project. As a rule of thumb, the greater the strategic business implications of the new location, and the larger the capital and human resource implications relative to the overall size of your company, the greater will be the need for your direct involvement in both the process and the final decision.

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